

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

FINANCIAL STATEMENTS
(With Management's Discussion and Analysis)

JUNE 30, 2013 AND 2012

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides an overview of the financial position and activities of the University of Connecticut Health Center John Dempsey Hospital (21002 Fund) (the Hospital) as of and for the years ended June 30, 2013, 2012 and 2011. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Through the Hospital (a licensed acute care hospital with a certified 234 general acute care beds, 184 staffed), the University of Connecticut Health Center (the Health Center) provides specialized and routine inpatient and outpatient services. The Hospital also provides comprehensive healthcare services for Connecticut's incarcerated inmates through a contract with the Correctional Managed Health Care (CMHC) program. The Hospital has long been regarded as the premier facility in the region for neonatal intensive care and high-risk maternity services now provided in conjunction with Connecticut Children's Medical Center (CT Children's). It also is recognized for its cardiovascular program (interventional cardiology and surgery), cancer, musculoskeletal, and behavioral mental health services which include geriatric as well as locked inpatient psychiatric units, ambulatory partial hospitalization, and outpatient treatment programs. Additionally, the Hospital is home to the only Emergency Department in Connecticut's fast-growing Farmington Valley.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of management's discussion and analysis and the financial statements. The basic financial statements (statements of net assets, statements of revenues, expenses, and changes in net assets, and statements of cash flows) present the financial position of the Hospital at June 30, 2013 and 2012, and the results of its operations and its financial activities for the years then ended. These financial statements report information about the Hospital using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the Hospital's assets and liabilities. The statements of revenues, expenses, and changes in net assets reflects the year's activities on the accrual basis of accounting, i.e., when services are provided or obligations are incurred, not necessarily when cash is received or paid. These financial statements report the Hospital's net assets and how they have changed. Net assets (the difference between assets and liabilities) is one way to measure financial health or position. The statements of cash flows provide relevant information about each year's cash receipts and cash payments and classifies them as to operating, investing, and capital and related financing activities.

FINANCIAL HIGHLIGHTS

Hospital discharges of 8,487 represent a decrease of 80 cases from 2012. Outpatient visits increased by 4,740, or 1.48%, from the prior year. These changes are indicative of the general healthcare trend towards outpatient treatment.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Continued focus on revenue enhancement and cost containment strategies resulted in continued improvement of the Hospital's operating indicator. The Hospital finished the year with an operating loss of \$4 million compared to an operating loss of \$8.5 million in the prior year.

These losses were offset by net non-operating revenues of \$504,000 and \$436,000 in fiscal year 2013 and 2012, respectively. The Hospital also received transfers from the Health Center of \$15.2 million and \$8.1 million in 2013 and 2012, respectively, allowing net assets to increase \$11.6 million in FY13 and remain stable in FY12. Current year transfers were made up primarily of \$4.9 million in fringe benefit recovery related to support services paid against the institutions general fund allotment and \$10.2 million transferred by the Health Center to cover operating deficiencies and fund strategic initiatives. The Hospital's financial position at June 30, 2013, included assets of approximately \$127.7 million and liabilities of approximately \$48 million. Net assets, which represent the residual interest in the Hospital's assets after liabilities are deducted, increased \$11.6 to approximately \$79.7 million.

Changes in net assets represent the activity of the Hospital, resulting from revenues, expenses, gains, and losses, and are summarized for the years ended June 30, 2013, 2012, and 2011, including other changes in net assets, as follows:

	2013	2012	2011
	<i>(in thousands)</i>		
Summary of assets and liabilities at June 30:			
Current assets	\$ 54,534	\$ 48,212	\$ 47,483
Other assets	17,342	9,619	9,644
Capital assets, net	<u>55,790</u>	<u>57,918</u>	<u>55,078</u>
Total assets	<u>\$ 127,666</u>	<u>\$ 115,749</u>	<u>\$ 112,205</u>
Current liabilities	\$ 39,272	\$ 39,467	\$ 35,454
Long term debt excluding current installments	--	--	415
Capital lease liabilities net of current portion	--	--	472
Accrued compensated absences, net of current portion	<u>8,720</u>	<u>8,241</u>	<u>7,828</u>
Total Liabilities	<u>47,992</u>	<u>47,708</u>	<u>44,169</u>
Net assets restricted for Research and Education	--	--	67
Unrestricted net assets	23,884	11,010	15,223
Net assets invested in capital assets, net of related debt	<u>55,790</u>	<u>57,031</u>	<u>52,746</u>
Total Net Assets	<u>79,674</u>	<u>68,041</u>	<u>68,036</u>
Total liabilities and net assets	<u>\$ 127,666</u>	<u>\$ 115,749</u>	<u>\$ 112,205</u>

