UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

Financial Statements
(With Management's Discussion and Analysis)

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

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UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

Management's Discussion and Analysis

June 30, 2009 and 2008

The following discussion and analysis provides an overview of the financial position and activities of the University of Connecticut Health Center John Dempsey Hospital (21002 Fund) (the Hospital) as of and for the years ended June 30, 2009 and 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Through the Hospital (a licensed acute care hospital with a certified 224 bed inpatient facility; 204 general acute care beds, and 20 nursery beds), the University of Connecticut Health Center provides specialized and routine inpatient and outpatient services. The Hospital also provides comprehensive healthcare services for Connecticut's incarcerated inmates through a contract with the Correctional Managed Health Care (CHMC) program. The Hospital has long been regarded as the premier facility in the region for neonatal intensive care and high-risk maternity. It also is recognized for its cardiovascular program (interventional cardiology and surgery), cancer, musculoskeletal, and behavioral mental health services which include geriatric as well as locked inpatient psychiatric units, ambulatory partial hospitalization, and outpatient treatment programs. Additionally, the Hospital is home to the only Emergency Department in Connecticut's fast-growing Farmington Valley.

Overview of the Financial Statements

This annual report consists of management's discussion and analysis and the financial statements. The basic financial statements (statements of net assets, statements of revenues, expenses, and changes in net assets, and statements of cash flows) present the financial position of the Hospital at June 30, 2009 and 2008, and the results of its operations and its financial activities for the years then ended. These financial statements report information about the Hospital using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the Hospital's assets and liabilities. The statements of revenues, expenses, and changes in net assets reflects the year's activities on the accrual basis of accounting, i.e., when services are provided or obligations are incurred, not necessarily when cash is received or paid. These financial statements report the Hospital's net assets and how they have changed. Net assets (the difference between assets and liabilities) is one way to measure financial health or position. The statements of cash flows provide relevant information about each year's cash receipts and cash payments and classifies them as to operating, investing, and capital and related financing activities.

Financial Highlights

Hospital Discharges decreased 9 cases to 9,766 from fiscal 2008 to fiscal 2009. Outpatient visits decreased by 4,510, or 1.23%, from the prior year. The Hospital was significantly affected by increases in malpractice expenses as well as continued increases in pharmaceutical and medical supply costs. In the current year, the Hospital also spent a significant amount of funds on performance improvement, affiliation, and regulatory consulting costs, reported under other purchased services.

Continued focus on revenue enhancements and cost containment allowed the Hospital to finish the year with an operating loss of $11,372,967 compared to an operating loss of $15,371,592 in the prior year.

The Hospital's financial position at June 30, 2009, included assets of approximately $133 million and liabilities of approximately $76.9 million. Net assets, which represent the residual interest in the Hospital's assets after liabilities are deducted, increased approximately $3.4 million to $56.1 million at June 30, 2009. The increase in net assets is primarily attributable to the transfer of cash from the Health Center to subsidize the prior year loss.

Changes in net assets represent the activity of the Hospital, which results from revenues, expenses, gains, and losses, and are summarized for the years ended June 30, 2009, 2008, and 2007, including other changes in net assets, as follows:

		2009	2008	2007
			(In thousands)	
Summary of assets and liabilities at June 30:				
Current assets	$	53,875	55,010	57,957
Assets limited as to use, net of current portion		18,879	16,638	19,684
Other assets		601	692	554
Capital assets, net		59,574	61,170	64,868
Total assets	$	132,929	133,510	143,063
Current liabilities	$	47,936	50,588	45,012
Long term debt excluding current installments		2,076	2,906	3,758
Capital lease liabilities, net of current portion		2,318	4,302	3,843
Accrued compensated absences, net of current portion		6,224	6,693	6,369
Estimated malpractice costs, net of current portion		18,315	16,332	16,539
Net assets restricted for research and education		144	146	128
Unrestricted net assets		3,550	1,808	13,304
Invested in capital assets, net of related debt		52,366	50,735	54,110
Total liabilities and net assets	$	132,929	133,510	143,063
Summary of revenues, expenses, and transfers for the year ended June 30:				
Operating revenues	$	250,809	233,553	222,828
Operating expenses		(262,182)	(248,924)	(227,210)
Operating loss		(11,373)	(15,371)	(4,382)
Nonoperating (expenses) revenue, net		(156)	518	425
Net asset transfers		14,900	—	—
Increase (decrease) in net assets	$	3,371	(14,853)	(3,957)

Fiscal 2009 operating revenues increased 7.4% or $17.3 million, while operating expenses increased 5.3%, or $13.3 million.

