

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

**FINANCIAL STATEMENTS**  
(With Management's Discussion and Analysis)

**JUNE 30, 2014 AND 2013**

**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**

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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, 2014, 2013 and 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.

Through the Hospital (a licensed acute care hospital with a certified 234 general acute care beds, 180 staffed), the University of Connecticut Health Center (UConn Health) 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 high-risk maternity services. It is also 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 position, statements of revenues, expenses, and changes in net position, and statements of cash flows) present the financial position of the Hospital at June 30, 2014 and 2013, 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 position include all of the Hospital's assets and liabilities. The statements of revenues, expenses, and changes in net position 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 position and how they have changed. Net position (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 8,566 represent an increase of 79 cases from 2013. Outpatient visits increased by 8,896, or 2.7%, from the prior year. These changes are indicative of the general healthcare trend towards outpatient treatment.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**FINANCIAL HIGHLIGHTS (CONTINUED)**

The Hospital finished the year with an operating loss of \$17.9 million compared to an operating loss of \$4 million in the prior year. These losses were offset by net non-operating revenues of \$414,000 and \$505,000 in fiscal year 2014 and 2013, respectively. The Hospital also received net transfers from UConn Health of \$13.0 million and \$15.2 million in 2014 and 2013, respectively. Total net position decreased \$8.3 million in fiscal 2014, but increased \$11.6 million in fiscal 2013. Current year transfers were made up primarily of \$8.9 million in fringe benefit recoveries related to support services paid against the institutions general fund allotment and \$4.1 million transferred by UConn Health to cover operating deficiencies and fund strategic initiatives. Dental Clinics' assets were transferred back to UConn Health as described in note 10 of the accompanying statements. The Hospital's financial position at June 30, 2014, included assets of approximately \$128.7 million and liabilities of approximately \$57.4 million. Net position, which represents the residual interest in the Hospital's assets after liabilities are deducted, decreased \$8.3 million to approximately \$71.4 million.

Changes in net position represent the activity of the Hospital, resulting from revenues, expenses, gains, and losses, and are summarized for the years ended June 30, 2014, 2013, and 2012, including other changes in net position, as follows:

	2014	2013	2012
	<i>(in thousands)</i>		
Summary of assets, liabilities and net position at June 30:			
Current assets	\$ 67,324	\$ 54,535	\$ 48,212
Other assets	9,702	17,341	9,619
Capital assets, net	<u>51,704</u>	<u>55,790</u>	<u>57,918</u>
Total assets	<u>\$ 128,730</u>	<u>\$ 127,666</u>	<u>\$ 115,749</u>
Current liabilities	\$ 48,824	\$ 39,272	\$ 39,467
Accrued compensated absences, noncurrent portion	<u>8,551</u>	<u>8,720</u>	<u>8,241</u>
Total liabilities	<u>57,375</u>	<u>47,992</u>	<u>47,708</u>
Net investment in capital assets	51,704	55,790	57,031
Unrestricted	<u>19,651</u>	<u>23,884</u>	<u>11,010</u>
Total net position	<u>71,355</u>	<u>79,674</u>	<u>68,041</u>
Total liabilities and net position	<u>\$ 128,730</u>	<u>\$ 127,666</u>	<u>\$ 115,749</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL HIGHLIGHTS (CONTINUED)**

	2014	2013	2012
	<i>(in thousands)</i>		
Summary of revenues, expenses and transfers for the year ended June 30:			
Operating revenues	\$ 308,713	\$ 305,047	\$ 289,410
Operating expenses	<u>(326,572)</u>	<u>(309,097)</u>	<u>(297,905)</u>
Operating loss	(17,859)	(4,050)	(8,495)
Nonoperating revenue, net	<u>414</u>	<u>505</u>	<u>436</u>
Loss before loss on disposal of Dental Clinics and transfers	(17,445)	(3,545)	(8,059)
Loss on disposal of Dental Clinics	(3,850)	--	--
Net transfers	<u>12,976</u>	<u>15,178</u>	<u>8,064</u>
(Decrease) Increase in net position	<u>\$ (8,319)</u>	<u>\$ 11,633</u>	<u>\$ 5</u>

**CAPITAL ASSETS**

At June 30, 2014, the Hospital had property, plant, and equipment of \$190.9 million before accumulated depreciation compared to \$209.5 million at June 30, 2013, as shown in the table below:

	2014	2013	2012
	<i>(in thousands)</i>		
Land	\$ 183	\$ 183	\$ 183
Construction in progress	11,802	12,905	13,022
Buildings	93,653	102,066	100,179
Equipment	71,502	80,614	78,007
Capital leases	<u>13,776</u>	<u>13,776</u>	<u>13,776</u>
Total Property, Plant and Equipment	<u>\$ 190,916</u>	<u>\$ 209,544</u>	<u>\$ 205,167</u>