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	2013	2012	2011
	<i>(in thousands)</i>		
Summary of revenues, expenses and transfers for the year ended June 30:			
Operating revenues	\$ 305,047	\$ 289,410	\$ 266,288
Operating expenses	<u>(309,096)</u>	<u>(297,905)</u>	<u>(282,919)</u>
Operating loss	(4,049)	(8,495)	(16,631)
Nonoperating revenue, net	<u>504</u>	<u>436</u>	<u>13,853</u>
Loss before transfers	(3,545)	(8,059)	(2,778)
Net asset transfers	<u>15,178</u>	<u>8,064</u>	<u>5,407</u>
Increase in net assets	<u><u>\$ 11,633</u></u>	<u><u>\$ 5</u></u>	<u><u>\$ 2,629</u></u>

CAPITAL ASSETS

At June 30, 2013, the Hospital had property, plant, and equipment of \$209.5 million before accumulated depreciation compared to \$205.2 million at June 30, 2012, as shown in the table below:

	2013	2012	2011
	<i>(in thousands)</i>		
Land	\$ 183	\$ 183	\$ 183
Construction in progress	12,905	13,022	7,170
Buildings	102,066	100,179	100,164
Equipment	80,614	78,007	72,063
Capital leases	<u>13,776</u>	<u>13,776</u>	<u>13,776</u>
Total Property, Plant, and Equipment	<u><u>\$ 209,544</u></u>	<u><u>\$ 205,167</u></u>	<u><u>\$ 193,356</u></u>

The Hospital's fiscal 2014 capital budget projects spending at approximately \$11 million on various capital improvement projects. More detailed information about the Hospital's plant and equipment is presented in note 6 to the financial statements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

STATEMENTS OF CASH FLOWS

The statements of cash flows provide additional information about the Hospital's financial results by reporting the major sources and uses of cash. A summary of the statements of cash flows for the years ended June 30, 2013, 2012, and 2011 is as follows:

	2013	2012	2011
	<i>(in thousands)</i>		
Cash received from operations	\$ 291,619	\$ 284,076	\$ 274,112
Cash expended for operations	<u>(297,422)</u>	<u>(284,098)</u>	<u>(276,774)</u>
Net cash used in operations	(5,803)	(22)	(2,662)
Net cash used in investing activities	(7,415)	(11,811)	(9,865)
Net cash provided by noncapital financing activities	14,109	13,340	16,328
Net cash used in capital and related financing activities	<u>(891)</u>	<u>(1,507)</u>	<u>(2,224)</u>
Net change in cash	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,577</u>

SIGNIFICANT VARIANCES IN FINANCIAL STATEMENTS

In this section, the Hospital explains the reasons for those financial statement items with significant variances relating to fiscal 2013 amounts compared to fiscal 2012.

SUMMARY OF ASSETS AND LIABILITIES

Changes in assets included the following:

Cash – decreased from June 30, 2012 to June 30, 2013 by approximately \$6.1 million, to a net overdraft position of \$12.8 million. The Hospital transferred \$7.7 million to the University of Connecticut Health Center Finance Corporation (Finance Corporation) during the year to facilitate the construction of the Ambulatory Care Center (ACC). These funds will be returned to the Hospital upon the completion of ACC construction and are offset with a Due from Finance Corporation on the statements of net assets.

Contract and other Receivables – increased from June 30, 2012 to June 30, 2013 by approximately \$3.9 million. The change related to a new contract between the Health Center and CT Children's whereby CT Children's pays the Hospital for costs associated with its administration of the Neonatal Intensive Care Unit (NICU).

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Changes in liabilities included the following:

Accounts payable and accrued expenses – decreased from June 30, 2012 to June 30, 2013 by approximately \$2.5 million or 20.2%. This change is due to timing of payment of vendor balances this year versus the prior year.

Due to third-party payors – decreased from June 30, 2012 to June 30, 2013 by approximately \$4 million or 59.7%. The change is related to estimated and actual settlements. These amounts are the result of management's analysis of outstanding Medicare and Medicaid cost reports and other potential settlement of claims with HMO's.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Operating revenue – increased from June 30, 2012 to June 30, 2013 by approximately \$15.6 million or 5.4%. Net patient revenue went up \$7.9 million or 2.9%. Contract and other revenue increased by approximately \$7.7 million, which was driven by increases in amounts of the CT Children's-NICU Contract.

Operating expenses – increased from June 30, 2012 to June 30, 2013 by approximately \$11.2 million or 3.8%, primarily due to increases in salaries and fringe benefits. Fringe benefit rates, set by the State of Connecticut, increased approximately 3% in 2013.

Transfer from Health Center – increased from June 30, 2012 to June 30, 2013 by approximately \$7.1 million or 88.2%. In the current year the Hospital received an additional transfer of funds from the Health Center to cover operating deficiencies and fund strategic initiatives.

