



University of Connecticut Health Center

Financial Report
For the Year Ended June 30, 2012

Message from the Vice President and the Chief Financial Officer

Founded in 1881, the University of Connecticut (University) serves as the state's flagship for higher education, meeting the educational needs of undergraduate, graduate, professional, and continuing education students through the integration of teaching, research and service. The University of Connecticut is a comprehensive institution of higher education which includes the University of Connecticut Health Center (Health Center). Although governed by a single Board of Trustees, the University and its Health Center maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and state appropriations. The Health Center also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority. The financial statements contained herein represent the transactions and balances of the Health Center only.

The University's Board of Trustees is vested by law with fiscal oversight of the University. The operational authority granted to the University builds upon the successful implementation of several pieces of legislation known as the Flexibility Acts, enacted in the early 1990's. These statutory changes enabled the University to become responsible and accountable for its operational decisions independent of many of the previously imposed regulatory requirements. The University is now responsible for the budgetary allocation of its State appropriation, check-writing authority, human resource control, and purchasing authority and, with the advent of UCONN 2000 in 1995, management of capital activities, including projects for the Health Center starting in 2005.

While the University's operational flexibility and capacity has grown, all of these activities also take place within a context of continuing vigilance. The financial statements contained in this report reflect budget execution results consistent with spending plans, operating and capital budgets approved by the University Board of Trustees. The Board of Trustees, through its Joint Audit and Compliance Committee, exercises oversight of all University financial reporting and processes and internal control systems, as well as direct engagement in the approval of independent auditing services to augment the University's internal audit capacity and the work performed by state auditors. An important component of external oversight, the Auditors of Public Accounts issue an Independent Auditors' Report on the financial statements of the Health Center. They are responsible for auditing its financial operations and their opinion appears in this report.

The University of Connecticut Health Center is an academic medical center composed of the School of Medicine, School of Dental Medicine, John Dempsey Hospital, the UConn Medical Group, University Dentists, the University of Connecticut Finance Corporation and Correctional Managed Healthcare (CMHC). Established in 1961, the Health Center pursues its mission of providing outstanding health care education in an environment of exemplary patient care, research and public service. With approximately 4,900 employees, the Health Center is one of Connecticut's largest employers and an important contributor to the local and regional economy. The Health Center's campus in Farmington is situated on 206 acres of wooded hilltop from which the skyline of Hartford, the capital of Connecticut, can be seen about eight miles to the east. (The University's main campus is in Storrs, about 30 miles east of Hartford.) The Health Center campus includes 37 buildings totaling over 2.2 million square feet.

Educational Programs

Dedicated to providing broad educational opportunities in the biomedical sciences, the Health Center offers degree programs in medicine (M.D.), dental medicine (D.M.D.), and biomedical science (Ph.D.); master's degree programs in public health and dental science; postdoctoral fellowships; residency programs providing specialty training for newly graduated physicians and dentists; and continuing education programs for practicing health care professionals. Combined degree programs, such as the M.D. /Ph.D., D.M.D. /Ph.D., Dental Clinical Specialty/Ph.D. and M.D. /M.P.H. are also offered.

The UConn Health Center is the only academic health center in the nation where a medical school was founded concurrently with a dental school, a circumstance which led to strong links. Medical and dental students share an essentially common curriculum during the first two years of their four-year degree programs and study the basic medical sciences together. This experience provides UConn's dental students with an especially strong foundation in the biomedical sciences, reflected in the dental school's decision to award its graduates the D.M.D. (Doctor of Medical Dentistry).

Each year at UConn, about 360 students work toward the medical doctor's degree and 170 toward the doctor of medical dentistry degree. Admission to each school is highly competitive; both schools offer preferential consideration to qualified Connecticut residents in their admissions policies. School of Dental Medicine students have a long history of outstanding performance on the National Boards, ranking first among the country's 55

dental schools on these examinations in 2001 and again in 2003. In the years since the Health Center graduated its first students in 1972, 1,459 men and women have received the D.M.D. degree; 3,061 the M.D. degree.

Through a variety of residency programs, the School of Medicine provides postgraduate training for more than 600 newly graduated M.D.s each year. These physicians come from all over the country to acquire advanced skills in fields such as the surgical specialties, internal medicine, and primary care. Some of the residency training occurs on the Health Center's main campus, but much of it takes place in community hospitals in Greater Hartford, thereby extending the Health Center's positive impact on the region.

Research Programs

Since the Health Center's inception, high-quality research programs have been part of the institution's fabric. This history has enabled the Health Center to recruit distinguished researchers with expertise in neuroscience, molecular biology, molecular pharmacology, biochemistry, cell physiology, toxicology, and endocrinology, among other fields. The Alcohol Research Center is one of only 14 such federally supported centers in the nation; the Connecticut Clinical Chemosensory Research Center, one of five. In recent years, the University has also become a leader in stem cell research. Clinical research is facilitated by the Lowell Weicker General Clinical Research Center and the Clinical Trials Unit. Research awards have grown from \$44.8 million in FY 97 to over \$84.9 million in FY 12.

Health Care Services

Through John Dempsey Hospital (234 licensed beds), the Health Center provides specialized and routine inpatient and outpatient services, including comprehensive cardiovascular, cancer and musculoskeletal services, as well as high risk maternity and neonatal intensive care. John Dempsey Hospital is home to the only Emergency Department in Connecticut's fast-growing Farmington Valley and contributes to the region's health in other ways. Health Center physicians make up the UConn Medical Group, the largest medical practice in Greater Hartford, offering primary care and services in more than 50 specialties.

While the hospital and faculty practice continue to have strong volume, the challenges of the health care marketplace (recruitment, malpractice reserves and low reimbursement) continue to take their toll. John Dempsey Hospital's financial health is also directly affected by its small size, bed distribution (only half are medical/surgical), poorly reimbursed services provided as part of its public mission and cost factors resulting from its status as a state entity.

Connecticut Health

UConn Health Center faculty, staff, residents, and students participate in a variety of joint efforts to address public health and community health needs of citizens throughout our state. Under the umbrella of Connecticut Health, hundreds of projects have been developed in collaboration with other state agencies, city and town governments, community-based organizations and the public to serve the poor and uninsured by providing better medical care and health education. The UConn Health Center is committed to finding new and effective ways to reach out to the public at large as part of the University's ongoing effort to bring a better quality of life to all our citizens.

Respectfully Submitted,



Richard D. Gray
Vice President and Chief Financial Officer
University of Connecticut



John M. Biancamano
Chief Financial Officer
University of Connecticut Health Center

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

210 CAPITOL AVENUE

HARTFORD, CONNECTICUT 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

INDEPENDENT AUDITORS' REPORT

Board of Directors of the
University of Connecticut Health Center

We have audited the accompanying statements of net assets of the University of Connecticut Health Center (Health Center) as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended. The Health Center is a component unit of the University of Connecticut system, which includes the University of Connecticut, the Health Center and the University of Connecticut Foundation, Inc. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the John Dempsey Hospital, which represented 18 and 19 percent of the assets of the Health Center as of June 30, 2012 and 2011, respectively and 31 and 34 percent of the revenues of the Health Center for the years then ended. Those financial statements were audited by other auditors whose reports thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the John Dempsey Hospital, is based on the reports of the other auditors. The audits of the John Dempsey Hospital were conducted in accordance with auditing standards generally accepted in the United States of America.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Health Center, as of June 30, 2012 and 2011, and the results of its operations and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 2 through 9 is not a required part of the basic financial statements of the Health Center, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Health Center's basic financial statements. The introductory section and the consolidating statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The consolidating statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

A handwritten signature in blue ink, appearing to read "Robert M. Ward".

Robert M. Ward
Auditor of Public Accounts

A handwritten signature in blue ink, appearing to read "John C. Geragosian".

John C. Geragosian
Auditor of Public Accounts

February 1, 2013
State Capitol
Hartford, Connecticut

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion and Analysis

INTRODUCTION

The following discussion and analysis provide an overview of the financial position and activities of the University of Connecticut Health Center (the "Health Center") for the year ended June 30, 2012. 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.

Founded in 1881, the University of Connecticut (University) serves as the state's flagship for higher education, meeting the educational needs of undergraduate, graduate, professional, and continuing education students through the integration of teaching, research and service. The University of Connecticut is a comprehensive institution of higher education, which includes the University of Connecticut Health Center. Although governed by a single Board of Trustees, the University of Connecticut and its Health Center maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and state appropriations. The Health Center also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority.

The financial statements presented here represent the transactions and balances of the Health Center only. The Health Center offers medical and dentistry degrees and operates a physician/dentist practice and a teaching and research hospital. The Health Center's component parts are the School of Medicine, School of Dental Medicine, UConn Medical Group, the University of Connecticut Finance Corporation, Correctional Managed Healthcare (CMHC), and University Dentists ("Primary Institution") and John Dempsey Hospital (the "Hospital"). The Health Center's enrollment in fiscal year 2012 was 355 in the School of Medicine, 176 in the School of Dental Medicine, and 331 Graduate students, taught by over 500 faculty members. The Health Center in total employs approximately 4,900 FTE's. John Dempsey Hospital (JDH) has 184 staffed acute care beds. In fiscal year 2012, adjusted patient days (a measure of total hospital volume) were 99,000, up 6.5% from comparable prior year adjusted patient days. During 2012, UConn Medical Group (UMG) had over 537,000 unique patient visits.

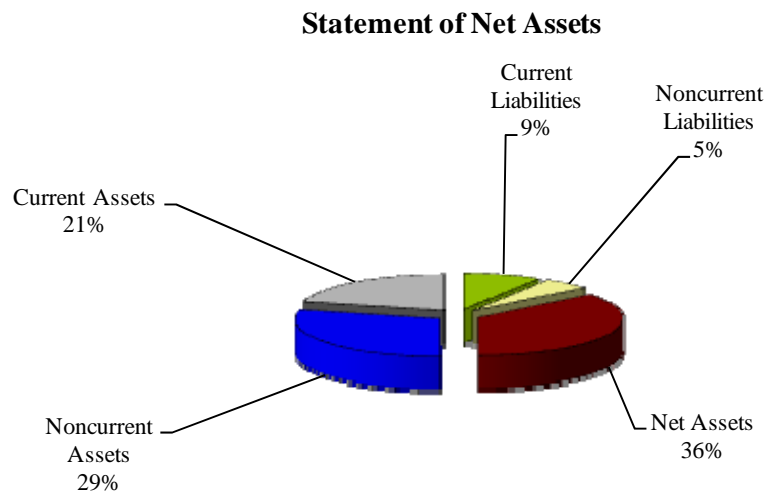
The following Management's Discussion and Analysis (MD&A) is required supplemental information. Its purpose is to provide users of the basic financial statements with a narrative introduction, overview and analysis of those statements. It is designed to assist readers in understanding the accompanying financial statements required by GASB. This discussion, which is unaudited, includes an analysis of the financial condition and results of activities of the Health Center for the fiscal year ended June 30, 2012, based on currently known facts, decisions, or conditions. As the MD&A presentation includes highly summarized information, it should be read in conjunction with the accompanying financial statements and related notes to the financial statements. The financial statements, notes to the financial statements, and this MD&A are the responsibility of management.