Capital Assets

At June 30, 2009, the Hospital had plant and equipment of $183.5 million before accumulated depreciation compared to $178.9 million at June 30, 2008, as shown in the table below:

	2009	2008	2007
		(In thousands)	
Land	$ 183	183	183
Construction in progress	5,578	8,458	7,457
Buildings	97,404	94,736	93,357
Equipment	66,609	61,791	60,022
Capital leases	13,776	13,777	10,797
	$ 183,550	178,945	171,816

The Hospital's fiscal 2010 capital budget projects spending at $7.5 million on various capital improvement projects. More detailed information about the Hospital's plant and equipment is presented in note 6 to the financial statements.

Statements of Cash Flows

The statements of cash flows provide additional information about the Hospital's financial results by reporting the major sources and uses of cash. A summary of the statements of cash flows for the years ended June 30, 2009, 2008, and 2007 is as follows:

	2009	2008	2007
		(in thousands)	
Cash received from operations	$ 250,509	239,910	211,145
Cash expended for operations	(244,199)	(235,401)	(222,254)
Net cash provided by (used in) operations	6,310	4,509	(11,109)
Net cash used in investing activities	(13,047)	(1,903)	(8,434)
Net cash (used in) provided by capital and related financing activities	6,737	(2,606)	13,204
Net decrease in cash	—	—	(6,339)
Cash, beginning of year	—	—	6,339
Cash, end of year	$ —	—	—

Significant Variances in Financial Statements

In this section, the Hospital explains the reasons for those financial statement items with significant variances relating to fiscal 2009 amounts, compared to fiscal 2008.

Summary of Assets* and *Liabilities

Changes in assets are comprised of the following:

Due from Other State and Health Center Agencies – decreased from $2.6 million in 2008 to $249,000 in 2009 as a result of decreases in the amount of cash advanced to the University of Connecticut Health Center Finance Corporation (Finance Corporation) for purchases to be made on the Hospital's behalf.

Prepaid Expenses – decreased from June 30, 2008 to June 30, 2009 by approximately $719,000. The decrease in prepaids is primarily related to the presence of prepaid fees for interns and residents in the prior year. As of June 30, 2009, JDH had no prepaid balance related to Interns and Residents.

Assets Limited as to Use – increased from June 30, 2008 to June 30, 2009 by approximately $4.1 million. Increases in Assets Limited as to Use is the result of additional actuarially determined reserve funding of malpractice liabilities.

Capital Assets, net – decreased from June 30, 2008 to June 30, 2009 by $1.6 million or 2.6% primarily as the result of depreciation and retirement of capital assets outpacing capital additions in the current year. Additional detail may be found in note 6.

Changes in liabilities are comprised of the following:

Cash overdraft – decreased from June 30, 2008 to June 30, 2009 by approximately $4.5 million or 25.1%, to a net overdraft position of $13.4 million. This fiscal year $14.9 million was transferred into the Hospital to fund the prior year operating loss. Despite the transfer, the Hospital is still in an overdraft position as a result of current year operating losses, continued capital spending and debt service payments, and funding of the malpractice reserve.

Accounts payable and accrued expenses – increased from June 30, 2008 to June 30, 2009 by approximately $533,000 or 5.6%. This represents the result of increased purchasing activity and normal business practices.

Accrued compensated absences – decreased from June 30, 2008 to June 30, 2009 by approximately $651,000 or 5.2%. Decreases were attributable to the reclassification of APRN's to the UMG practice resulting in the movement of associated accrued time off balances.

Capital Leases – decreased from June 30, 2008 to June 30, 2009 by approximately $2.4 million or 35.6%. The decrease is the result of the Hospital repayment of current year lease obligations. In fiscal year 2009 the Hospital made the final lease payments on three of the six capital leases. See note 7.

Estimated Malpractice Costs – increased from June 30, 2008 to June 30, 2009 by $3.9 million or 18.5%. Estimated malpractice costs include costs related to settlements of cases brought as well as estimations of future settlements. Cost estimations include both potential settlement costs and legal defense fees associated with these cases.

Summary of Revenues, Expenses, and Changes in Net Assets

Operating revenue – increased from June 30, 2008 to June 30, 2009 by approximately $17.3 million or 7.1%. Inpatient gross revenue increased 14.6% due to strategic changes in the charge master. Outpatient gross revenue increased 16.2% primarily due to changes in service line mix that positively impacted the gross revenue. In addition, outpatient rates were increased beginning in October 2008.

Operating expenses – increased from June 30, 2008 to June 30, 2009 by approximately $13.3 million or 5.3%, primarily due to increases in malpractice insurance, medical supply expenses and affiliation and other consulting costs.

(Continued)

Fiscal Year 2010 Outlook

Utilization of Hospital services, both inpatient and outpatient, is expected to be at FY 2009 levels.