FISCAL 2014 OUTLOOK

As we look forward to fiscal year 2014, the Hospital's main concern focuses on maintaining outstanding clinical care while managing changes associated with the State's Bioscience Connecticut initiative, implementation of healthcare reform, and changes in the US and global economic environments. Average daily census and Hospital discharges finished below budget in 2013 while outpatient equivalents were higher than budget. Management continues to focus on maintaining inpatient volume via clinically focused advertising campaigns such as those for surgery, orthopedics and dermatology.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

BIOSCIENCE CONNECTICUT

In 2011, the State of Connecticut made strategic investments in the University of Connecticut and the University of Connecticut Health Center firmly planting the seeds for Connecticut to be at the forefront of the growing bioscience industry. The investments were made with the promise that they would leverage other bioscience initiatives.

The General Assembly approved the Bioscience Connecticut Initiative (Public Act 11-75), a bold \$864 million plan to reinvigorate all three areas of the Health Center's mission – research, education and clinical care. These investments would use the Health Center as a cornerstone for reinventing Connecticut's economy by generating long term sustainable economic growth based on bioscience research, innovation, entrepreneurship and commercialization. Of note, the project also calls for short-term economic activity through a surge of construction-related jobs attributable to the expansion and renovation of the Health Center's clinical and research infrastructure.

Bioscience Connecticut is a multifaceted plan that will strengthen our state's position as a national and global center for bioscience innovation and improve access to quality health care for Connecticut citizens, while simultaneously securing the UConn Health Center's future as a top tier academic medical center.

Construction components of Bioscience Connecticut on the Health Center campus include:

- Renovating and modernizing, for the first time in its history, the Health Center's original research facilities on the Farmington campus. This will include expanding space for start-up bioscience businesses.
- Constructing a new patient care tower.
- Renovating the John Dempsey Hospital.
- Constructing, with private financing, a new ambulatory care center on the lower campus.

Programmatic components of Bioscience Connecticut include:

- Recruiting 100 new faculty, including clinician-scientists, basic scientists and clinicians to increase healthcare access and double federal and industry research awards.
- Doubling existing business incubator space.
- Expanding the School of Medicine and School of Dental Medicine class sizes by 30 percent.
- Implementing a loan forgiveness program for UConn medical and dental school graduates who pursue careers in primary care in Connecticut.
- Partnering with local hospitals and health care organizations to address pressing health care needs.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

BIOSCIENCE CONNECTICUT (CONTINUED)

The immediate short-term goals of the initiative are already being realized – construction on the Health Center campus is well underway. The projects are proceeding on time and on budget. The first of 3 new parking garages opened in May, and the Ambulatory Care Center (ACC) Project, the Hospital Tower and the Jackson Laboratory Building are all very active construction sites. Also, the Jackson Laboratory researchers are on site working in leased space on the Health Center campus.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

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



INDEPENDENT AUDITORS' REPORT

Joint Audit and Compliance Committee
University of Connecticut Health Center

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Connecticut Health Center, John Dempsey Hospital (21002 Fund) (the Hospital), an enterprise fund of the State of Connecticut, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Connecticut Health Center, John Dempsey Hospital (21002 Fund) as of June 30, 2013 and 2012, and the results of its operations and changes in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as Management's Discussion and Analysis on pages 1 through 7, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Marcum LLP

Hartford, CT
October 7, 2013

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
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STATEMENTS OF NET ASSETS

JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Patient accounts receivable, net of estimated uncollectibles of \$20,341,000 and \$23,963,000 at June 30, 2013 and 2012, respectively	\$ 37,017,707	\$ 31,531,470
Due from other Health Center agencies, current portion	--	3,500,000
Inventory	8,234,194	7,586,687
Contract and other receivables	5,986,596	2,070,790
Prepaid expenses	<u>3,296,041</u>	<u>3,522,933</u>
Total Current Assets	<u>54,534,538</u>	<u>48,211,880</u>
Noncurrent Assets		
Other assets	599,630	598,631
Due from Finance Corporation	16,741,825	9,020,723
Capital assets, net (note 6)	<u>55,790,244</u>	<u>57,918,287</u>
Total Noncurrent Assets	<u>73,131,699</u>	<u>67,537,641</u>
Total Assets	<u><u>\$ 127,666,237</u></u>	<u><u>\$ 115,749,521</u></u>

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

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STATEMENTS OF NET ASSETS (CONTINUED)

JUNE 30, 2013 AND 2012

	2013	2012
Liabilities and Net Assets		
Current Liabilities		
Cash overdraft	\$ 12,799,970	\$ 6,698,130
Accounts payable and accrued expenses	9,877,274	12,369,091
Accrued payroll	4,917,699	4,562,702
Due to State of Connecticut	2,384,290	1,998,221
Due to third-party payors	2,713,960	6,740,571
Accrued compensated absences, current portion (note 7)	6,578,332	6,210,929
Long-term debt, current installments (note 7)	--	415,198
Capital leases, current portion, (note 7)	--	471,882
Total Current Liabilities	<u>39,271,525</u>	<u>39,466,724</u>
Noncurrent Liabilities		
Accrued compensated absences, net of current portion (note 7)	<u>8,720,114</u>	<u>8,241,392</u>
Total Noncurrent Liabilities	<u>8,720,114</u>	<u>8,241,392</u>
Total Liabilities	<u>47,991,639</u>	<u>47,708,116</u>
Net Assets		
Invested in capital assets, net of related debt	55,790,244	57,031,207
Unrestricted	<u>23,884,354</u>	<u>11,010,198</u>
Total Net Assets	<u>79,674,598</u>	<u>68,041,405</u>
Total Liabilities and Net Assets	<u><u>\$ 127,666,237</u></u>	<u><u>\$ 115,749,521</u></u>