For fiscal 2015 all UConn Health capital requests will be considered for funding on an individual basis. Capital requests will be considered by the senior executive committee of UConn Health. More detailed information about the Hospital's plant and equipment is presented in note 6 to the financial statements.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**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, 2014, 2013, and 2012 is as follows:

	2014	2013	2012
	<i>(in thousands)</i>		
Cash received from operations	\$ 304,520	\$ 291,619	\$ 284,076
Cash expended for operations	<u>(315,683)</u>	<u>(297,422)</u>	<u>(284,098)</u>
Net cash used in operations	(11,163)	(5,803)	(22)
Net cash used in investing activities	(7,781)	(7,415)	(11,811)
Net cash provided by noncapital financing activities	18,944	14,109	13,340
Net cash used in capital and related financing activities	<u>--</u>	<u>(891)</u>	<u>(1,507)</u>
Net change in cash	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</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 2014 amounts compared to fiscal 2013.

**SUMMARY OF ASSETS AND LIABILITIES**

Changes in assets included the following:

*Cash* – decreased from June 30, 2013 to June 30, 2014 by approximately \$6 million, to a net overdraft position of \$18.8 million. Decreases in cash were driven by operating losses.

*Contract and other receivables* – increased from June 30, 2013 to June 30, 2014 by approximately \$2.3 million. The increase was driven by the contract between the Hospital and CT Children's whereby CT Children's pays the Hospital for costs associated with its administration of the Neonatal Intensive Care Unit (NICU).

**UNIVERSITY OF CONNECTICUT HEALTH CENTER  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**SUMMARY OF ASSETS AND LIABILITIES (CONTINUED)**

Changes in liabilities included the following:

*Due to third-party payors* – increased from June 30, 2013 to June 30, 2014 by approximately \$1.8 million or 65.5%. 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 HMOs.

*Due to UConn Health Malpractice Fund* – an accrual for malpractice insurance was established for the Hospital in fiscal year 2014 for approximately \$1.6 million. The balance represents the allocation of 2014 premiums for malpractice coverage owed to the UConn Health's malpractice fund.

**SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

*Operating revenue* – increased from June 30, 2013 to June 30, 2014 by approximately \$3.6 million or 1.2%. Net patient revenue went up \$5.3 million or 1.9%. In fiscal year 2013, the Hospital reported approximately \$2.1 million in contract and other revenue from meaningful use. There were no meaningful use payments recognized in fiscal year 2014.

*Operating expenses* – increased from June 30, 2013 to June 30, 2014 by approximately \$17.5 million or 5.7% due to salary and fringe increases, including those embedded in internal contractual support. Fringe benefit rates, set by the State of Connecticut, increased approximately 9.8% in 2014.

*Transfers from UConn Health* – decreased from June 30, 2013 to June 30, 2014 by approximately \$2.2 million. In the current year, the Hospital received approximately \$4.0 million to cover operating deficiencies and fund strategic initiatives whereas in 2013, approximately \$10.2 million was received. In the current year, the Hospital received transfers of \$8.9 million related to fringe benefit recoveries for support services paid by the general fund compared to \$4.9 million in fiscal year 2013.

**FISCAL 2015 OUTLOOK**

As we look forward to fiscal year 2015, the Hospital's focus is on maintaining outstanding clinical care and sufficient volumes in a rapidly evolving market. Healthcare reform continues to bring changes in the ways that the Hospital serves the community while the Bioscience Connecticut initiative is changing the scope of our treatment facilities at the same time.

Average daily census and Hospital discharges finished below budget in 2014 while outpatient equivalents were higher than budget reflecting an overall shift in the market toward outpatient services. Management is continuing to focus on achieving inpatient volume via clinically focused advertising campaigns ahead of the opening of the new Hospital in 2016.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**BIOSCIENCE CONNECTICUT**

The construction work related to the Bioscience Connecticut initiative continues at a rapid pace. The first phase of the research lab renovations in the Main Building is completed, scientists have moved in and research is being conducted in the newly renovated space. These new research labs are the first programmatic space completed under the Bioscience CT program. In addition, two of three planned parking garages opened in 2013. The UConn Health Outpatient Pavilion (formerly named the Ambulatory Care Center) Project, the new Hospital Tower, the Main Building lab renovation area, and the Jackson Lab Building are all very active construction sites.