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 Health Center at June 30, 2012, and the results of operations and financial activities for the year then ended. These statements report information about the Health Center using accounting methods similar to those used by private-sector companies. In addition, a prior year column is presented for comparison purposes. The statement of net assets includes all of the Health Center's assets and liabilities. The statement 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 when cash is received or paid. These statements report the Health Center's net assets and how they have changed. Net assets (the difference between assets and liabilities) are one way to measure financial health or position. The statements of cash flows provides relevant information about each year's cash receipts and cash payments and classifies them as to operating, investing, noncapital financing and capital and related financing activities. The financial statements include notes that explain information in the financial statements and provide more detailed data.

FINANCIAL HIGHLIGHTS

The Health Center's financial position at June 30, 2012, consisted of assets of \$562 million and liabilities of \$158.9 million. Net assets, which represent the residual interest in the Health Center's assets after liabilities are deducted, increased \$63.5 million during fiscal year 2012 to \$403.1 million.



The increase in net assets is attributable to Capital Appropriations which exceeded the net of operating losses and nonoperating revenues including State Appropriations. Expenses associated with Capital Appropriations will be borne in the future through increase depreciation expenses.

Changes in net assets represent the operating activity of the Health Center, which results from revenues, expenses, gains and losses, and are summarized for the years ended June 30, 2012, 2011, and 2010 as follows:

| | (in millions) | | |
|-----------------------------------|----------------|-----------------|----------------|
| | 2012 | 2011 | 2010 |
| Total operating revenue | \$ 621.6 | \$ 592.9 | \$ 570.4 |
| Total operating expenses | <u>831.3</u> | <u>814.9</u> | <u>781.4</u> |
| Operating (loss) | <u>(209.7)</u> | <u>(222.0)</u> | <u>(211.0)</u> |
| Other changes in net assets | 273.2 | 215.8 | 245.8 |
| Increase/(Decrease) in net assets | <u>\$ 63.5</u> | <u>\$ (6.2)</u> | <u>\$ 34.8</u> |

The financial statements contained herein show an operating loss of \$209.7 million for the year ending June 30, 2012 (fiscal year 2012). The measure more indicative of normal and recurring activities is net income before capital appropriations, which includes revenue from state appropriations. Additions to capital assets are, in a large part, funded by capital appropriations from the state and issuance of UCONN 2000 bond funds, which are not included as revenues in this measurement. However, depreciation expense on those assets is included as an expense in calculating operating income, so a loss under this measurement is expected. The Health Center experienced a gain before capital appropriations of \$1 million in fiscal year 2012.

Some sources of recurring operating and nonoperating revenues increased in 2012, including tuition and fees revenue, patient service revenues and contract revenues. These categories are expected to have slight increases in 2013. State support, not including state funded capital appropriations, decreased 9.9% in fiscal 2012. The decrease was expected and included a decrease to the Health Center's block grant as well as decreases in certain payroll and benefit costs borne by the State. Some future decline in State support is expected due to the State's overall fiscal concerns.

STATEMENTS OF NET ASSETS

The statements of net assets present the financial position of the Health Center at the end of the fiscal years and includes all assets and liabilities of the Health Center. The difference between total assets and total liabilities—net assets—is one indicator of the current financial condition of the Health Center, while the change in net assets is an indicator of whether the overall financial condition has improved or deteriorated during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summary of the Health Center's assets, liabilities and net assets at June 30, 2012, 2011, and 2010 is as follows:

| | (in millions) | | |
|------------------------|-----------------|-----------------|-----------------|
| | 2012 | 2011 | 2010 |
| Current assets | \$ 237.1 | \$ 207.6 | \$ 230.5 |
| Noncurrent assets: | | | |
| Capital assets, net | 320.1 | 298.3 | 277.1 |
| Other | <u>4.8</u> | <u>8.7</u> | <u>12.4</u> |
| Total assets | <u>562.0</u> | <u>514.6</u> | <u>520.0</u> |
| Current liabilities | 99.1 | 113.5 | 117.1 |
| Noncurrent liabilities | <u>59.8</u> | <u>61.5</u> | <u>57.1</u> |
| Total liabilities | <u>158.9</u> | <u>175.0</u> | <u>174.2</u> |
| Net assets | <u>\$ 403.1</u> | <u>\$ 339.6</u> | <u>\$ 345.8</u> |

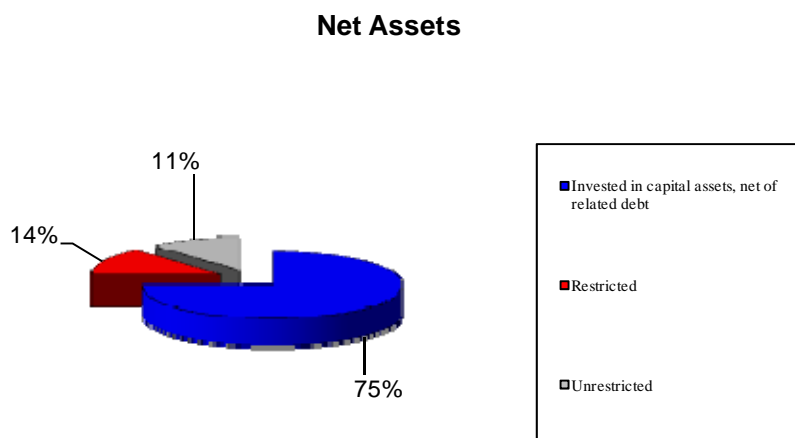
The total assets of the Health Center increased by \$47.4 million, or 9.2%, over the prior year. The increase was primarily due to increases in Due from Affiliates and Property, Plant, and Equipment which are a result of Capital Appropriations.

Total liabilities decreased by \$16.1 million or 9.2% from 2011. The primary driver of the decrease was a decrease in payroll and fringe benefit accruals based on the timing of payroll dates. These decreases were offset by increases of \$2.1 million in accrued compensated absences and \$5.5 in Accounts Payable. The increase in Accounts Payable is attributed to

return of normal operational balances. In the prior year, many Accounts Payable balances were liquidated in advance of the Health Center's financial system conversion, on July 1, 2012.

Net Assets

Net assets represent the residual interest in the Health Center's assets after liabilities are deducted. The Health Center had net assets of \$403.1 million at June 30, 2012, which were made up of the following:



STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The statement of revenues, expenses and changes in net assets presents the Health Center's results of operating and nonoperating activities. A summary of the Health Center's revenues, expenses and changes in net assets for the years ended June 30, 2012, 2011 and 2010 are as follows:

| | (in millions) | | |
|---------------------------|----------------|-----------------|----------------|
| | 2012 | 2011 | 2010 |
| Operating revenues | | | |
| Patient Services | \$ 429.5 | \$ 422.1 | \$ 405.7 |
| Grants and Contracts | 84.6 | 86.0 | 88.0 |
| Other | 107.5 | 84.8 | 76.7 |
| Total operating revenue | <u>621.6</u> | <u>592.9</u> | <u>570.4</u> |
| Operating expenses | | | |
| Patient services | 506.7 | 492.8 | 469.3 |
| Instruction | 129.2 | 129.8 | 126.2 |
| Other | 195.5 | 192.3 | 185.9 |
| Total operating expenses | <u>831.4</u> | <u>814.9</u> | <u>781.4</u> |
| Operating (loss) | (209.8) | (222.0) | (211.0) |
| Net nonoperating revenues | 210.8 | 215.6 | 210.2 |
| Total other revenues | 62.5 | 0.2 | 35.6 |
| Inc/(Dec) in net assets | <u>\$ 63.5</u> | <u>\$ (6.2)</u> | <u>\$ 34.8</u> |

Revenue highlights for the year ending June 30, 2012, including operating and nonoperating revenues and capital additions, presented on the Statements of Revenues Expenses, and Changes in Net Assets are as follows:

- The largest source of revenue was patient service revenue. Net Patient service revenue increased \$7.4 million or 1.8% over prior year. Prior to eliminations the increase for John Dempsey Hospital was \$9.2 million. Increases in John Dempsey Hospital reflect strategic rate increases and ongoing shifts in patient and payer mix throughout the Hospital's lines of service. Prior to eliminations the decrease in University Medical Group net revenues was \$2.9 million. The Correctional Managed Health Care program revenues declined by \$600,000 reflected continued decreased operational costs for the program. More detailed information about the Health Center's patient revenue is presented in note 4 of the financial statements.
- The state appropriation (including in-kind fringe benefits), which is included in nonoperating revenues, totaled \$203 million. This represents a 9.9% decrease over the prior year and includes decreases in appropriations and in-kind fringe benefits associated with salary expense of general funded employees.

Highlights of expenses including operating and nonoperating expenses presented on the Statements of Revenues, Expenses and Changes in Net Assets are as follows:

- Patient service expense is the largest expense category for the Health Center; it accounts for 61.0% of total operating expenses. It increased to \$506.7 million or 2.8% over the prior year. The increase is attributable to increases in patient volume and salary and fringe costs for John Dempsey Hospital.