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

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
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STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Operating Revenues		
Net patient service revenues (note 4)	\$ 281,412,882	\$ 273,520,671
Contract and other revenues	23,634,474	15,889,186
Total Operating Revenues	<u>305,047,356</u>	<u>289,409,857</u>
Operating Expenses		
Salaries and wages	110,136,856	106,047,292
Fringe benefits	50,774,180	46,031,162
Medical/dental house staff	14,241,190	17,482,692
Medical contractual support	4,174,725	3,201,800
Internal contractual support	17,328,729	17,083,878
Outside agency per diems	1,102,893	1,417,927
Depreciation and amortization	9,500,967	8,971,611
Pharmaceutical/medical supplies	51,007,924	52,316,677
Utilities	1,985,750	2,686,597
Outside and other purchased services	32,631,130	29,393,599
Insurance	4,022,353	3,726,623
Repairs and maintenance	7,671,014	6,815,697
Other expenses	4,519,050	2,729,700
Total Operating Expenses	<u>309,096,761</u>	<u>297,905,255</u>
Operating Loss	<u>(4,049,405)</u>	<u>(8,495,398)</u>
Nonoperating Revenues (Expenses)		
Gift income	550,000	500,000
Loss on disposals	(41,916)	--
Interest expense	(3,533)	(64,233)
Net Nonoperating Revenues	<u>504,551</u>	<u>435,767</u>
Loss before Transfers	(3,544,854)	(8,059,631)
Transfers from Health Center - unrestricted (note 8)	<u>15,178,047</u>	<u>8,064,466</u>
Increase in Net Assets	11,633,193	4,835
Net Assets - Beginning	<u>68,041,405</u>	<u>68,036,570</u>
Net Assets - End	<u><u>\$ 79,674,598</u></u>	<u><u>\$ 68,041,405</u></u>

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

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
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STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 271,900,034	\$ 269,826,180
Cash received from contract and other revenue	19,718,668	14,249,885
Cash paid to employees for salaries and fringe benefits	(162,498,227)	(149,431,607)
Cash paid for other than personal services	<u>(134,923,807)</u>	<u>(134,666,204)</u>
Net Cash Used in Operating Activities	<u>(5,803,332)</u>	<u>(21,746)</u>
Cash Flows from Investing Activities		
Additions to property and equipment, net	<u>(7,414,840)</u>	<u>(11,811,483)</u>
Net Cash Used in Investing Activities	<u>(7,414,840)</u>	<u>(11,811,483)</u>
Cash Flows from Noncapital Financing Activities		
Gifts received	550,000	500,000
Transfer from Health Center	15,178,047	4,564,466
Advance provided to Finance Corporation	(7,721,102)	--
Net draw downs on cash overdraft	<u>6,101,840</u>	<u>8,275,308</u>
Net Cash Provided by Noncapital Financing Activities	<u>14,108,785</u>	<u>13,339,774</u>
Cash Flows from Capital and Related Financing Activities		
Interest paid	(3,533)	(61,418)
Repayment of long-term debt and capital leases	<u>(887,080)</u>	<u>(1,445,127)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(890,613)</u>	<u>(1,506,545)</u>
Net Change in Cash	<u>\$ --</u>	<u>\$ --</u>

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

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STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (4,049,405)	\$ (8,495,398)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	9,500,967	8,971,611
Changes in operating assets and liabilities:		
Patients accounts receivable, net	(5,486,237)	(1,019,185)
Due from other State and Health Center agencies	3,500,000	3,978,837
Inventory	(647,507)	(238,251)
Contract and other receivables	(3,915,806)	(1,639,301)
Prepaid expenses	226,892	112,022
Other assets	(999)	24,399
Due to third party payors	(4,026,611)	(2,675,306)
Accounts payable and accrued expenses	(2,491,817)	3,605,673
Due to State of Connecticut	386,069	(1,263,412)
Accrued payroll	354,997	(2,550,285)
Accrued compensated absences	846,125	1,166,850
Net Cash Used in Operating Activities	<u><u>\$ (5,803,332)</u></u>	<u><u>\$ (21,746)</u></u>

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

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 1 - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

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

Reference is made to note 8 for related party transactions and to note 10 related to the transfer of the assets, liabilities and operations of the Dental Clinics out of the Hospital on July 1, 2013, which decreased the net assets reported herein by \$3,850,361.