The Hospital will continue to face the following challenges in fiscal year 2010:

1. Workforce shortages in nursing, pharmacy, and technical support personnel;
2. Upward trending costs for labor, advanced medical equipment, pharmaceuticals, utilities, and investments to improve patient safety (e.g., information technology);
3. Recruitment and retention of clinical faculty;
4. Market competition and the concern about the partnership with Hartford Health Care;
5. Inadequate reimbursement. Downward pressure on Medicare and Medicaid payments will continue to be a probable outcome during federal and state budget preparations;
6. Increased costs associated with regulatory compliance and with providing uncompensated care to an increasing proportion of uninsured patients;
7. Securing adequate access to capital to support long-term capital needs.

Contacting the Hospital's Financial Management

This financial report provides the reader with a general overview of the Hospital's finances and operations. If you have questions about this report or need additional financial information, please contact the Office of Chief Financial Officer, University of Connecticut Health Center, Farmington, Connecticut 06030-3800.

KPMG LLP
One Financial Plaza
Hartford, CT 06103-4103

Independent Auditors' Report

Joint Audit and Compliance Committee of the
University of Connecticut Health Center:

We have audited the accompanying statements of net assets of University of Connecticut Health Center, John Dempsey Hospital (21002 Fund) (the Hospital), an enterprise fund of the State of Connecticut, as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Connecticut Health Center, John Dempsey Hospital (21002 Fund) as of June 30, 2009 and 2008, and the results of its operations and changes in net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis (MD&A) on pages 1 to 6 is not a required part of the basic financial statements of University of Connecticut Health Center, John Dempsey Hospital (21002 Fund) but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

October 27, 2009

UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

Statements of Net Assets

June 30, 2009 and 2008

Assets		**2009**	**2008**
Current assets:			
Patient accounts receivable, net of estimated uncollectibles of $21,934,000 and $25,205,000 at June 30, 2009 and 2008, respectively (note 2)	$	33,764,998	34,011,910
Due from other State and Health Center agencies		248,842	2,566,055
Inventory		5,904,591	6,131,843
Contract and other receivables		1,054,879	786,098
Prepaid expenses		3,314,862	4,033,965
Due from third-party payors		2,676,748	2,398,463
Assets limited as to use, current portion (note 5)		6,910,000	5,081,447
Total current assets		53,874,920	55,009,781
Noncurrent assets:			
Assets limited as to use, net of current portion (note 5)		18,879,282	16,638,482
Other assets		601,145	691,609
Capital assets, net (note 6)		59,573,794	61,170,309
Total noncurrent assets		79,054,221	78,500,400
Total assets	$	132,929,141	133,510,181
Liabilities and Net Assets			
Current liabilities:			
Cash overdraft	$	13,431,939	17,945,885
Accounts payable and accrued expenses		10,049,629	9,516,528
Deferred revenue		—	7,160
Accrued payroll		6,460,153	6,462,235
Due to State of Connecticut – fringe benefits		2,751,256	2,769,504
Accrued compensated absences, current portion (note 7)		5,519,181	5,701,325
Long-term debt, current installments (note 7)		830,396	849,579
Capital leases, current portion, (note 7)		1,983,114	2,377,882
Estimated malpractice costs, current portion (note 7)		6,910,000	4,958,000
Total current liabilities		47,935,668	50,588,098
Noncurrent liabilities:			
Accrued compensated absences, net of current portion (note 7)		6,223,758	6,692,860
Long-term debt, excluding current installments (note 7)		2,075,991	2,906,387
Liabilities under capital leases, net of current portion (note 7)		2,318,364	4,301,479
Estimated malpractice costs, net of current portion (note 7)		18,315,000	16,332,000
Total noncurrent liabilities		28,933,113	30,232,726
Total liabilities		76,868,781	80,820,824
Net assets:			
Invested in capital assets, net of related debt		52,365,929	50,734,982
Restricted for research and educational		144,180	146,345
Unrestricted		3,550,251	1,808,030
Total net assets		56,060,360	52,689,357
Total liabilities and net assets	$	132,929,141	133,510,181

See accompanying notes to financial statements.

UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2009 and 2008

	2009	2008
Operating revenues:		
Net patient service revenues (note 4)	$ 246,880,983	230,514,612
Contract and other revenues	3,928,058	3,037,854
Total operating revenues	250,809,041	233,552,466
Operating expenses:		
Salaries and wages	93,580,336	96,465,516
Fringe benefits	34,952,482	39,605,637
Medical/dental house staff	11,966,675	10,714,163
Medical contractual support	4,850,019	4,732,817
Outside agency per diems	1,145,303	953,225
Depreciation and amortization	10,790,380	11,150,983
Loss on disposal	43,278	41,228
Pharmaceutical/medical supplies	52,655,058	44,709,680
Utilities	3,162,879	3,409,953
Outside and other purchased services	32,997,531	27,109,140
Insurance	8,257,896	2,630,538
Repairs and maintenance	4,894,048	4,367,241
Other expenses	2,886,123	3,033,937
Total operating expenses	262,182,008	248,924,058
Operating loss	(11,372,967)	(15,371,592)
Nonoperating revenue (expenses):		
Interest income	259,902	1,057,468
Interest expense	(415,932)	(539,199)
Total nonoperating (expense) revenue, net	(156,030)	518,269
Decrease in net assets before transfers	(11,528,997)	(14,853,323)
Transfer from Health Center - unrestricted	14,900,000	—
Increase (decrease) in net assets	3,371,003	(14,853,323)
Net assets, beginning of year	52,689,357	67,542,680
Net assets, end of year	$ 56,060,360	52,689,357

See accompanying notes to financial statements.

UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL (21002 FUND)

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from patients and third-party payors	$ 246,849,610	237,091,320
Cash received from contract and other revenue	3,659,277	2,818,246
Cash paid to employees for salaries and fringe benefits	(127,861,242)	(133,709,795)
Cash paid for other than personal services	(116,337,515)	(101,691,063)
Net cash provided by operating activities	6,310,130	4,508,708
Cash flows from investing activities:		
Malpractice trust fund	(4,192,800)	1,433,320
Bond sinking fund	123,447	121,723
Investment income	259,902	1,057,468
Additions to property and equipment	(9,237,143)	(4,515,647)
Net cash used in investing activities	(13,046,594)	(1,903,136)
Cash flows from capital and related financing activities:		
Interest paid	(422,128)	(541,205)
Transfer from Health Center	14,900,000	—
Net (repayments on) proceeds from cash overdraft	(4,513,946)	1,236,731
Repayment of long-term debt	(3,227,462)	(3,301,098)
Net cash provided by (used in) capital and related financing activities	6,736,464	(2,605,572)
Net change in cash	—	—
Cash at beginning of year	—	—
Cash at end of year	$ —	—
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	(11,372,967)	$ (15,371,592)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	10,790,380	11,150,983
Loss on disposal	43,278	41,228
Changes in operating assets and liabilities:		
Patients accounts receivable, net	246,912	5,548,717
Due from other State and Health Center agencies	2,317,213	300,273
Inventory	227,252	(887,362)
Contract and other receivables	(268,781)	(219,608)
Prepaid expenses	719,103	(1,331,888)
Due from third-party payors, net	(278,285)	1,027,991
Other assets	90,464	(137,553)
Accounts payable and accrued expenses	539,297	729,001
Deferred revenue	(7,160)	7,160
Due to other State and Health Center agencies	(18,248)	540,693
Accrued payroll	(2,082)	1,005,769
Accrued compensated absences	(651,246)	814,896
Estimated malpractice costs	3,935,000	1,290,000
Net cash provided by operating activities	$ 6,310,130	4,508,708
Accompanying schedule of non-cash transactions:		
Assets acquired under capital leases	$ —	2,979,106

See accompanying notes to financial statements.

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The financial statements include those asset, liability, revenue, and expense accounts reflected in the accounting records of the John Dempsey Hospital (the Hospital) including the Dental Clinics, and the University of Connecticut Health Center's malpractice self-insurance fund, which are accounted for in the 21002 Fund of the University of Connecticut Health Center (the Health Center). There are 21 members of the Board of Trustees. Five serve as ex officio, voting members by virtue of other positions: The Governor is President of the Board, the Commissioners of Agriculture, Education, and Economic and Community Development are Board members, and the Chair of the Health Center Board of Directors is a member. Two Board members are elected by alumni for four-year terms (and may be re-elected once, in succession). One undergraduate student is elected by undergraduates for a two-year term. One graduate or professional student is elected by graduate and professional students for a two-year term. Twelve members are appointed by the Governor, subject to confirmation by the General Assembly, for six-year terms, and may be reappointed without limit.

There are 18 members of the University of Connecticut Health Center Board of Directors. Three serve as ex officio voting members and serve concurrently with their positions: The Commissioner of Public Health, The Secretary or a designated under-secretary of the Office of Policy and Management and the President of the University. All other terms are for three years and include: three members appointed by the Governor, three members appointed by the chair of the Board of Trustees (two of which must be members of the Board of Trustees and last who serves at the chair of the Board of Directors), and 9 at-large members appointed by the Board of Directors itself.

Reference is made to note 8 for related party transactions.

The Hospital is an enterprise fund of the State of Connecticut ("the State") and is therefore generally exempt from federal income taxes under Section 115 of the Internal Revenue Code of 1986.