STATEMENTS OF CASH FLOWS

The statements of cash flows provide additional information about the Health Center'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, 2012, 2011, and 2010 is as follows:

| | (in millions) | | |
|---|---------------|----------|----------|
| | 2012 | 2011 | 2010 |
| Cash received from operations | \$ 583.9 | \$ 604.8 | \$ 579.8 |
| Cash expended for operations | (683.0) | (692.4) | (661.2) |
| Net cash used in operating activities | (99.1) | (87.6) | (81.4) |
| Net cash provided by investing activities | 0.8 | 1.0 | 4.0 |
| Net cash provided by noncapital financing activities | 117.1 | 135.2 | 132.8 |
| Net cash used in capital and related financing activities | (33.7) | (52.5) | (28.9) |
| Net (decrease)/increase in cash and cash equivalents | (14.9) | (3.9) | 26.5 |
| Cash and cash equivalents, beginning of the year | 99.7 | 103.6 | 77.1 |
| Cash and cash equivalents, end of the year | \$ 84.8 | \$ 99.7 | \$ 103.6 |

CAPITAL AND DEBT ACTIVITIES

During fiscal year 2012 the Health Center again participated in the UCONN 2000 program. This is the third phase of the program also known as 21st Century UConn, which provides \$1.8 billion for improvements to facilities at the University and the Health Center. The Health Center is scheduled to receive \$775.3 million over the life of this program. During fiscal year 2012, the Health Center received \$62.5 million from the UCONN 2000 bond issuance which is included in the capital appropriation line in the Statements of Revenues, Expenses, and Changes in Net Assets. There was no bond issuance during the fiscal year 2011 and therefore no associated revenue were recorded. The Health Center did record \$170,000 related to capital appropriations during 2011.

At June 30, 2012, the Health Center had plant and equipment, net of accumulated depreciation, of \$320.1 million. The Health Center's fiscal 2013 capital budget allows for spending of approximately \$124.2 million, including \$88.1 million from projects funded through UCONN 2000 Bond Funds, and \$36.1 million from other Health Center sources.

Debt activity during fiscal year 2012 included the annual payments for the bonds and loans outstanding and lease payments on capital leases entered into by the Hospital. More detailed information about the Health Center's capital assets and debt activities are presented in notes 5 and 7 of the financial statements.

FISCAL YEAR 2013 OUTLOOK

As we look forward to fiscal year 2013, the Health Center's main concerns are maintaining outstanding research, education and clinical care while readying for changes resulting from the state's Bioscience Connecticut initiative, national healthcare reform, and changes resulting from the weakening financial positions of both Federal and State governments.

On July 8, 2011, the State passed Public Act 11-75 An Act Concerning the University of Connecticut Health Center (Bioscience Connecticut). The bill formalized and amended plans established by the State to establish the UConn Health Network. The new act still calls for partnership with area hospitals aimed at creating jobs and improving access to quality health care in the state. The centerpiece of the partnership remains a new patient care tower and renovations to John Dempsey Hospital at the Health Center. The plan will also include increased classroom and lab space for more medical and dental students aimed at alleviating an expected shortage of doctors and dentists in the state. Bioscience Connecticut involves the cooperation of all the area hospitals including Hartford Hospital, St. Francis Hospital and Medical Center, Connecticut Children's Medical Center, and other health care facilities and providers.

The plan is estimated to cost \$661 million and includes \$592 million in borrowing, \$338 million of previously approved. The Health Center is required to contribute \$69 million raised through operations or philanthropy. Features of the Bioscience Connecticut include:

- 1. Encouraging Job Growth Through Clinical Collaboration:** Local and state-wide health care organizations will collaborate on clinical and translational sciences to achieve breakthrough successes and drive the bioscience industry in the State thereby creating long term jobs.
- 2. Neonatal Intensive Care Unit:** In September of 2011, Connecticut Children's Medical Center assumed management of the NICU at John Dempsey Hospital creating one of the largest neonatal care units in the country. Patients continue to be treated at the Health Center but are now under the bed license of CCMC. This provides improved accessibility, efficiency, and continuity of care. It also furthers efforts to attract the highest quality pediatricians, neonatologists, obstetricians, and other clinical health care professionals to the greater Hartford area.
- 3. Nationally recognized cancer center:** The goal will be to achieve National Institutes of Health designation as a Comprehensive Cancer Center, making it the second in the state.
- 4. Regional Simulation Center:** It will train up to 2,000 medical practitioners each year on newest equipment and technology in simulated care settings and will be located at Hartford Hospital.
- 5. Primary Care Institute:** It will be located at St. Francis Hospital and will develop new models of chronic disease management and primary care delivery and education. It will also serve to address the impending shortage of primary care providers in Connecticut.

6. Health Disparities Institute: It will promote enhanced healthcare research, training and delivery to minority communities.

7. Institute for Clinical and Translational Sciences: It will be a super-site by network partners and will speed lab-to-bedside clinical trials and breakthrough medicine.

CONTACTING THE HEALTH CENTER'S FINANCIAL MANAGEMENT

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

FINANCIAL STATEMENTS

UNIVERSITY OF CONNECTICUT HEALTH CENTER
STATEMENTS OF NET ASSETS
As of June 30, 2012 and 2011

| (\$ in thousands) | <u>2012</u> | <u>2011</u> |
|---|-------------------|-------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 84,404 | \$ 96,175 |
| Patient receivables, net | 41,110 | 42,659 |
| Contract and other receivables | 33,744 | 25,823 |
| Due from Affiliates | 48,300 | 6,823 |
| Due from State of Connecticut | 5,126 | 9,477 |
| Due from Department of Correction | 9,591 | 7,932 |
| Inventories | 10,040 | 10,050 |
| Prepaid expenses | 4,754 | 8,682 |
| Total current assets | <u>237,069</u> | <u>207,621</u> |
| Noncurrent Assets | | |
| Restricted cash and cash equivalents | 384 | 3,510 |
| Other assets | 615 | 639 |
| Assets limited as to use | 3,643 | 4,370 |
| Due from State of Connecticut | 158 | 191 |
| Capital assets, net | 320,137 | 298,293 |
| Total noncurrent assets | <u>324,937</u> | <u>307,003</u> |
| Total assets | <u>\$ 562,006</u> | <u>\$ 514,624</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 36,054 | \$ 30,556 |
| Due to State of Connecticut | 5,183 | 5,421 |
| Accrued salaries | 17,945 | 32,828 |
| Compensated absences | 19,758 | 17,962 |
| Due to third party payors | 6,741 | 9,416 |
| Deferred revenue | 8,887 | 12,115 |
| Malpractice reserve | 2,742 | 2,953 |
| Long-term debt - current portion | 1,833 | 2,261 |
| Total current liabilities | <u>99,143</u> | <u>113,512</u> |
| Noncurrent Liabilities | | |
| Malpractice reserve | 17,215 | 17,486 |
| Compensated absences | 26,191 | 25,848 |
| Long-term debt | 16,335 | 18,168 |
| Total noncurrent liabilities | <u>59,741</u> | <u>61,502</u> |
| Total liabilities | <u>\$ 158,884</u> | <u>\$ 175,014</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | \$ 301,969 | \$ 277,865 |
| Restricted for | | |
| Nonexpendable | | |
| Scholarships | 61 | 61 |
| Expendable | | |
| Research | 3,436 | 4,047 |
| Loans | 1,081 | 875 |
| Capital projects | 51,287 | 5,758 |
| Unrestricted | 45,288 | 51,004 |
| Total net assets | <u>\$ 403,122</u> | <u>\$ 339,610</u> |

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF CONNECTICUT HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2012 and 2011

| (\$ in thousands) | <u>2012</u> | <u>2011</u> |
|---|-------------------|-------------------|
| OPERATING REVENUES | | |
| Student tuition and fees (net of scholarship allowances of \$4,648 and \$4,734, respectively) | \$ 13,746 | \$ 13,095 |
| Patient services (net of charity care of \$543 and \$912, respectively) | 429,546 | 422,094 |
| Federal grants and contracts | 56,904 | 60,127 |
| Nonfederal grants and contracts | 27,690 | 25,885 |
| Contract and other operating revenues | 93,730 | 71,694 |
| Total operating revenues | <u>621,616</u> | <u>592,895</u> |
| OPERATING EXPENSES | | |
| Educational and General | | |
| Instruction | 129,217 | 129,793 |
| Research | 63,080 | 58,892 |
| Patient services | 506,720 | 492,788 |
| Academic support | 20,200 | 16,355 |
| Institutional support | 53,059 | 58,421 |
| Operations and maintenance of plant | 28,031 | 27,653 |
| Depreciation | 30,875 | 30,075 |
| Loss on disposal | 7 | 482 |
| Student aid | 165 | 416 |
| Total operating expenses | <u>831,354</u> | <u>814,875</u> |
| Operating loss | <u>(209,738)</u> | <u>(221,980)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| State appropriations | 202,997 | 225,268 |
| Transfer from/(to) State and outside programs | 1,312 | (10,807) |
| Gifts | 7,435 | 2,554 |
| Investment income (net of investment expense of \$16 and \$91, respectively) | 101 | 134 |
| Interest on capital asset - related debt | (1,095) | (1,570) |
| Net nonoperating revenues | <u>210,750</u> | <u>215,579</u> |
| Loss before other revenues, expenses, gains or losses | <u>1,012</u> | <u>(6,401)</u> |
| Capital appropriations | <u>62,500</u> | <u>170</u> |
| Total other revenues | <u>62,500</u> | <u>170</u> |
| Increase/(Decrease) in net assets | <u>63,512</u> | <u>(6,231)</u> |
| NET ASSETS | | |
| Net assets-beginning of year | 339,610 | 345,841 |
| Net assets-end of year | <u>\$ 403,122</u> | <u>\$ 339,610</u> |

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF CONNECTICUT HEALTH CENTER
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|------------------|------------------|
| (\$ in thousands) | | |
| Cash flows from operating activities: | | |
| Cash received from patients and third-party payors | \$ 426,761 | \$ 429,952 |
| Cash received from tuition and fees | 13,718 | 13,095 |
| Cash received from grants, contracts and other revenue | 143,438 | 161,770 |
| Cash paid to employees for personal services and fringe benefits | (435,051) | (439,159) |
| Cash paid for other than personal services | (247,981) | (253,330) |
| | <u>(99,115)</u> | <u>(87,672)</u> |
| Net cash used in operating activities | | |
| Cash flows from investing activities: | | |
| Net change in malpractice, advances and bond trust funds | 727 | 888 |
| Interest received | 101 | 128 |
| | <u>828</u> | <u>1,016</u> |
| Net cash provided by investing activities | | |
| Cash flows from noncapital financing activities: | | |
| State appropriations | 109,670 | 132,667 |
| Gifts | 7,435 | 2,554 |
| | <u>117,105</u> | <u>135,221</u> |
| Net cash provided by noncapital financing activities | | |
| Cash flows from capital and related financing activities: | | |
| Additions to property and equipment | (52,726) | (51,738) |
| Transfer from/(to) State and outside programs | 1,312 | (10,000) |
| Capital appropriations | 21,055 | 24,377 |
| Interest paid | (1,095) | (1,570) |
| Net repayment, proceeds of long-term debt | (2,261) | (13,595) |
| | <u>(33,715)</u> | <u>(52,526)</u> |
| Net cash used in capital and related financing activities | | |
| Net (decrease) in cash and cash equivalents | (14,897) | (3,961) |
| Cash and cash equivalents at beginning of year | <u>99,685</u> | <u>103,646</u> |
| Cash and cash equivalents at end of year | \$ <u>84,788</u> | \$ <u>99,685</u> |