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

The University of Connecticut Health Center Finance Corporation (Finance Corporation) was established pursuant to Public Act No 87-458. The purpose of the Finance Corporation is to provide greater flexibility for the Hospital and to promote the more efficient provision of health care services. As such, the Finance Corporation has been empowered to purchase supplies and equipment, acquire facilities, approve write-offs of Hospital accounts receivable, process malpractice claims on behalf of the Hospital and Health Center beginning in 2011, as well as negotiate joint ventures, shared service, and other agreements for the benefit of the Hospital.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 1 - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION

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

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

The Hospital also adopted GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001. These GASB pronouncements established financial reporting standards for state and local governmental entities, including net asset presentation, certain classifications of revenues and expenses and management's discussion and analysis.

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 contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Financial statement areas where management applies the use of estimates consist primarily of the allowance for uncollectible accounts and third-party reimbursement reserves.

PROPRIETARY FUND ACCOUNTING

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

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 1 - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH OVERDRAFT

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

ACCOUNTS RECEIVABLE AND NET PATIENT SERVICE REVENUES

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

The amount of the allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 4 for additional information relative to third party payor programs.

CONTRACT AND OTHER REVENUES

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

CAPITAL ASSETS

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

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Buildings have an estimated useful life of 5 to 50 years and equipment has an estimated useful life of 2 to 25 years. Assets acquired under capital leases and leasehold improvements are depreciated no longer than the lease term. Construction in progress is capitalized as costs are incurred during the construction phase and depreciation will begin once the assets are placed in service.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 1 - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVENTORY

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

RETIREMENT PLANS

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

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

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

Information is not available from the State specifically allocating pension benefits, plan assets, obligations, and expenses applicable to employees of the Hospital. Additional information on salary and fringe costs is presented in note 8.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 1 - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPENSATED ABSENCES

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

THIRD PARTY PAYORS

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

MEDICAL MALPRACTICE

Health care providers and support staff of the Hospital are fully protected by State statutes from any claim for damage or injury, not wanton, reckless or malicious, caused in the discharge of their duties or within the scope of their employment (statutory immunity). Any claims paid for actions brought against the State as permitted by waiver of statutory immunity have been charged against the Health Center's malpractice self-insurance fund. Prior to 2011, the malpractice trust fund was controlled by the Hospital, which annually retained a qualified actuary to assist with calculating and determining the appropriate malpractice reserve. The calculated actuarial reserve was also equally funded as was required by Section 10a-256 (the public act that established the malpractice trust fund). The Health Center allocates an annual malpractice premium to the Hospital, designed to reflect an estimate of the current year's cash claims to be processed. For the years ended June 30, 2013 and 2012, such premiums were \$3,672,492 and \$3,413,844, respectively. These premiums are included in insurance expense in the Hospital's statements of revenues, expenses, and changes in net assets.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 1- DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET ASSETS

Net assets are classified in two components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. All other net assets are classified as unrestricted net assets.

REGULATORY MATTERS

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

RECLASSIFICATIONS

Certain 2012 amounts have been reclassified to conform to the current year presentation.

NOTE 2 - HYPOTHECATION

In accordance with State Statute, the Hospital can borrow from the State up to 90% of its net patient receivables, contract and other receivables to fund operations. As of June 30, 2013 and 2012, the Hospital had drawn down \$12,799,970 and \$6,698,130, respectively. As of June 30, 2013 and 2012, the Hospital has available \$25,903,903 and \$23,543,904, respectively, under the State Statute.

NOTE 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 2013 and 2012, the Hospital provided charity care services of \$801,071 and \$543,109, respectively. The cost basis of these services was \$415,547 and \$279,796, respectively. No net patient service revenue was recorded for these services and expenses associated with these services were included in operating expenses.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 4 - NET PATIENT SERVICE REVENUES

The Hospital provides health care services primarily to residents of the region. Revenues from the Medicare program accounted for approximately 43% and 44% of the Hospital's net patient service revenues for the years ended June 30, 2013 and 2012, respectively. Revenues from the Medicaid program accounted for approximately 30% and 27% of the Hospital's net patient service revenues for the years ended June 30, 2013 and 2012, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrong doing. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

Patient accounts receivable included approximately 30% and 35% due from Medicare and approximately 9% and 12% due from Medicaid at June 30, 2013 and 2012, respectively.

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

	<u>2013</u>	<u>2012</u>
Gross patient service revenues	\$ 581,954,466	\$ 547,510,368
Less contractual allowances	(297,190,471)	(268,524,698)
Less provision for bad debt	<u>(3,351,113)</u>	<u>(5,464,999)</u>
Net patient service revenue	<u>\$ 281,412,882</u>	<u>\$ 273,520,671</u>

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. As such, gross patient revenues are reduced by contractual allowances.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 4 - NET PATIENT SERVICE REVENUES (CONTINUED)

A summary of the payment arrangements with major third-party payors follows:

MEDICARE

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system which are based on clinical, diagnostic, and other factors. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. Services to Medicare beneficiaries are paid based on a prospective payment system (PPS) based on the classification of each case into a Diagnostic-Related Group (DRG). Inpatient psychiatric services are also reimbursed via a PPS system established for inpatient psychiatric patients based on pre-determined hospital specific per diems. The Hospital is reimbursed for Direct Graduate Medical Education and Medicare Bad Debts at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through fiscal year 2009 with the exception of fiscal year 2006 which remains open.