The Finance Corporation was established pursuant to Public Act No 87-458. The purpose of the Finance Corporation is to provide greater flexibility for the Hospital and to promote the more efficient provision of health care services. As such, the Finance Corporation has been empowered to purchase supplies and equipment, acquire facilities, approve write-offs of Hospital accounts receivable, process malpractice claims on behalf of the Hospital, as well as negotiate joint ventures, shared service, and other agreements for the benefit of the Hospital.

Basis of Presentation

The Hospital's financial statements are prepared in accordance with all relevant Governmental Accounting Standards Board (GASB) pronouncements. GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, states that proprietary activities may elect to apply the provisions of Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements. The Health Center has not made this election.

The Hospital has adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statements No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and No. 37, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus*, as of July 1, 2001.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Financial statement areas where management applies the use of estimates consist primarily of the allowance for uncollectible accounts, third-party reimbursement reserves and the estimated self-insurance liability.

Proprietary Fund Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. All revenues and expenses are subject to accrual.

Cash and Cash Overdraft

Cash includes cash in banks. Cash overdraft positions, which occur when total outstanding issued checks exceed available cash balances at the end of each reporting period, are presented as a liability within the balance sheet. See footnote 2 for discussion regarding the Hospital's available borrowing.

Accounts Receivable and Net Patient Service Revenues

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Investments and Investment Income

The Hospital has established a malpractice trust fund for the purpose of setting aside assets based on actuarial funding recommendations. The funds are invested in the State of Connecticut Short-Term Investment Fund, consisting of cash, short-term securities and bank notes, and are available without restrictions for payment of malpractice costs and related expenses. In addition, available operating cash balances (when available) are invested on a short-term basis by the State of Connecticut, and interest thereon accrues to the State of Connecticut.

The Hospital's bond trust fund was invested in U.S. Treasury Notes and was liquidated in 2009 in conjunction with the repayment of its State of Connecticut bonds. Investment income related to these investments is reported with interest income.

Contract and Other Revenues

Contract and other revenues primarily consist of net receipts resulting from contractual revenue with area hospitals.

Capital Assets

Property and equipment acquisitions are recorded at cost. Betterments and major renewals are capitalized, and maintenance and repairs are expensed as incurred.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Buildings have an estimated useful life of 5 to 50 years and equipment has an estimated useful life of 2 to 25 years. Assets acquired under capital leases and leasehold improvements are depreciated no longer than the lease term.

Inventory

Inventory is recorded at cost, being determined by the first-in, first-out (FIFO) method. Short-term or minor supplies are expensed as incurred.

Fair Value of Financial Instruments

Reference is made to note 5 (Assets Limited as to Use). For other assets and liabilities such as accounts receivable, contract and other receivables, cash overdraft, accounts payable and accrued expenses and accrued payroll, the carrying amount approximates fair value because of the short maturity of these instruments.

Retirement Plans

Eligible Hospital employees, as defined, may participate in the following State of Connecticut retirement plans: the State Retirement System Tier I, Tier II, Tier IIa, and the Teachers' Retirement System defined benefit plans; and the Alternate Retirement Plan which is a defined contribution plan. These plans are funded by contributions from the State as well as payroll deductions from employees, except for the Tier II Plan, which is noncontributory.

In addition, eligible employees may participate in a State of Connecticut defined contribution deferred compensation plan, which is funded by payroll deductions from employees.

In 2008, the State of Connecticut implemented Government Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The State provides post retirement health care and life insurance benefits to eligible Health Center employees, including those of John Dempsey Hospital, in accordance with Sections 5-257(d) and 5-259(a) of the Connecticut General Statutes. Upon retirement, liability for retirement and other benefits rests with the State of Connecticut. Therefore, the liability is reported by the State of Connecticut and not recognized in the financial statements of the Hospital. When employees retire, the State pays up to 100% of their health care insurance premium cost (including the cost of dependent coverage). The State finances the cost of post retirement health care and life insurance benefits on a pay-as-you-go basis through a funds appropriation in the General Fund.

Information is not available from the State of Connecticut specifically allocating pension benefits; plan assets, obligations, and expenses applicable to employees of the Hospital. (Reference is also made to note 8).

Compensated Absences

The Hospital's employees earn vacation, personal, compensatory and sick time at varying rates depending on their collective bargaining units. Employees may accumulate sick leave up to a specified maximum. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the Hospital may convert accumulated sick leave to termination payments at varying rates, depending on the employee's contract. Amounts recorded on the statements of net assets are based on historical experience. All other compensated absences are accrued at 100% of their balance. Compensated absences have been allocated between current and noncurrent based on historical information.

Third Party Payors

Laws governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Each year as the Office of Inspector General (OIG) work plan changes, new areas of scrutiny surface. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in any given period.