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF CONNECTICUT HEALTH CENTER
STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended June 30, 2012 and 2011

Reconciliation of operating loss to net cash used in operating activities:

| (\$ in thousands) | <u>2012</u> | <u>2011</u> |
|--|--------------------|--------------------|
| Operating loss | \$ (209,738) | \$ (221,980) |
| Adjustments to reconcile operating income to net cash | | |
| Used in operating activities: | | |
| Depreciation and loss on disposal | 30,882 | 30,557 |
| Personal services and fringe benefits in-kind from State | 93,875 | 91,806 |
| Changes in assets and liabilities: | | |
| Patients receivables, net | 1,550 | (380) |
| Contract and other receivables | (7,921) | 1,547 |
| Due from DOC | (1,659) | (298) |
| Inventories | 10 | (476) |
| Third party payors | (2,675) | 6,582 |
| Prepaid expenses | 3,928 | (2,219) |
| Other assets | 24 | 134 |
| Accounts payable and accrued liabilities | 5,498 | (4,627) |
| Due to State of Connecticut | 3,565 | 577 |
| Accrued salaries | (14,882) | 3,671 |
| Compensated absences | 2,138 | 2,794 |
| Deferred revenue | (3,228) | 2,516 |
| Malpractice reserve | (482) | 2,124 |
| Net cash used in operating activities | \$ <u>(99,115)</u> | \$ <u>(87,672)</u> |

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements

For the Years Ended June 30, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related Entities

The University of Connecticut Health Center (the “Health Center”) is a part of a comprehensive institution of higher education, the University of Connecticut (the “University”). Although governed by a single Board of Trustees, the Health Center and the University maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and state appropriations. The Health Center also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority. These financial statements represent transactions and balances of the Health Center for the years ended June 30, 2012 and 2011, which includes the School of Medicine, School of Dental Medicine, UConn Medical Group, University of Connecticut Health Center Finance Corporation, Correctional Managed Healthcare (CMHC) and University Dentists (the “Primary Institution”) and John Dempsey Hospital (the “Hospital”). The Health Center offers medical and dentistry degrees and operates a physician/dentist practice and a teaching and research hospital. There is also an affiliated entity that supports the mission of the Health Center: The University of Connecticut Foundation Inc. (the “Foundation”). The Foundation raises funds to promote, encourage, and assist education and research at the University, including its Health Center.

Basis of Presentation

The Health Center’s financial statements are prepared using the economic resources measurement focus and 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 elected this option.

Effective July 1, 2001, the Health Center adopted GASB Statement No. 35, *Basic Financial Statements - and Management’s Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. GASB Statement No. 35 establishes standards for financial reporting for public colleges and universities. These reporting standards focus on the University as a whole rather than on accountability by individual fund groups and provide accounting and financial reporting guidelines, enhancing the usefulness and comprehension of financial reports by external users. To that end, GASB requires that resources be classified for accounting and reporting purposes into the following net asset categories:

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation, and reduced by outstanding principal balances of borrowings attributable to the acquisition, construction, or improvement of those assets.
- **Restricted nonexpendable:** Represents endowment and similar type assets in which donors or outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may be expended or reinvested in principal.
- **Restricted expendable:** Net assets that are expendable but where the Health Center is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external third parties.
- **Unrestricted:** Consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.” These assets are not subject to externally imposed stipulations. These assets, while not restricted, are generally designated to support instruction, research, auxiliary enterprises, and capital projects.

Expenses are charged to either restricted or unrestricted net assets based on the variety of factors, including consideration of prior or future revenue sources, the type of expense incurred, the Health Center’s budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost.

For reporting periods beginning after June 15, 2005, GASB Statement No. 47, *Accounting for Termination Benefits*, was required for universities. This statement requires employers to recognize a liability and expense for voluntary termination

benefits when the termination offer is accepted and the amount of the benefits can be estimated. Any pension liability related to early retirement is the State's responsibility and therefore none is recorded by the Health Center (see Note 10).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities 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.

Proprietary Fund Accounting

The Health Center 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.

Basis of Presentation

All significant intra-agency transactions have been eliminated in the presentation of the Consolidated Financial Statements. Additional information about eliminations may be found in the supplemental schedules.

Operating and Non-operating revenues:

The Health Center breaks out revenues between operating and non-operating based on the nature of the transaction as being either an exchange or non-exchange transaction. Exchange transactions principally include services provided by the Health Center to the community. Non-exchange transactions include State Appropriations, Gifts, and Investment returns.

Cash and Cash Equivalents:

The Health Center considers all funds that have not been otherwise board designated and which are held on its behalf by the State of Connecticut to be cash.

Accounts Receivable and Net Patient Service Revenues

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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 State of Connecticut has established various funds to account for the operations of the Health Center. These funds include the University Health Center Operating Fund (Fund 12018), the University Health Center Research Foundation Fund (Fund 12023), the University Health Center Hospital Fund (Fund 21002) and the John Dempsey Hospital Malpractice Trust Fund (Fund 35015). Grants and contracts for research and related retained overhead recoveries are accounted for in the Research Foundation Fund. The Malpractice Trust Fund accounts for assets set aside based on actuarial funding recommendations. The Operating Fund acts as a "General Fund" for the Health Center, accounting for all operations not accounted for elsewhere.

Unrestricted Research Foundation Fund and Malpractice Trust Fund assets in excess of immediate cash needs are invested in the State of Connecticut Short-Term Investment Fund (STIF). Most restricted Research Foundation Fund assets are not invested, though there are certain exceptions including gift accounts and funds invested at the request of sponsoring organizations. Local student activity funds controlled by the Health Center are also invested in STIF; these funds are minimal in amount.

The STIF, which was established and is operated under Sections 3-27a through 3-27i of the General Statutes, provides State agencies, funds, political subdivisions and others with a mechanism for investing at a daily-earned rate with interest from day of deposit to day of withdrawal. STIF participants have daily access to their account balances. Underlying investments of the STIF are mainly in money market instruments.

Though Operating Fund participation in STIF is not significant, the Health Center earns interest on Operating Fund cash balances through the State Treasurer's interest credit program. Under this program, the Treasurer pays the Health Center STIF equivalent interest on the average daily cash balance held in the Operating Fund each quarter. Additionally, interest is paid on monies transferred from the Health Center's civil list funds into the direct disbursement account used to process checks issued directly to vendors by the Health Center. Though the balance in this account may include assets of the Operating, Research Foundation and Hospital Funds, all interest earned is credited to the Operating Fund.

The Hospital Fund does not participate in STIF or, other than described above, the Treasurer's interest credit program.

Investment Income also includes amounts received from endowments.

Inventories

Consumable supplies are expensed when received with the exception of certain central inventories. Cost of the inventory is determined on a moving average basis for the Central Warehouse, and on a first-in, first-out basis for the others.

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.

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. Effective July 1, 1999, the Health Center developed a methodology by which it could allocate malpractice costs between the Hospital and UMG. For the years ended June 30, 2012, and 2011, these costs are included in the statements of revenues, expenses and changes in net assets.

Reclassification

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

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. CASH DEPOSITS AND INVESTMENTS

Statement No. 40 of the GASB requires governmental entities to disclose credit risk associated with cash deposits and investment balances, and investment policies applied to mitigate such risks, especially as it relates to uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Health Center's name.

The Health Center's cash and cash equivalents, current and noncurrent, balance was \$84,788,149 and \$99,685,097, as of June 30, 2012 and 2011, respectively and included the following:

| | 2012 | 2011 |
|---|-------------------|---------------------|
| Cash maintained by State of Connecticut Treasurer | \$ 38,135,011 | \$ 54,751,928 |
| Invested in State of Connecticut Short-Term Investment Fund | 43,651,644 | 43,163,497 |
| Deposits with Financial Institutions and Other | 2,999,994 | 1,768,172 |
| Currency (Change Funds) | 1,500 | 1,500 |
| Total cash and cash equivalents | <u>84,788,149</u> | <u>99,685,097</u> |
| Less: current balance | 84,403,920 | 96,174,656 |
| Total noncurrent balance | <u>\$ 384,229</u> | <u>\$ 3,510,441</u> |

Collateralized deposits are protected by Connecticut statute. Under this statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal to at least a certain percentage of its public deposits. The applicable percentage is determined based on the bank's risk-based capital ratio – a measure of the bank's financial condition. The collateral is kept in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank. Portions of the bank balance of the State of Connecticut were insured by the Federal Deposit Insurance Corporation or collateralized. As a State agency, the Health Center benefits from this protection, though the extent to which the deposits of an individual State agency such as the Health Center are protected cannot be readily determined.

Short-Term Investment Fund (STIF)

STIF is a money market investment pool in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer is authorized to invest monies of STIF in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans. For financial reporting purposes, STIF is considered to be "cash equivalents" in the statement of net assets.

The Health Center's cash management investment policy authorizes the Health Center to invest in the State Treasurer's Short Term Investment Fund, United States Treasury bills, United States Treasury notes and bonds, United States Government Agency obligations, banker's acceptances, certificates of deposit (including EURO Dollars), commercial paper, money market funds, repurchase agreements and savings accounts. The \$43,651,644 invested in the State of Connecticut Investment Pool is invested by the State Treasurer in its Short-term Investment Fund and had a Standard and Poor's rating of AAAm during fiscal year 2012.

Certain funds are held by outside fiscal agents and are not under the direct control of the Health Center. Accordingly, the assets of these funds are not included in the financial statements. The fair value amount of these funds was \$2,542,979 and \$2,540,604 as of June 30, 2012 and 2011, respectively. Investment income earned on these assets is transferred to the Health Center in accordance with the applicable trust agreement. Income received from those sources for the years ended June 30, 2012 and 2011 was \$4,058 and \$6,221, respectively.

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 2012 and 2011, the Hospital provided charity care services of \$543,109 and \$912,282, respectively. The cost basis of these services was \$279,796 and \$480,274, respectively. All related expenses are included in operating expenses.