MEDICAID

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

Outpatient services rendered to patients are reimbursed based on the cost of services provided except for individuals in the managed Medicaid program where reimbursement is based on contracts as described above. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through 1997. Unaudited cost reports have been submitted as requested by Department of Social Services (DSS) through fiscal year 2010.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 4 - NET PATIENT SERVICE REVENUES (CONTINUED)

COMMERCIAL INSURANCE AND MANAGED CARE

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

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The Hospital's estimation of the allowance for uncollectible accounts is based primarily upon the type and age of the patient accounts receivable and the effectiveness of the Hospital's collection efforts. The Hospital's policy is to reserve a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as these charges are recorded. On a monthly basis, the Hospital reviews its accounts receivable balances, the effectiveness of the Hospital's reserve policies and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following:

- Revenue and volume trends by payor, particularly the self-pay components;
- Changes in the aging and payor mix of accounts receivable, including increased focus on accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients;
- Various allowance coverage statistics.

The Hospital regularly performs hindsight procedures to evaluate historical write-off and collection experience throughout the year to assist in determining the reasonableness of its process for estimating the allowance for uncollectible accounts.

ICD-10 IMPLEMENTATION

The Hospital is subject to the administrative simplification provisions of HIPAA which require the use of uniform electronic data transmission standards for health care claims and payment transactions submitted or received electronically.

In January 2009, the Centers for Medicare and Medicaid Services (CMS) published its tenth revision of International Statistical Classification of Diseases and Related Health Problems (ICD-10) and related changes to the formats used for certain electronic transactions. ICD-10 contains significantly more diagnostic and procedural codes than the existing ICD-9 coding system, and as a result, the coding for the services provided in the Hospital and its clinics will require much greater specificity.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 4 - NET PATIENT SERVICE REVENUES (CONTINUED)

ICD-10 IMPLEMENTATION (CONTINUED)

While HIPAA originally required implementation of ICD-10 to be achieved by October 1, 2013, CMS extended this deadline to October 1, 2014.

Implementation of ICD-10 will require a significant investment in technology and training. The Hospital may experience delays in reimbursement while the Hospital and the payors from which it seeks reimbursement make the transition to ICD-10. If the Hospital fails to implement the new coding system by the deadline, the Hospital will not be paid for services. Management is not able to reasonably estimate the overall financial impact of the Hospital's transition to ICD-10.

NOTE 5 – ELECTRONIC HEALTH RECORD REIMBURSEMENT

The Health Information Technology for Economic and Clinical Health Act (the HITECH Act) was enacted into law on February 17, 2009 as part of the American Recovery and Reinvestment Act of 2009 (ARRA). The HITECH Act includes provisions designed to increase the use of electronic health records by health professionals and hospitals. Beginning with federal fiscal year 2011 and extending through federal fiscal year 2016, eligible providers participating in the Medicare and Medicaid programs are eligible for reimbursement incentives based on successfully demonstrating meaningful use of certified Electronic Health Record (EHR) technology. Conversely, those providers that do not successfully demonstrate meaningful use of EHR technology are subject to reductions in reimbursements beginning in fiscal year 2015.

The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology.

The Hospital utilizes a grant accounting model to recognize EHR incentive revenues. EHR incentive revenues are recognized ratably over the relevant cost report period to determine the amount of the reimbursement.

EHR incentive payment revenue totaling \$2,487,000 and \$934,130 for the years ended June 30, 2013 and 2012, respectively, is included in contract and other revenues in the accompanying statements of revenues, expenses, and changes in net assets. The Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government. Additionally, Medicare EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 5 – ELECTRONIC HEALTH RECORD REIMBURSEMENT (CONTINUED)

A receivable of \$556,430 was recorded for the Medicaid portion of the program as of June 30, 2013 and is included in contract and other receivables on the statements of net assets.