Medical Malpractice

Health care providers and support staff of the Hospital are fully protected by State statutes from any claim for damage or injury, not wanton, reckless or malicious, caused in the discharge of their duties or within the scope of their employment (statutory immunity). Any claims paid for actions brought against the State as permitted by waiver of statutory immunity have been charged against the Health Center's malpractice self-insurance fund. The Health Center allocates malpractice costs to John Dempsey Hospital. For the years ended June 30, 2009 and 2008, these costs totaled $7,977,273 and $2,383,737, respectively, and are included in John Dempsey Hospital's statements of revenues, expenses, and changes in net assets.

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase on construction of those assets. Expendable funds for research and education represent balances held for use in promoting various Hospital initiatives. All other assets are classified as unrestricted net assets.

Regulatory Matters

The Hospital is required to file semi-annual and annual operating information with the State of Connecticut Office of Health Care Access (OHCA) and is required to file annual cost reports with Medicare and Medicaid.

(2) Hypothecation

In accordance with State Statute, John Dempsey Hospital can borrow from the State up to 90% of its net patient receivables, contract and other receivables to fund operations. As of June 30, 2009 and 2008, the Hospital had drawn down $13,431,939 and $17,945,885, respectively. As of June 30, 2009 and 2008, the Hospital has available $17,905,950 and $13,372,322, respectively, under the State Statute.

(3) Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. During 2009 and 2008, the Hospital provided charity care services of $840,699 and $967,138, respectively. The cost basis of these services was $416,379 and $468,055. Expenses associated with these procedures were included in operating expenses.

(4) Net Patient Service Revenues

The Hospital provides health care services primarily to residents of the region. Revenues from the Medicare programs accounted for approximately 35% and 32% of the Hospital's net patient service revenues for the years ended June 30, 2009 and 2008, respectively. Revenues from the Medicaid programs accounted for approximately 26% and 24% of the Hospital's net patient service revenues for the years ended June 30, 2009 and 2008, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

Patient accounts receivable included approximately 34% and 35% due from Medicare and approximately 13% due from Medicaid at June 30, 2009 and 2008, respectively.

Patient service revenue is reported net of allowances for the years ended June 30, was:

		2009	2008
Gross patient service revenue	$	469,647,440	406,763,316
Less contractual allowances		218,514,352	170,678,351
Less provision for bad debt		4,252,105	5,570,353
Net patient service revenue	$	246,880,983	230,514,612

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. Services to Medicare beneficiaries are paid based on a prospective payment system (PPS) based on the classification of each case into a Diagnostic-Related Group (DRG). Inpatient psychiatric services are reimbursed via a new PPS system established for inpatient psychiatric patients based on pre-determined hospital specific per diems. The Hospital is reimbursed for Direct Graduate Medical Education and Medicare Bad Debts at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through fiscal year 2005.

Medicaid

In-patient services rendered to Medicaid program beneficiaries are reimbursed, in part, under the Tax Equity and Fiscal Responsibility Act (TEFRA) reimbursement methodology which provides for a cost-based reimbursement subject to a maximum target rate amount per discharge with the exception of individuals who are eligible for care under the state managed Medicaid program where reimbursement is based on contracts with other managed care companies. The Hospital is reimbursed at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Outpatient services rendered to patients are reimbursed based on the cost of services provided except for individuals in the managed Medicaid program where reimbursement is based on contracts as described above. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through 1997. Unaudited cost reports have been submitted as requested by Department of Social Services (DSS) through fiscal year 2006.

Commercial Insurance and Managed Care

The Hospital has agreements with certain commercial insurance carriers and Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. In addition, the HMOs make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

(5) Assets Limited as to Use

Below is a summary of bond trust fund investments which were uninsured, unregistered, and held by the Hospital's agent in the Hospital's name as of June 30:

		2009	2008
U.S. Treasury Notes:			
Cost or amortized cost	$	—	25,365
Fair value		—	123,447

As discussed in note 1, the funds in the malpractice trust fund are invested in the State of Connecticut Short-Term Investment Fund, which consists of cash and cash equivalents. The cost of these funds approximates market value. As of June 30, 2009 and 2008 the malpractice trust fund's market value was $25,789,282 and $21,596,482, respectively.

Total income earned on these investments for the years ended June 30, 2009 and 2008 was $259,902 and $1,057,468, respectively, and is included in nonoperating revenue (expenses) in the statements of revenues, expenses, and changes in net assets.