**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, 2014 and 2013, 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, 2014 and 2013, and the results of its operations and changes in net position, 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 6, 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 22, 2014

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

**STATEMENTS OF NET POSITION**

**JUNE 30, 2014 AND 2013**

	2014	2013
<b>Assets</b>		
<b>Current Assets</b>		
Patient accounts receivable, net of estimated uncollectibles of \$19,303,000 and \$20,341,000 at June 30, 2014 and 2013, respectively	\$ 33,443,105	\$ 30,976,682
Inventory	7,660,191	8,234,194
Contract and other receivables	14,318,504	12,027,621
Due from Finance Corporation, current portion	7,710,122	--
Prepaid expenses	4,191,603	3,296,041
<b>Total Current Assets</b>	67,323,525	54,534,538
<b>Noncurrent Assets</b>		
Other assets	666,641	599,630
Due from Finance Corporation, noncurrent portion	9,035,784	16,741,825
Capital assets, net (note 6)	51,704,091	55,790,244
<b>Total Noncurrent Assets</b>	61,406,516	73,131,699
<b>Total Assets</b>	\$ 128,730,041	\$ 127,666,237

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

**UNIVERSITY OF CONNECTICUT HEALTH CENTER  
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**STATEMENTS OF NET POSITION (CONTINUED)**

**JUNE 30, 2014 AND 2013**

	2014	2013
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Cash overdraft	\$ 18,819,807	\$ 12,799,970
Accounts payable and accrued expenses	9,737,077	9,877,274
Accrued payroll	4,973,857	4,917,699
Due to UConn Health Malpractice Fund	1,564,057	--
Due to State of Connecticut	2,705,656	2,384,290
Due to third-party payors	4,491,574	2,713,960
Accrued compensated absences, current portion (note 7)	6,532,440	6,578,332
<b>Total Current Liabilities</b>	<b>48,824,468</b>	<b>39,271,525</b>
<b>Noncurrent Liabilities</b>		
Accrued compensated absences, net of current portion (note 7)	8,550,544	8,720,114
<b>Total Noncurrent Liabilities</b>	<b>8,550,544</b>	<b>8,720,114</b>
<b>Total Liabilities</b>	<b>57,375,012</b>	<b>47,991,639</b>
<b>Net Position</b>		
Net investment in capital assets	51,704,091	55,790,244
Unrestricted	19,650,938	23,884,354
<b>Total Net Position</b>	<b>71,355,029</b>	<b>79,674,598</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 128,730,041</b>	<b>\$ 127,666,237</b>

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

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

**STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>Operating Revenues</b>		
Net patient service revenues (note 4)	\$ 286,757,590	\$ 281,412,882
Contract and other revenues	21,955,590	23,634,474
<b>Total Operating Revenues</b>	308,713,180	305,047,356
<b>Operating Expenses</b>		
Salaries and wages	104,623,208	110,136,856
Fringe benefits	55,729,014	50,774,180
Medical/dental house staff	20,183,070	14,241,190
Medical contractual support	5,199,144	4,174,725
Internal contractual support	31,562,557	22,954,922
Outside agency per diems	1,361,771	1,102,893
Depreciation and amortization	8,906,755	9,500,967
Pharmaceutical/medical supplies	54,445,527	51,007,924
Utilities	2,129,221	1,985,750
Outside and other purchased services	28,620,860	27,004,937
Insurance	3,444,465	4,022,353
Repairs and maintenance	7,039,298	7,671,014
Other expenses	3,327,751	4,519,050
<b>Total Operating Expenses</b>	326,572,641	309,096,761
<b>Operating Loss</b>	(17,859,461)	(4,049,405)
<b>Nonoperating Revenues (Expenses)</b>		
Gift income	550,000	550,000
Loss on disposals	(136,094)	(41,916)
Interest expense	--	(3,533)
<b>Net Nonoperating Revenues</b>	413,906	504,551
<b>Loss before Loss on Disposal of Dental Clinics and Transfers</b>	(17,445,555)	(3,544,854)
<b>Loss on Disposal of Dental Clinics</b>	(3,850,361)	--
<b>Transfers from UConn Health - Unrestricted (note 8)</b>	12,976,347	15,178,047
<b>(Decrease) Increase in Net Position</b>	(8,319,569)	11,633,193
<b>Net Position - Beginning</b>	79,674,598	68,041,405
<b>Net Position - End</b>	\$ 71,355,029	\$ 79,674,598

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

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

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>Cash Flows from Operating Activities</b>		
Cash received from patients and third-party payors	\$ 285,308,590	\$ 277,941,059
Cash received from contract and other revenue	19,210,912	13,677,643
Cash paid to employees for salaries and fringe benefits	(160,952,664)	(162,498,227)
Cash paid for other than personal services	(154,730,344)	(134,923,807)
<b>Net Cash Used in Operating Activities</b>	<u>(11,163,506)</u>	<u>(5,803,332)</u>
<b>Cash Flows from Investing Activities</b>		
Additions to property and equipment	(7,780,938)	(7,414,840)
<b>Net Cash Used in Investing Activities</b>	<u>(7,780,938)</u>	<u>(7,414,840)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Gifts received	550,000	550,000
Transfer of Dental Clinics' cash	(601,740)	--
Transfer from UConn Health	12,976,347	15,178,047
Advance provided to Finance Corporation	--	(7,721,102)
Net draw downs on cash overdraft	6,019,837	6,101,840
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>18,944,444</u>	<u>14,108,785</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Interest paid	--	(3,533)
Repayment of long-term debt and capital leases	--	(887,080)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>--</u>	<u>(890,613)</u>
<b>Net Change in Cash</b>	<u>\$ --</u>	<u>\$ --</u>