NOTE 6 - CAPITAL ASSETS, NET

Capital assets at June 30 consist of the following:

	2013	2012
Land	\$ 183,137	\$ 183,137
Construction in progress (estimated cost to complete \$6.9 million)	12,904,730	13,022,370
Buildings	102,066,199	100,179,050
Equipment	80,613,427	78,006,552
Capital leases	<u>13,776,275</u>	<u>13,776,275</u>
	209,543,768	205,167,384
Less accumulated depreciation and amortization	<u>153,753,524</u>	<u>147,249,097</u>
Capital assets, net	<u><u>\$ 55,790,244</u></u>	<u><u>\$ 57,918,287</u></u>

Plant and equipment activity for the years ended June 30, 2013 and 2012 was as follows:

	2012	Additions	Deductions	2013
Land	\$ 183,137	\$ --	\$ --	\$ 183,137
Construction in progress	13,022,370	8,998,328	(9,115,968)	12,904,730
Buildings	100,179,050	1,904,107	(16,958)	102,066,199
Equipment	78,006,552	5,628,373	(3,021,498)	80,613,427
Capital leases	<u>13,776,275</u>	<u>--</u>	<u>--</u>	<u>13,776,275</u>
	<u>\$ 205,167,384</u>	<u>\$ 16,530,808</u>	<u>\$ (12,154,424)</u>	<u>\$ 209,543,768</u>

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 6 - CAPITAL ASSETS, NET (CONTINUED)

	2011	Additions	Deductions	2012
Land	\$ 183,137	\$ --	\$ --	\$ 183,137
Construction in progress	7,169,410	7,516,378	(1,663,418)	13,022,370
Buildings	100,163,782	15,268	--	100,179,050
Equipment	72,063,297	5,943,255	--	78,006,552
Capital leases	<u>13,776,275</u>	<u>--</u>	<u>--</u>	<u>13,776,275</u>
	<u>\$ 193,355,901</u>	<u>\$ 13,474,901</u>	<u>\$ (1,663,418)</u>	<u>\$ 205,167,384</u>

Related information on accumulated depreciation and amortization for the years ended June 30, 2013 and 2012 was as follows:

	2012	Additions	Deductions	2013
Buildings	\$ 76,768,082	\$ 2,739,885	\$ (14,126)	\$ 79,493,841
Equipment	57,674,317	6,332,777	(2,982,414)	61,024,680
Capital leases	<u>12,806,698</u>	<u>428,305</u>	<u>--</u>	<u>13,235,003</u>
	<u>\$ 147,249,097</u>	<u>\$ 9,500,967</u>	<u>\$ (2,996,540)</u>	<u>\$ 153,753,524</u>

	2011	Additions	Deductions	2012
Buildings	\$ 73,973,006	\$ 2,795,076	\$ --	\$ 76,768,082
Equipment	51,936,836	5,737,481	--	57,674,317
Capital leases	<u>12,367,644</u>	<u>439,054</u>	<u>--</u>	<u>12,806,698</u>
	<u>\$ 138,277,486</u>	<u>\$ 8,971,611</u>	<u>\$ --</u>	<u>\$ 147,249,097</u>

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 7 - LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2013 and 2012 was as follows:

	June 30, 2012 Balance	Additions	Deductions	June 30, 2013 Balance	Amounts due within 1 year
Accrued compensated absences	\$ 14,452,321	\$ 16,400,843	\$(15,554,718)	\$ 15,298,446	\$ 6,578,332
Capital leases	471,882	--	(471,882)	--	--
Long-term debt	<u>415,198</u>	<u>--</u>	<u>(415,198)</u>	<u>--</u>	<u>--</u>
Total	<u>\$ 15,339,401</u>	<u>\$ 16,400,843</u>	<u>\$(16,441,798)</u>	<u>\$ 15,298,446</u>	<u>\$ 6,578,332</u>

	June 30, 2011 Balance	Additions	Deductions	June 30, 2012 Balance	Amounts due within 1 year
Accrued compensated absences	\$ 13,285,471	\$ 16,370,580	\$(15,203,730)	\$ 14,452,321	\$ 6,210,929
Capital leases	1,086,613	--	(614,731)	471,882	471,882
Long-term debt	<u>1,245,594</u>	<u>--</u>	<u>(830,396)</u>	<u>415,198</u>	<u>415,198</u>
Total	<u>\$ 15,617,678</u>	<u>\$ 16,370,580</u>	<u>\$(16,648,857)</u>	<u>\$ 15,339,401</u>	<u>\$ 7,098,009</u>

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 7 - LONG-TERM LIABILITIES (CONTINUED)

Long-term debt and capital lease obligations as of June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Leasehold note - People's Bank, beginning December 1, 2006 and matured November 30, 2012 at a fixed rate of 6.35%	\$ --	\$ 415,198
Capital lease obligation - Citicorp Leasing, Inc. beginning January 18, 2008. Payments of principal and interest at 2.7%, began April 1, 2008 and continued until January 13, 2013, collateralized by financed equipment	<u>--</u>	<u>471,882</u>
Total	<u>\$ --</u>	<u>\$ 887,080</u>

The Hospital also participates in operating lease agreements under the Health Center for which its departments are allocated expenses based on square footage occupied. Rent expense was \$3,498,769 and \$3,300,433 in 2013 and 2012, respectively.