(6) Capital Assets, Net

Capital assets at June 30 consist of the following:

		2009	2008
Land	$	183,137	183,137
Construction in progress (estimated cost to complete $2.6 million)		5,577,936	8,458,325
Buildings		97,403,562	94,735,862
Equipment		66,608,686	61,791,108
Capital leases		13,776,275	13,776,275
		183,549,596	178,944,707
Less accumulated depreciation and amortization		123,975,802	117,774,398
Capital assets, net	$	59,573,794	61,170,309

(Continued)

Plant and equipment activity for the years ended June 30, 2009 and 2008 was as follows:

	2008	Additions	Deletions	2009
Land	$ 183,137	—	—	183,137
Construction in progress	8,458,325	2,107,348	(4,987,737)	5,577,936
Buildings	94,735,862	2,667,700	—	97,403,562
Equipment	61,791,108	9,449,832	(4,632,254)	66,608,686
Capital leases	13,776,275	—	—	13,776,275
	$ 178,944,707	14,224,880	(9,619,991)	183,549,596

	2007	Additions	Deletions	2008
Land	$ 183,137	—	—	183,137
Construction in progress	7,457,412	3,400,781	(2,399,868)	8,458,325
Buildings	93,356,930	1,378,932	—	94,735,862
Equipment	60,021,999	2,135,802	(366,693)	61,791,108
Capital leases	10,797,169	2,979,106	—	13,776,275
Total	$ 171,816,647	9,894,621	(2,766,561)	178,944,707

Related information on accumulated depreciation and amortization for the years ended June 30, 2009 and 2008 was as follows:

	2008	Additions	Deletions	2009
Buildings	$ 65,536,032	2,781,139		68,317,171
Equipment	44,863,917	5,844,117	(4,588,976)	46,119,058
Capital leases	7,374,449	2,165,124		9,539,573
Total	$ 117,774,398	10,790,380	(4,588,976)	123,975,802

	2007	Additions	Deletions	2008
Buildings	$ 62,816,845	2,719,187	—	65,536,032
Equipment	39,233,491	5,955,891	(325,465)	44,863,917
Capital leases	4,898,544	2,475,905	—	7,374,449
Total	$ 106,948,880	11,150,983	(325,465)	117,774,398

(7) Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2009 and 2008 were as follows:

12	June 30, 2008 balance	Additions	Reductions	June 30, 2009 balance	Amounts due within 1 year
Accrued compensated absences	$ 12,394,185	8,483,367	(9,134,613)	11,742,939	5,519,181
Estimated malpractice costs	21,290,000	8,789,693	(4,854,693)	25,225,000	6,910,000
Capital leases	6,679,361	—	(2,377,883)	4,301,478	1,983,114
Loans payable	3,736,783	—	(830,396)	2,906,387	830,396
Bonds payable	19,183	—	(19,183)	—	—
Total long-term liabilities	$ 44,119,512	17,273,060	(17,216,768)	44,175,804	15,242,691

	June 30, 2007 balance	Additions	Reductions	June 30, 2008 balance	Amounts due within 1 year
Accrued compensated absences	$ 11,579,289	12,803,496	(11,988,600)	12,394,185	5,701,325
Estimated malpractice costs	20,000,000	3,291,309	(2,001,309)	21,290,000	4,958,000
Capital leases	6,027,173	2,979,106	(2,326,918)	6,679,361	2,377,882
Loans payable	4,567,179	—	(830,396)	3,736,783	830,396
Bonds payable	162,967	—	(143,784)	19,183	19,183
Total long-term liabilities	$ 42,336,608	19,073,911	(17,291,007)	44,119,512	13,886,786

The Hospital is self-insured with respect to medical malpractice risks. Estimated losses from asserted and unasserted claims identified under the Hospital's incident reporting system and an estimate of incurred but not reported claims are accrued based on actuarially determined estimates that incorporate the Hospital's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. When cases are settled such amounts are transferred to and subsequently paid out of the Finance Corporation.

The Hospital has established a trust fund for the payment of medical malpractice claim settlements. The trust is funded based on actuarially determined amounts.

The scope of the Hospital's assessment for establishing reserves for malpractice costs encompasses physicians, dentists, and all other University of Connecticut Health Center health care providers, and support staff.

The Hospital is involved in litigation claiming a substantial amount of damages arising in the ordinary course of business. Specifically, claims alleging malpractice have been asserted against the Hospital and are currently in various stages of litigation. It is the opinion of management that the amounts accrued for estimated malpractice costs at June 30, 2009, are adequate to provide for potential losses resulting from pending or threatened litigation and an actuarially determined estimate for incurred but not reported claims.