4. NET PATIENT SERVICE REVENUE

The Health Center provides health care services primarily to residents of the region. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Health Center 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 Health Center.

The Health Center has agreements with third-party payers that provide for payments at amounts different from its established rates. These third party payers include Medicare, Medicaid and certain commercial insurance carriers and Health Maintenance Organizations. Additionally, under the Correctional Managed Health Care Program, the Health Center provides medical, dental and psychiatric care to the inmates incarcerated at the State's correctional facilities. This program is funded from the State's General Fund through the Department of Correction.

Patient service revenue for the Health Center is as follows:

| | <u>2012</u> | <u>2011</u> |
|---|------------------------------|------------------------------|
| John Dempsey Hospital | | |
| Gross patient services revenue | \$ 547,510,368 | \$ 543,303,930 |
| Less allowances | 268,524,698 | 275,186,908 |
| Less bad debts | <u>5,464,999</u> | <u>3,784,188</u> |
| Net patient service revenue | 273,520,671 | 264,332,834 |
| UConn Medical Group | | |
| Gross patient services revenue | 187,975,136 | 192,852,692 |
| Less allowances | 115,756,890 | 117,702,401 |
| Less bad debts | <u>1,425,903</u> | <u>1,433,349</u> |
| Net patient service revenue | 70,792,343 | 73,716,942 |
| Correctional Managed Health Care | 90,406,437 | 91,026,502 |
| All other | <u>4,576,470</u> | <u>4,514,989</u> |
| Total net patient service revenue per business unit | 439,295,921 | 433,591,267 |
| Eliminations | <u>(9,749,569)</u> | <u>(11,497,670)</u> |
| Total net patient service revenue | \$ <u><u>429,546,352</u></u> | \$ <u><u>422,093,597</u></u> |

(Amounts above include internal transactions eliminated on face of statements. See Supplemental Information for greater details)

5. CAPITAL ASSETS

Capital assets at June 30, 2012 and 2011 consisted of the following:

| | <u>2012</u> | <u>2011</u> |
|-------------------------------|------------------------------|------------------------------|
| Land | \$ 12,270,408 | \$ 12,270,408 |
| Construction in Progress | 77,527,324 | 49,120,164 |
| Buildings | 404,413,210 | 404,444,843 |
| Equipment | 264,139,022 | 239,966,516 |
| Capital leases | <u>13,776,275</u> | <u>13,776,275</u> |
| | 772,126,239 | 719,578,206 |
| Less accumulated depreciation | <u>451,989,058</u> | <u>421,285,145</u> |
| Capital assets, net | \$ <u><u>320,137,181</u></u> | \$ <u><u>298,293,061</u></u> |

The Health Center's fine art collection is capitalized on the statements of net assets. This collection is included in equipment in the Primary Institution and totaled \$786,677 and \$668,311 at June 30, 2012 and 2011, respectively. Plant and equipment activity and related information on accumulated depreciation for the Health Center for the years ended June 30, 2012 and 2011 was as follows:

| | <u>2011</u> | <u>Additions</u> | <u>Deletions</u> | <u>2012</u> |
|---------------------------------------|-----------------------|----------------------|-----------------------|-----------------------|
| <u>Property and equipment:</u> | | | | |
| Land | \$ 12,270,408 | \$ - | \$ - | \$ 12,270,408 |
| Construction in Progress | 49,120,164 | 30,070,578 | (1,663,418) | 77,527,324 |
| Buildings | 393,819,608 | 15,263 | (46,901) | 393,787,970 |
| Improvements other than buildings | 10,625,235 | 5 | - | 10,625,240 |
| Equipment | 239,966,516 | 24,350,428 | (177,922) | 264,139,022 |
| Capital leases | 13,776,275 | - | - | 13,776,275 |
| Total property and equipment | <u>719,578,206</u> | <u>54,436,274</u> | <u>(1,888,241)</u> | <u>772,126,239</u> |
| <u>Less accumulated depreciation:</u> | | | | |
| Buildings | 223,880,473 | 11,797,382 | - | 235,677,855 |
| Improvements other than buildings | 7,470,313 | 48,078 | - | 7,518,391 |
| Equipment | 177,566,715 | 18,590,169 | (170,770) | 195,986,114 |
| Capital Leases | 12,367,644 | 439,054 | - | 12,806,698 |
| Total accumulated depreciation | <u>421,285,145</u> | <u>30,874,683</u> | <u>(170,770)</u> | <u>451,989,058</u> |
| <u>Net property and equipment:</u> | | | | |
| Land | 12,270,408 | - | - | 12,270,408 |
| Construction in Progress | 49,120,164 | 30,070,578 | (1,663,418) | 77,527,324 |
| Buildings | 169,939,135 | (11,782,119) | (46,901) | 158,110,115 |
| Improvements other than buildings | 3,154,922 | (48,073) | - | 3,106,849 |
| Equipment | 62,399,801 | 5,760,259 | (7,152) | 68,152,908 |
| Capital leases | 1,408,631 | (439,054) | - | 969,577 |
| Total capital assets, net | <u>\$ 298,293,061</u> | <u>\$ 23,561,591</u> | <u>\$ (1,717,471)</u> | <u>\$ 320,137,181</u> |

| | <u>2010</u> | <u>Additions</u> | <u>Deletions</u> | <u>2011</u> |
|---------------------------------------|-----------------------|----------------------|------------------------|-----------------------|
| <u>Property and equipment:</u> | | | | |
| Land | \$ 8,423,594 | \$ 3,846,814 | \$ - | \$ 12,270,408 |
| Construction in Progress | 73,977,330 | 31,658,725 | (56,515,891) | 49,120,164 |
| Buildings | 348,655,473 | 45,164,135 | - | 393,819,608 |
| Improvements other than buildings | 10,593,592 | 31,643 | - | 10,625,235 |
| Equipment | 224,050,267 | 27,552,506 | (11,636,257) | 239,966,516 |
| Capital leases | 13,776,275 | - | - | 13,776,275 |
| Total property and equipment | <u>679,476,531</u> | <u>108,253,823</u> | <u>(68,152,148)</u> | <u>719,578,206</u> |
| <u>Less accumulated depreciation:</u> | | | | |
| Buildings | 211,924,422 | 11,956,051 | - | 223,880,473 |
| Improvements other than buildings | 7,395,080 | 75,233 | - | 7,470,313 |
| Equipment | 171,757,027 | 16,963,512 | (11,153,824) | 177,566,715 |
| Capital leases | 11,287,518 | 1,080,126 | - | 12,367,644 |
| Total accumulated depreciation | <u>402,364,047</u> | <u>30,074,922</u> | <u>(11,153,824)</u> | <u>421,285,145</u> |
| <u>Net property and equipment:</u> | | | | |
| Land | 8,423,594 | 3,846,814 | - | 12,270,408 |
| Construction in Progress | 73,977,330 | 31,658,725 | (56,515,891) | 49,120,164 |
| Buildings | 136,731,051 | 33,208,084 | - | 169,939,135 |
| Improvements other than buildings | 3,198,512 | (43,590) | - | 3,154,922 |
| Equipment | 52,293,240 | 10,588,994 | (482,433) | 62,399,801 |
| Capital leases | 2,488,757 | (1,080,126) | - | 1,408,631 |
| Total capital assets, net | <u>\$ 277,112,484</u> | <u>\$ 78,178,901</u> | <u>\$ (56,998,324)</u> | <u>\$ 298,293,061</u> |

Construction in progress at June 30, 2012 and 2011, represents accumulated costs for various Health Center construction projects. The Health Center has entered into various contractual arrangements related to these projects. Upon completion, the cost of the project is transferred to the appropriate investment in plant category and depreciation will commence.

6. ENDOWMENTS

The Health Center designated the Foundation as manager of the Health Center's endowment funds. The Foundation makes spending allocation distributions to the Health Center for each participating endowment. The distribution is spent by the Health Center in accordance with the respective purposes of the endowments and with the policies and procedures of the Health Center.

7. LONG-TERM LIABILITIES

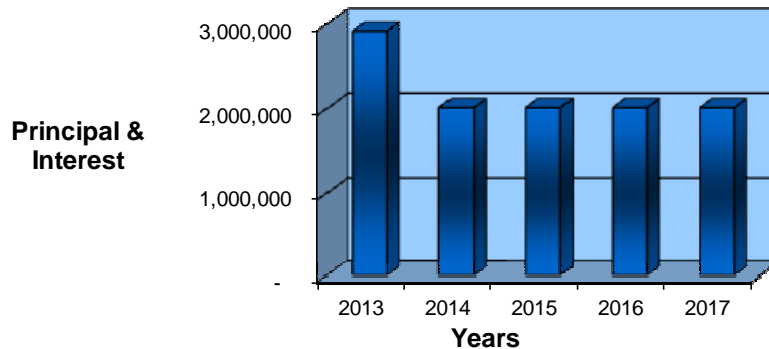
Long-term liability activity for the years ended June 30, 2012 and 2011 was as follows:

| | June 30, 2011 | | | June 30, 2012 | | Amounts due |
|---|----------------------|-------------------|-------------------|-------------------|-----------|-------------------|
| | Balance | Additions | Reductions | Balance | | within 1 year |
| Long-Term debt: | | | | | | |
| Loans payable John Dempsey Hospital | \$ 1,245,593 | - | 830,396 | 415,197 | \$ | 415,197 |
| Lease Agreements John Dempsey Hospital | 1,086,614 | - | 614,731 | 471,883 | | 471,883 |
| Mortgage Agreements Primary Institution | 18,096,845 | - | 815,937 | 17,280,908 | | 945,746 |
| Total Long-Term Debt | 20,429,052 | - | 2,261,064 | 18,167,988 | | 1,832,826 |
| Malpractice reserve | 20,439,000 | 51,829 | 533,829 | 19,957,000 | | 2,742,000 |
| Compensated absences | 43,810,809 | 27,512,989 | 25,374,926 | 45,948,872 | | 19,758,007 |
| Total Long - Term Liabilities | \$ 84,678,861 | 27,564,818 | 28,169,819 | 84,073,860 | \$ | 24,332,833 |

| | June 30, 2010 | | | June 30, 2011 | | Amounts due |
|---|----------------------|-------------------|-------------------|-------------------|-----------|-------------------|
| | Balance | Additions | Reductions | Balance | | within 1 year |
| Long-Term debt: | | | | | | |
| Loans payable John Dempsey Hospital | \$ 2,075,991 | - | 830,398 | 1,245,593 | \$ | 830,396 |
| Lease Agreements John Dempsey Hospital | 2,318,364 | - | 1,231,750 | 1,086,614 | | 614,731 |
| Mortgage Agreements Primary Institution | 29,629,891 | - | 11,533,046 | 18,096,845 | | 815,937 |
| Total Long-Term Debt | 34,024,246 | - | 13,595,194 | 20,429,052 | | 2,261,064 |
| Malpractice reserve | 18,315,000 | 5,209,761 | 3,085,761 | 20,439,000 | | 2,953,000 |
| Compensated absences | 41,017,248 | 24,583,606 | 21,790,045 | 43,810,809 | | 17,962,432 |
| Total Long - Term Liabilities | \$ 93,356,494 | 29,793,367 | 38,471,000 | 84,678,861 | \$ | 23,176,496 |