Upon completion of the Ambulatory Care Center (ACC), scheduled for April of 2015, the Hospital will lease an undetermined amount of space in the new facility. The amount of rent expense that will be charged to the Hospital, UConn Medical Group and other tenants of the ACC will be approximately \$3.5 million in fiscal year 2015 and approximately \$14 million annually thereafter for the remainder of the lease term. Refer to note 8 for additional details regarding advances made by the Hospital to construct the ACC.

The following is a schedule by year of existing future minimum lease payments under non-cancellable operating leases as of June 30, 2013, excluding space in the ACC:

<u>Year ending June 30,</u>	
2014	\$ 3,634,502
2015	3,197,365
2016	3,025,215
2017	2,947,754
2018	2,650,063
Thereafter	<u>13,553,722</u>
	<u>\$ 29,008,621</u>

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 8 - RELATED PARTY TRANSACTIONS

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

The Hospital is party to an agreement with the Health Center whereby the salaries of certain administrative employees are reimbursed by the Hospital. The non-clinical support services provided to the Hospital from the Health Center have been reported in the financial statements as part of the internal contractual support expense.

The Health Center transferred \$4.9 million and \$4.7 million in 2013 and 2012, related to fringe benefit recoveries for support services paid by the general fund. During the years ended June 30, 2013 and 2012, \$22,000 and \$33,000 was transferred to fund capital projects.

In 2013, \$10.2 million was transferred to the Hospital from the Health Center's operating fund for budgeted operating support. These transfers are reflected as net asset transfers in the statements of revenues, expenses and changes in net assets.

As more fully described in note 9, the Health Center charges the Hospital with an annual premium for medical malpractice costs which is determined annually by the Health Center. The Hospital is not liable beyond the annual premium, but may have future operational subsidies affected by the performance of the malpractice trust fund.

As described in Note 1, the Hospital participates in certain State retirement plans. The State charges the Hospital for these and other fringe benefits. During the years ended June 30, 2013 and 2012, the Hospital incurred \$50,774,180 and \$46,031,162, respectively, for employee fringe benefits. Related salary costs were \$110,136,856 and \$106,047,292, respectively.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 8 - RELATED PARTY TRANSACTIONS (CONTINUED)

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

The Hospital provides medical services to correctional managed health care patients under a Health Center contract with the State of Connecticut's Department of Correction (CTDOC). Revenue recorded under this contract was approximately \$2,235,786 and \$7,081,406 for the years ended June 30, 2013 and 2012, respectively, and is included in net patient service revenues in the statements of revenues, expenses, and changes in net assets. The Hospital also provides inpatient and outpatient care to Correctional Managed Health Care patients at Medicaid rates.

As described in Note 1, Finance Corporation provides services and performs critical services on behalf of the Hospital. These services include the acquisition, construction, and maintenance of clinical space such as the new ACC building. During 2013, the Hospital advanced \$7.7 million to the Finance Corporation to facilitate the construction of the ACC. The amounts advanced are expected to be returned at the completion of construction in fiscal 2015. In the event that Finance Corporation does not have the financial resources to repay this amount in 2015, the repayment terms will be renegotiated in 2015 or repayment will be made by the Health Center. Total amounts advanced to the Finance Corporation were \$16,741,825 and \$9,020,723 at June 30, 2013 and 2012, respectively. The Hospital has received a financial guarantee from the Health Center that the Health Center will provide the funding required for Finance Corporation to repay the \$16.7 million of advances if required.

NOTE 9 - REPORTING OF THE MALPRACTICE TRUST FUND

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 Hospital provides timely incident reporting to the Health Center to assist the Health Center in maintaining appropriate reserve balances.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

NOTE 9 - REPORTING OF THE MALPRACTICE TRUST FUND (CONTINUED)

To the extent that claims for cases exceed current year premiums charged by the Health Center, the Health Center may petition the State to make up the difference. The Hospital is not responsible for amounts beyond the annual premium allocated by the Health Center. 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, 2013 and 2012, the Health Center Malpractice Trust Fund had actuarial reserves of approximately \$19.9 million and assets of approximately \$8.4 million and \$8.1 million as of June 30, 2013 and 2012, respectively.

NOTE 10 - SUBSEQUENT EVENTS

The Hospital has evaluated subsequent events through October 7, 2013 which represents the date the financial statements were issued and noted no subsequent events that would have impacted the Hospital's financial statements other than as described below.

Effective July 1, 2013, the Dental Clinics became a standalone entity inside the Health Center. The move changes the Dental Clinics from a hospital based provider to an independent entity closely aligned with but no longer part of John Dempsey Hospital. The Dental Clinics will operate under their distinct license from the Department of Public Health. Had the Dental Clinics been removed from the current year statements total assets would have been reduced \$4,864,079 and total liabilities reduced \$1,013,718. The Dental Clinics had a total operating loss of \$1,104,450 for fiscal 2013 with no nonoperating items reported. The transfer of the Dental Clinics on July 1, 2013 will be recorded as a net asset transfer in the amount of \$3,850,361 in the Hospital's 2014 financial statements that will reduce the Hospital's net assets reported herein.