Long-term debt and capital lease obligations as of June 30, 2009 and 2008 consisted of the following:

		2009	2008
Bonds payable – State of Connecticut, with interest of 7.125%, due at various dates from March 2003 through March 2009, collateralized by diagnostic equipment	$	—	19,183
Leasehold note-People's Bank, fixed rate beginning December 1, 2006 and maturing November 30, 2012 at a fixed rate of 6.35%.		2,906,387	3,736,783
Capital lease obligation - Citicorp Leasing, Inc. Beginning January 18, 2008. Payments of principal and interest at 2.7%, begin April 1, 2008 and continue until January 13, 2013, collateralized by financed equipment.		2,268,158	2,835,806
Capital lease obligation – GE Capital: Linear Accelerator Beginning in 2003 and for five years at 3.8%		—	238,283
Capital lease obligation – GE Capital: X Ray Suite Beginning in 2003 and for five years at 3.8%		—	215,752
Capital lease obligation – GE Capital: Phillips Medical Beginning in 2005 and for five years at 4.8%		1,330,186	2,338,552
Capital lease obligation – GE Capital: Medical Equipment Beginning in 2006 and for five years at 5.2%		703,134	1,028,233
Capital lease obligation – Wasco Medical Equipment Beginning in 2005 and for three and a half years at 9.36%		—	22,735
Total		7,207,865	10,435,327
Less current portion		2,813,510	3,227,461
Long-term debt, less current portion	$	4,394,355	7,207,866

Aggregate maturities of bonds and notes payable at June 30, 2009 were:

		Notes
Fiscal year:		
2010	$	830,396
2011		830,396
2012		830,396
2013		415,199
2014		—
	$	2,906,387

(Continued)

Aggregate maturities of capital leases at June 30, 2009 were:

		Capital leases
Fiscal year:		
2010	$	2,107,809
2011		1,284,679
2012		633,484
2013		475,041
2014		—
Total minimum lease payments		4,501,013
Less amount representing interest		199,534
Present value of minimum lease payments	$	4,301,479

Total interest expense was $415,932 and $539,199 for the years ended June 30, 2009 and 2008, respectively. Interest expense is included on the statements of revenues, expenses, and changes in net assets in the nonoperating section.

The Hospital also participates in operating lease agreements under the University for which its departments are allocated expenses based on square footage occupied. Rent expense was $2,356,464 and $2,395,896 in 2009 and 2008, respectively. Aggregate minimum lease payments for the lease are as follows:

		Amount
Fiscal year:		
2010	$	1,507,798
2011		1,444,647
2012		1,348,855
2013		1,353,355
2014		1,357,855
Thereafter		3,766,128
Total	$	10,778,638

(8) Related Party Transactions

The expenses reported in the statements of revenues, expenses, and changes in net assets do not include undetermined amounts for salaries, services, and expenses provided to and received from The University of Connecticut Health Center and other state agencies. Complete allocations have not been made for salaries, and other services incurred by the Hospital on behalf of other Health Center entities. In addition, certain activities accounted for in the 21002 Fund are periodically evaluated and transferred to/from other funds depending on the overall objectives of the Health Center.

As described in note 1, the Hospital participates in certain State of Connecticut retirement plans. The State charges the Hospital for these and other fringe benefits. During the years ended June 30, 2009 and 2008, the Hospital expensed $34,952,482 and $39,605,637, respectively, for employee fringe benefits. During 2009, the State subsidized approximately $3.6 million of employee fringe benefits. Related salary costs were $93,580,336 and $96,465,516, respectively.

Contributions to the State for an assessment of postemployment benefits other than pension benefits are also included in employee benefits expense. The related accrued postemployment benefit liability is a liability of the state.

The Hospital provides medical services to correctional managed health care patients under a Health Center contract with the State of Connecticut Department of Correction (CTDOC). Revenue recorded under this contract was approximately $9,526,000 and $8,776,000 for the years ended June 30, 2009 and 2008, respectively, and is included in net patient service revenues in the statements of revenues, expenses, and changes in net assets.

In 2009, the Health Center transferred $14.9 million of cash to the Hospital to subsidize the prior year loss, which is reflected as a net asset transfer in the statements or revenues, expenses, and changes in net assets.

In 2009 and 2008, the Hospital recorded the liability for Finance Corporation purchases directly in accounts payable and accrued expenses in the statements of net assets.

(9) Subsequent Event

On September 8, 2009, “An Act Concerning Expenditures And Revenue For The Biennium Ending June 30, 2011, (Public Act No. 09-3)”, became Connecticut law. Sec. 74. of this public act states “(Effective from passage) (a) Notwithstanding the provisions of section 10a-256 of the general statutes, the sum of $10,000,000 shall be transferred from The University of Connecticut Health Center Medical Malpractice Trust Fund and credited to the resources of the General Fund for each of the fiscal years ending June 30, 2010, and June 30, 2011. At the time of issuance of these statements, management has not determined what impact that this cash transfer will have on the malpractice trust fund or the payment and funding of claims in the future.