Estimated cash basis interest and principal requirements for the long-term debt for the next five years are as follows:

Long-Term Debt Requirement



| Year | Long-Term Debt |
|------------|----------------|
| 2013 \$ | 2,915,261 |
| 2014 | 2,014,187 |
| 2015 | 2,014,187 |
| 2016 | 2,014,187 |
| 2017 | 2,014,187 |
| Thereafter | 14,938,557 |
| Totals | \$ 25,910,566 |

The Health Center is self-insured with respect to medical malpractice risks. Estimated losses from asserted and unasserted claims identified under the Health Center's incident reporting system and an estimate of incurred but not reported claims are accrued based on actuarially determined estimates that incorporate the Health Center's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. The scope of the Health Center's assessment for establishing budgets for malpractice costs encompasses physicians, dentists, and all other University of Connecticut Health Center health care providers, and support staff.

The Health Center 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 Health Center and are currently in various stages of litigation. Costs associated with these known claims, including settlements, as well as any new claims arising during the course of business will be paid from the malpractice trust fund.

During fiscal year 2010, the State of Connecticut passed Public Act No. 09-3, *AN ACT CONCERNING EXPENDITURES AND REVENUE FOR THE BIENNIUM ENDING JUNE 30, 2011*, (Public Act) . Sec. 74. of the 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." The Public Act also states "the amount of funding necessary to protect the Health Center for malpractice shall be determined and approved by the Board of Trustees of the University of Connecticut." Since the State effectively removed control and responsibility for maintaining and managing the malpractice fund from the Hospital, the Fund was transferred from the Hospital to the Primary Institution.

To the extent that claims for cases exceed current year premium charged by the Health Center, the Health Center may petition the State to make up the difference. However, operational subsidies from the State and/or the Health Center may be affected by the performance of the Health Center's malpractice program. At June 30, 2012, the Health Center Malpractice Trust Fund had actuarial reserves of approximately \$20 million and assets of approximately \$8.2 million. In fiscal year 2011, the Health Center transferred the second \$10 million installment to the State of Connecticut's General Fund, accounting for the majority of the reduction in Malpractice reserves.

8. RESIDENCY TRAINING PROGRAM

The Health Center's School of Medicine Residency Training Program provides area hospitals with the services of interns and residents. Participating hospitals remit payments to the Health Center, in accordance with an established rate schedule, for services provided. The Health Center, in turn, funds the Capital Area Health Consortium, Inc., which coordinates the payment of payroll and the provision of related fringe benefits to the interns and residents, under a contractual arrangement. Amounts remitted or owed by participating hospitals for payments made to interns and residents, and amounts paid or due under contract to the Capital Area Health Consortium, Inc., are reflected in the accompanying financial statements as current unrestricted revenues and expenditures, respectively.

9. BOND FINANCED ALLOTMENTS

The Health Center recognizes an asset when an allotment is processed for State general obligation bonds or when bonds are funded from Health Center resources or issued under the UCONN 2000 program are sold.

In fiscal year 2002, the General Assembly of the State of Connecticut enacted and the Governor signed into law Public Act No. 02-3, An Act Concerning 21st Century UConn (Act), also known as Phase III. This Act amended Public Act No. 95-230 and extended the UCONN 2000 financing program that was scheduled to end in 2005, for an additional 10 years to June 30, 2015. The 21st Century UConn program was amended in fiscal year 2008, extending it an additional year to June 30, 2016, without any change in the total amount. In fiscal year 2010, the Act was amended again including a \$25 million reallocation from existing UCONN 2000 Health Center allocations, and a \$207 million increase in UCONN 2000 debt service commitment authorizations for the UConn Health Network. This also extended the UCONN 2000 program two additional years to fiscal year 2018. In fiscal year 2011, the General Assembly enacted and the Governor signed Public Act No. 11-75, An Act Concerning the University of Connecticut Health Center, which increased the authorized project costs for the Health Center under Phase III. The Act, as amended, authorized additional projects for the Health Center at an estimated cost of \$775,300,000. The Act also requires the Health Center to contribute not less than \$69 million through operations, eligible gifts, or other sources towards new Health Center construction.

In fiscal year 2012, the University recorded total revenue of \$179,730,000 as State debt service commitment for principal for the 2012 Series A bonds which includes \$62,500,000 to finance projects for the Health Center. In fiscal year 2011, there were no additional bonds issued. As noted above, Phase III includes a commitment to fund projects totaling \$775,530,000 for the Health Center. These bonds are general obligations of the University, for which its full faith and credit are pledged, and are payable from all assured revenues. The bonds are additionally secured by the pledge of and a lien upon the State Debt Service Commitment. The State Debt Service Commitment is the commitment by the State to pay an annual amount of debt service on securities issued as general obligations of the University. The University, consistent with the Act, is relying upon the receipt of the annual amount of the pledged State Debt Service Commitment for the payment of the bonds and, accordingly, is not planning to budget any of the other revenues for the payment of the bonds. The University therefore acts as custodian of the funds for the Health Center. A corresponding receivable is recorded for the unspent portion of the bonds (\$48,299,850 at June 30, 2012) in the Statement of Net Assets.

10. RETIREMENT PLAN

All regular full-time employees participate in one of two retirement plans. The State Employees' Retirement System, a single employer defined benefit public employee retirement system, is administered by the State and covers most full-time employees. The State of Connecticut is statutorily responsible for the pension benefits of the Health Center employees who participate in this plan. The Health Center makes contributions on behalf of the employees through a fringe benefit charge assessed by the State.

Alternatively, employees may choose to participate in the Connecticut Alternate Retirement Program (CARP). CARP is a State-administered, portable pension plan offered to eligible employees of the State's constituent units of higher education

as an alternate to the State Employees' Retirement System. This plans third party administrator is ING. Under this defined contribution plan, plan members are required to contribute 5 percent of their annual salaries; the State is required to contribute 8 percent of covered salary.

11. POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 10, the State provides post retirement health care and life insurance benefits to eligible Health Center employees, in accordance with Sections 5-257(d) and 5-259(a) of the Connecticut General Statutes. When employees retire, the State pays up to 100% of their health care insurance premium cost (including the cost of dependent coverage). This benefit is available to retirees of the State Employees' Retirement System and participants in the Connecticut Alternate Retirement Program who meet certain age and service criteria.

The State also pays 100% of the premium cost for a portion of the employee's life insurance continued after retirement. The amount of life insurance continued at no cost to the retiree is determined in a formula based on the number of years of State service that the retiree had at time of retirement. The State finances the cost of post retirement health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund.

12. COMMITMENTS

On June 30, 2012, the Health Center had individual outstanding commitments exceeding \$300,000 in amount, totaling \$16,918,995. A portion of this amount was included in the June 30, 2012 accounts payable. Commitments above do not include any commitments arising from the administration of UCONN 2000 funds by the University on the Health Center's behalf. Such obligations would be paid directly from proceeds of current and future bond issuances.

The Health Center agreed to pay \$46,363,399 during the 2012-2013 fiscal year to the Capitol Area Health Consortium to cover the payment of payroll, related fringe benefits, and certain program expenses for interns and residents participating in the School of Medicine Residency Training Program. These costs are to be funded by participating hospitals, which will remit payments to the Health Center, in accordance with an established rate schedule, for services provided.

The Health Center leases various building space under operating lease commitments, which expire at various dates through fiscal year 2021. Expenses related to these leases were \$3,759,000 and \$3,875,000 for the years ended June 30, 2012 and 2011, respectively. Future minimum rental payments at June 30, 2012 under non-cancelable operating leases are approximately as follows:

| Year | Payments |
|------------|---------------|
| 2013 \$ | 3,295,479 |
| 2014 | 2,454,023 |
| 2015 | 1,990,156 |
| 2016 | 2,026,389 |
| 2017 | 2,019,499 |
| Thereafter | 6,480,802 |
| Total | \$ 18,266,348 |

13. RELATED PARTY TRANSACTIONS

The University of Connecticut Foundation, Inc. (the "Foundation") is a tax-exempt organization whose objective is the betterment of the University, including its Health Center. The Foundation is a consolidated part of the University and therefore an affiliated party. As is the case with the University's Storrs based program, the Health Center has entered into a

written agreement with the Foundation whereby the Health Center agrees to reimburse the Foundation for certain administrative services and the Foundation agreed to reimburse the Health Center for certain services performed and for operating expenses for the benefit of the Foundation. The following transactions occurred between the Health Center and the Foundation during the year ended June 30, 2012:

| | |
|-------------------------------|---------------------|
| Amount paid to the Foundation | \$ <u>1,495,098</u> |
|-------------------------------|---------------------|

| | |
|--|------------------|
| Amount received from the Foundation | |
| for personal services and operating expenses | \$ <u>13,727</u> |

| | |
|-------------------------------------|---------------------|
| Amount received from the Foundation | |
| from endowments and gifts | \$ <u>1,818,469</u> |

In addition, The Health Center engages in transactions with the University. Listed below are the material transactions with the University. Not included in this list are certain cost share arrangements for shared services and transactions related to UCONN 2000 for which notation has been made in note 9.

| | |
|--|-------------------|
| Funds Received in Support of Office of Technology and Commercialization | \$ <u>630,960</u> |
|--|-------------------|

| | |
|---|---------------------|
| Funds Paid to the University of Connecticut | \$ <u>4,411,189</u> |
|---|---------------------|

The Health Center is a component unit of the State of Connecticut. Through the Health Center, the State seeks to meet certain unmet needs in the community including the training and development of new doctors and dentists. The State supports the Health Center's mission primarily via two mechanisms: State Appropriations and the provision of In Kind benefits. State Appropriations represent amounts the State allows the Health Center to charge back directly to the State's General Fund. In Kind benefits take the form of forgone fringe benefit expense reimbursements related to salaries expensed on the General Fund. For the year ended June 30, 2012, the amounts of these benefits recognized were as follows:

| | |
|--|-----------------------|
| Amount of General Fund Appropriations from State of Connecticut | \$ <u>108,459,578</u> |
|--|-----------------------|

| | |
|---|-------------------|
| In Kind Fringe Benefits: | |
| Recognized through CMHC | 36,084,078 |
| Received elsewhere in Primary Institution | <u>58,452,863</u> |

| | |
|--|----------------------|
| Total In Kind Fringe Benefits received from State of Connecticut: | \$ <u>94,536,941</u> |
|--|----------------------|

| | |
|---|-----------------------|
| Total Appropriations and In Kind benefits received from State of Connecticut | \$ <u>202,996,519</u> |
|---|-----------------------|

14. CONTINGENCIES

The Health Center is a party to various legal actions arising in the ordinary course of its operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material effect on the Health Center's financial statements.

15. HYPOTHECATION

Individual components of the Health Center are allowed to borrow from the State on the basis of their net patient receivables and contract and other receivables to fund operations. These units include John Dempsey Hospital and the University Medical Group. John Dempsey Hospital is allowed to borrow from the State at up to 90% of its receivables. University Medical Group is allowed to borrow at up to 70% of its accounts receivable. As of June 30, 2012 and 2011, the Hospital and UMG had the following draws and availability under the State statute as follows:

| | 2012 | | 2011 | |
|--|--------------------------|-----------------------------|--------------------------|-----------------------------|
| | John Dempsey Hospital | University Medical Group | John Dempsey Hospital | University Medical Group |
| Amount Drawn under Hypothecation | \$ 6,698,130 | 1,023,801 | \$ - | 1,417,881 |
| Remaining amounts available under Hypothecation | \$ 23,543,904 | 8,338,357 | \$ 27,849,397 | 8,444,112 |

16. Operating Expenses by Object

The table below details the Health Center's operating expenses by object for the years ended June 30, 2012 and 2011.

Operating Expenses by object for the Years Ended June 30, 2012 and 2011:

| | 2012 | 2011 |
|-------------------------------|-----------------------|-----------------------|
| Salaries and Wages | \$ 391,890,345 | \$ 377,149,315 |
| Fringe Benefits | 128,612,942 | 162,683,939 |
| Supplies and Other Expenses | 266,784,711 | 229,952,091 |
| Utilities | 13,191,697 | 14,532,525 |
| Depreciation and Amortization | 30,874,683 | 30,557,355 |
| Total | <u>\$ 831,354,378</u> | <u>\$ 814,875,225</u> |

SUPPLEMENTAL INFORMATION

UNIVERSITY OF CONNECTICUT HEALTH CENTER
CONSOLIDATING STATEMENT OF NET ASSETS
As of June 30, 2012

| (\$ in thousands) | 2012 | | | |
|---|------------------------|--------------------------|--------------------|-------------------|
| | Primary Institution | John Dempsey Hospital | Eliminations | Total |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 91,102 | \$ - | \$ (6,698) | \$ 84,404 |
| Patient receivables, net | 9,579 | 31,531 | - | 41,110 |
| Contract and other receivables | 31,673 | 2,071 | - | 33,744 |
| Due from Affiliates | 48,300 | - | - | 48,300 |
| Due from State of Connecticut | 5,126 | - | - | 5,126 |
| Due from Primary Institution | - | 12,521 | (12,521) | - |
| Due from Department of Correction | 9,591 | - | - | 9,591 |
| Inventories | 2,453 | 7,587 | - | 10,040 |
| Prepaid expenses | 1,231 | 3,523 | - | 4,754 |
| Total current assets | <u>199,055</u> | <u>57,233</u> | <u>(19,219)</u> | <u>237,069</u> |
| Noncurrent Assets | | | | |
| Restricted cash and cash equivalents | 384 | - | - | 384 |
| Other assets | 16 | 599 | - | 615 |
| Assets limited as to use | 3,643 | - | - | 3,643 |
| Due from State of Connecticut | 158 | - | - | 158 |
| Capital assets, net | <u>262,219</u> | <u>57,918</u> | <u>-</u> | <u>320,137</u> |
| Total noncurrent assets | <u>266,420</u> | <u>58,517</u> | <u>-</u> | <u>324,937</u> |
| Total assets | <u>\$ 465,475</u> | <u>\$ 115,750</u> | <u>\$ (19,219)</u> | <u>\$ 562,006</u> |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Cash overdraft | \$ - | \$ 6,698 | \$ (6,698) | \$ - |
| Accounts payable and accrued liabilities | 24,420 | 11,634 | - | 36,054 |
| Due to State of Connecticut | 2,449 | 2,734 | - | 5,183 |
| Accrued salaries | 13,382 | 4,563 | - | 17,945 |
| Compensated absences | 13,547 | 6,211 | - | 19,758 |
| Due to John Dempsey Hospital | 12,521 | - | (12,521) | - |
| Due to third party payors | - | 6,741 | - | 6,741 |
| Deferred revenue | 8,887 | - | - | 8,887 |
| Malpractice reserve | 2,742 | - | - | 2,742 |
| Long-term debt - current portion | <u>946</u> | <u>887</u> | <u>-</u> | <u>1,833</u> |
| Total current liabilities | <u>78,894</u> | <u>39,468</u> | <u>(19,219)</u> | <u>99,143</u> |
| Noncurrent Liabilities | | | | |
| Malpractice reserve | 17,215 | - | - | 17,215 |
| Compensated absences | 17,950 | 8,241 | - | 26,191 |
| Long-term debt | <u>16,335</u> | <u>-</u> | <u>-</u> | <u>16,335</u> |
| Total noncurrent liabilities | <u>51,500</u> | <u>8,241</u> | <u>-</u> | <u>59,741</u> |
| Total liabilities | <u>\$ 130,394</u> | <u>\$ 47,709</u> | <u>\$ (19,219)</u> | <u>\$ 158,884</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | \$ 244,938 | \$ 57,031 | \$ - | \$ 301,969 |
| Restricted for | | | | - |
| Nonexpendable | | | | - |
| Scholarships | 61 | - | - | 61 |
| Expendable | | | | - |
| Research | 3,436 | - | - | 3,436 |
| Loans | 1,081 | - | - | 1,081 |
| Capital projects | 51,287 | - | - | 51,287 |
| Unrestricted | <u>34,278</u> | <u>11,010</u> | <u>-</u> | <u>45,288</u> |
| Total net assets | <u>\$ 335,081</u> | <u>\$ 68,041</u> | <u>\$ -</u> | <u>\$ 403,122</u> |

UNIVERSITY OF CONNECTICUT HEALTH CENTER
CONSOLIDATING STATEMENT OF NET ASSETS
As of June 30, 2011

| (\$ in thousands) | 2011 | | | |
|---|------------------------|--------------------------|--------------------|-------------------|
| | Primary Institution | John Dempsey Hospital | Eliminations | Total |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 94,857 | \$ 1,318 | \$ - | \$ 96,175 |
| Patient receivables, net | 12,147 | 30,512 | - | 42,659 |
| Contract and other receivables | 25,392 | 431 | - | 25,823 |
| Due from Affiliates | 6,823 | - | - | 6,823 |
| Due from State of Connecticut | 9,477 | - | - | 9,477 |
| Due from Primary Institution | - | 13,000 | (13,000) | - |
| Due from Department of Correction | 7,932 | - | - | 7,932 |
| Inventories | 2,702 | 7,348 | - | 10,050 |
| Prepaid expenses | 5,047 | 3,635 | - | 8,682 |
| Total current assets | <u>164,377</u> | <u>56,244</u> | <u>(13,000)</u> | <u>207,621</u> |
| Noncurrent Assets | | | | |
| Restricted cash and cash equivalents | 3,250 | 260 | - | 3,510 |
| Other assets | 16 | 623 | - | 639 |
| Assets limited as to use | 4,370 | - | - | 4,370 |
| Due from State of Connecticut | 191 | - | - | 191 |
| Capital assets, net | <u>243,215</u> | <u>55,078</u> | <u>-</u> | <u>298,293</u> |
| Total noncurrent assets | <u>251,042</u> | <u>55,961</u> | <u>-</u> | <u>307,003</u> |
| Total assets | <u>\$ 415,419</u> | <u>\$ 112,205</u> | <u>\$ (13,000)</u> | <u>\$ 514,624</u> |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Cash overdraft | \$ - | \$ - | \$ - | \$ - |
| Accounts payable and accrued liabilities | 21,796 | 8,760 | - | 30,556 |
| Due to State of Connecticut | 2,159 | 3,262 | - | 5,421 |
| Accrued salaries | 25,715 | 7,113 | - | 32,828 |
| Compensated absences | 12,515 | 5,447 | - | 17,962 |
| Due to John Dempsey Hospital | 13,000 | - | (13,000) | - |
| Due to third party payors | - | 9,416 | - | 9,416 |
| Deferred revenue | 12,115 | - | - | 12,115 |
| Malpractice reserve | 2,953 | - | - | 2,953 |
| Long-term debt - current portion | <u>816</u> | <u>1,445</u> | <u>-</u> | <u>2,261</u> |
| Total current liabilities | <u>91,069</u> | <u>35,443</u> | <u>(13,000)</u> | <u>113,512</u> |
| Noncurrent Liabilities | | | | |
| Malpractice reserve | 17,486 | - | - | 17,486 |
| Compensated absences | 18,010 | 7,838 | - | 25,848 |
| Long-term debt | <u>17,281</u> | <u>887</u> | <u>-</u> | <u>18,168</u> |
| Total noncurrent liabilities | <u>52,777</u> | <u>8,725</u> | <u>-</u> | <u>61,502</u> |
| Total liabilities | <u>\$ 143,846</u> | <u>\$ 44,168</u> | <u>\$ (13,000)</u> | <u>\$ 175,014</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | \$ 225,118 | \$ 52,747 | \$ - | \$ 277,865 |
| Restricted for | | | | |
| Nonexpendable | | | | |
| Scholarships | 61 | - | - | 61 |
| Expendable | | | | |
| Research | 3,920 | 127 | - | 4,047 |
| Loans | 875 | - | - | 875 |
| Capital projects | 5,758 | - | - | 5,758 |
| Unrestricted | <u>35,841</u> | <u>15,163</u> | <u>-</u> | <u>51,004</u> |
| Total net assets | <u>\$ 271,573</u> | <u>\$ 68,037</u> | <u>\$ -</u> | <u>\$ 339,610</u> |

UNIVERSITY OF CONNECTICUT HEALTH CENTER
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET
ASSETS
For the Year Ended June 30, 2012

| (\$ in thousands) | 2012 | | | | |
|--|------------------------|--------------------------|----------------------|-----------------|-------------------|
| | Primary Institution | John Dempsey Hospital | Total (Memo Only) | Eliminations | Consolidated |
| OPERATING REVENUES | | | | | |
| Student tuition and fees, net | \$ 13,718 | \$ 28 | \$ 13,746 | \$ - | \$ 13,746 |
| Patient services, net | 165,775 | 273,521 | 439,296 | (9,750) | 429,546 |
| Federal grants and contracts | 56,904 | - | 56,904 | - | 56,904 |
| Nonfederal grants and contracts | 27,690 | - | 27,690 | - | 27,690 |
| Contract and other operating revenues | 102,024 | 15,861 | 117,885 | (24,155) | 93,730 |
| Total operating revenues | <u>366,111</u> | <u>289,410</u> | <u>655,521</u> | <u>(33,905)</u> | <u>621,616</u> |
| OPERATING EXPENSES | | | | | |
| Educational and General | | | | | |
| Instruction | 146,701 | - | 146,701 | (17,484) | 129,217 |
| Research | 63,080 | - | 63,080 | - | 63,080 |
| Patient services | 234,208 | 288,933 | 523,141 | (16,421) | 506,720 |
| Academic support | 20,200 | - | 20,200 | - | 20,200 |
| Institutional support | 53,059 | - | 53,059 | - | 53,059 |
| Operations and maintenance of plant | 28,031 | - | 28,031 | - | 28,031 |
| Depreciation | 21,903 | 8,972 | 30,875 | - | 30,875 |
| Loss on disposal | 7 | - | 7 | - | 7 |
| Student aid | 165 | - | 165 | - | 165 |
| Total operating expenses | <u>567,354</u> | <u>297,905</u> | <u>865,259</u> | <u>(33,905)</u> | <u>831,354</u> |
| Operating loss | <u>(201,243)</u> | <u>(8,495)</u> | <u>(209,738)</u> | <u>-</u> | <u>(209,738)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| State appropriations | 202,997 | - | 202,997 | - | 202,997 |
| Transfer from/(to) State and outside programs | 1,312 | - | 1,312 | - | 1,312 |
| Gifts | 6,935 | 500 | 7,435 | - | 7,435 |
| Hospital transfer | (8,063) | 8,063 | - | - | - |
| Investment income, net | 101 | - | 101 | - | 101 |
| Interest on capital asset - related debt | (1,031) | (64) | (1,095) | - | (1,095) |
| Net nonoperating revenues | <u>202,251</u> | <u>8,499</u> | <u>210,750</u> | <u>-</u> | <u>210,750</u> |
| Loss before other revenues, expenses, gains or losses | <u>1,008</u> | <u>4</u> | <u>1,012</u> | <u>-</u> | <u>1,012</u> |
| Capital appropriations | <u>62,500</u> | <u>-</u> | <u>62,500</u> | <u>-</u> | <u>62,500</u> |
| Total other revenues | <u>62,500</u> | <u>-</u> | <u>62,500</u> | <u>-</u> | <u>62,500</u> |
| Increase/(Decrease) in net assets | <u>63,508</u> | <u>4</u> | <u>63,512</u> | <u>-</u> | <u>63,512</u> |
| NET ASSETS | | | | | |
| Net assets-beginning of year | 271,573 | 68,037 | 339,610 | - | 339,610 |
| Net assets-end of year | <u>\$ 335,081</u> | <u>\$ 68,041</u> | <u>\$ 403,122</u> | <u>\$ -</u> | <u>\$ 403,122</u> |

UNIVERSITY OF CONNECTICUT HEALTH CENTER
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2011

| (\$ in thousands) | 2011 | | | | |
|---|---------------------|-----------------------|-------------------|-----------------|-------------------|
| | Primary Institution | John Dempsey Hospital | Total (Memo Only) | Eliminations | Consolidated |
| OPERATING REVENUES | | | | | |
| Student tuition and fees, net | \$ 13,095 | \$ - | \$ 13,095 | \$ - | \$ 13,095 |
| Patient services, net | 169,258 | 264,333 | 433,591 | (11,498) | 422,093 |
| Federal grants and contracts | 60,128 | - | 60,128 | - | 60,128 |
| Nonfederal grants and contracts | 25,885 | - | 25,885 | - | 25,885 |
| Contract and other operating revenues | 91,119 | 1,955 | 93,074 | (21,380) | 71,694 |
| Total operating revenues | <u>359,485</u> | <u>266,288</u> | <u>625,773</u> | <u>(32,878)</u> | <u>592,895</u> |
| OPERATING EXPENSES | | | | | |
| Educational and General | | | | | |
| Instruction | 146,095 | - | 146,095 | (16,302) | 129,793 |
| Research | 58,892 | - | 58,892 | - | 58,892 |
| Patient services | 235,944 | 273,420 | 509,364 | (16,576) | 492,788 |
| Academic support | 16,355 | - | 16,355 | - | 16,355 |
| Institutional support | 58,421 | - | 58,421 | - | 58,421 |
| Operations and maintenance of plant | 27,653 | - | 27,653 | - | 27,653 |
| Depreciation | 20,776 | 9,299 | 30,075 | - | 30,075 |
| Loss on disposal | 282 | 200 | 482 | - | 482 |
| Student aid | 416 | - | 416 | - | 416 |
| Total operating expenses | <u>564,834</u> | <u>282,919</u> | <u>847,753</u> | <u>(32,878)</u> | <u>814,875</u> |
| Operating loss | <u>(205,349)</u> | <u>(16,631)</u> | <u>(221,980)</u> | <u>-</u> | <u>(221,980)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| State appropriations | 211,768 | 13,500 | 225,268 | - | 225,268 |
| Transfers to State | (10,807) | - | (10,807) | - | (10,807) |
| Gifts | 2,051 | 503 | 2,554 | - | 2,554 |
| Hospital transfer | (5,407) | 5,407 | - | - | - |
| Investment income, net | 134 | - | 134 | - | 134 |
| Interest on capital asset - related debt | (1,420) | (150) | (1,570) | - | (1,570) |
| Net nonoperating revenues | <u>196,319</u> | <u>19,260</u> | <u>215,579</u> | <u>-</u> | <u>215,579</u> |
| Loss before other revenues, expenses, gains or losses | <u>(9,030)</u> | <u>2,629</u> | <u>(6,401)</u> | <u>-</u> | <u>(6,401)</u> |
| Capital appropriations | <u>170</u> | <u>-</u> | <u>170</u> | <u>-</u> | <u>170</u> |
| Total other revenues | <u>170</u> | <u>-</u> | <u>170</u> | <u>-</u> | <u>170</u> |
| Increase (decrease) in net assets | <u>(8,860)</u> | <u>2,629</u> | <u>(6,231)</u> | <u>-</u> | <u>(6,231)</u> |
| NET ASSETS | | | | | |
| Net assets-beginning of year | 280,433 | 65,408 | 345,841 | - | 345,841 |
| Net assets-end of year | <u>\$ 271,573</u> | <u>\$ 68,037</u> | <u>\$ 339,610</u> | <u>\$ -</u> | <u>\$ 339,610</u> |

DIRECTORS AND FINANCIAL OFFICERS

June 30, 2012

BOARD OF DIRECTORS

Members at Large

| | |
|-------------------|--------------------|
| Richard Barry | <i>Avon</i> |
| Andy F. Bessette | <i>Orono, MN</i> |
| Cheryl Chase | <i>Hartford</i> |
| John Droney | <i>Farmington</i> |
| Tim Holt | <i>Glastonbury</i> |
| Wayne Rawlins | <i>Hartford</i> |
| Robert T. Samuels | <i>W. Hartford</i> |
| Charles Shivery | <i>Hartford</i> |

Appointed by the Governor

| | |
|------------------|----------------------|
| Karen Christiana | <i>West Hartford</i> |
| Kathleen Woods | <i>Avon</i> |
| Teresa Ressel | <i>Stamford</i> |

Members Ex Officio

| | |
|---------------|--------------------|
| Susan Herbst | <i>Storrs</i> |
| Robert Dakers | <i>Glastonbury</i> |
| Jewel Mullen | <i>Hartford</i> |

Appointed by Chairperson, Board of Trustees

| | |
|-------------------------------|-------------------|
| Sanford Cloud Jr, Chairperson | <i>Farmington</i> |
| Francis X. Archambault, Jr.. | <i>Storrs</i> |
| Wayne Shepperd | <i>Danbury</i> |

FINANCIAL OFFICERS

Richard Gray, Executive Vice President for Administration and Chief Financial Officer
 John Biancamano, Chief Financial Officer
 Jeffrey P. Geoghegan, Controller

TRUSTEES As of June 30, 2012

BOARD OF TRUSTEES

MEMBERS EX OFFICIO

The Honorable Dannel P. Malloy
Governor of the State of Connecticut
President ex officio *Hartford*

The Honorable Steven K. Reviczky
Commissioner of Agriculture
Member ex officio *Hartford*

The Honorable Catherine H. Smith
Commissioner of Economic
and Community Development
Member ex officio *Hartford*

The Honorable Stefan Pryor
Commissioner of Education
Member ex officio *Hartford*

Sanford Cloud, Jr.
Chair, Health Center Board of Directors
Member ex officio *Hamden*

ELECTED BY THE ALUMNI

Francis X. Archambault, Jr. *Storrs*
Richard T. Carbray, Jr. *Rocky Hill*

APPOINTED BY THE GOVERNOR

Lawrence D. McHugh, *Chairman* *Middletown*
Louise M. Bailey, *Secretary* *West Hartford*
Peter S. Drotch *Framingham, MA*
Marilda L. Gandara *Hartford*
Lenworth M. Jacobs, Jr., M.D. *West Hartford*
Thomas E. Kruger *Stamford*
Rebecca Lobo *Granby*
Denis J. Nayden *Stamford*
Thomas D. Ritter *Hartford*
Wayne J. Shepperd *Danbury*
Richard Treibick *Greenwich*

ELECTED BY THE STUDENTS

Brien T. Buckman *Stamford*
Adam Scianna *Norwalk*