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

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

**STATEMENTS OF CASH FLOWS (CONTINUED)**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>Reconciliation of Operating Loss to Net Cash</b>		
<b>Used in Operating Activities</b>		
Operating loss	\$ (17,859,461)	\$ (4,049,405)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	8,906,755	9,500,967
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(3,226,614)	554,788
Due from UConn Health agencies	10,980	3,500,000
Inventory	349,889	(647,507)
Contract and other receivables	(2,744,678)	(9,956,831)
Prepaid expenses	(895,562)	226,892
Other assets	(67,011)	(999)
Due to third-party payors	1,777,614	(4,026,611)
Accounts payable and accrued expenses	420,083	(2,491,817)
Due to State of Connecticut	399,670	386,069
Due to UConn Health Malpractice Fund	1,564,057	--
Accrued payroll	243,234	354,997
Accrued compensated absences	(42,462)	846,125
	\$ (11,163,506)	\$ (5,803,332)
<b>Net Cash Used in Operating Activities</b>		

In connection with the transfer of the Dental Clinics to UConn Health, certain assets and liabilities were transferred to UConn Health. Reference is made to Note 10.

*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, 2014 AND 2013**

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**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), which are primarily accounted for in the 21002 Fund of the University of Connecticut Health Center (UConn Health). 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 UConn Health's 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.

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 UConn Health beginning in 2011, as well as negotiate joint ventures, shared service, and other agreements for the benefit of the Hospital.



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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

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**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. UConn Health has not made this election. The Hospital implemented GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which directly incorporated into GASB's authoritative literature certain pronouncement issues by FASB on or before November 30, 1989.

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*, and as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

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 position presentation, certain classifications of revenues and expenses and management's discussion and analysis.

During the year ended June 30, 2014, the Hospital adopted GASB No. 69, *Government Combinations and Disposals of Government Operations*, in connection with the transfer of its Dental Clinics to UConn Health on July 1, 2013. See note 10.

***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  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

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

*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, contractual allowances, and third-party reimbursement reserves.

*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 position. 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 services provided to area hospitals under the terms of contractual agreements. Revenue is recorded on the accrual basis of accounting in the period the related services are rendered.

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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

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

***INVENTORY***

Inventory, with the exception of pharmaceuticals, is recorded at cost, being determined by the first-in, first-out (FIFO) method. Pharmaceuticals are valued at market which approximates cost due to high turnover rates. Short-term or minor supplies are expensed as incurred.

***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.

***RETIREMENT PLANS AND OTHER POST EMPLOYMENT BENEFITS***

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.

The State is statutorily responsible for the pension benefits of Hospital employees who participate in the aforementioned defined benefit plans; therefore, no liability for pension benefits is recorded in the Hospital's financial statements. The State is required to contribute at an actuarially determined rate, which may be reduced by an act of the State legislature. These plans do not issue stand-alone financial reports. Summary information on the plans is publicly available in the State of Connecticut's Comprehensive Annual Financial Report. 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  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

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

***RETIREMENT PLANS AND OTHER POST EMPLOYMENT BENEFITS (CONTINUED)***

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 UConn Health 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.

***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 position 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.

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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

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

***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 UConn Health's malpractice self-insurance fund. UConn Health retains a qualified actuary to assist with calculating and determining the appropriate annual malpractice reserve. UConn Health 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, 2014 and 2013, such premiums were \$3,128,114 and \$3,672,492, respectively. These premiums are included in insurance expense in the Hospital's statements of revenues, expenses, and changes in net position. The due to UConn Health Malpractice Fund reported on the June 30, 2014 statement of net position represented premiums payable for occurrence based coverage through June 30, 2014.

***NET POSITION***

Net position is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances outstanding of any borrowings (less amounts held in trust) used to finance the purchase or construction of those assets. All other assets less liabilities are classified as unrestricted.

***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 2013 amounts have been reclassified to conform to the current year presentation.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

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**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, 2014 and 2013, the Hospital had drawn down \$18,819,807 and \$12,799,970, respectively. As of June 30, 2014 and 2013, the Hospital has available \$24,165,640 and \$25,903,903, 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 2014 and 2013, the Hospital provided charity care services of \$629,512 and \$801,071, respectively. The cost of these services was \$320,939 and \$415,547, respectively. No net patient service revenue was recorded for these services and expenses associated with these services were included in operating expenses.

**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 45% and 43% of the Hospital's net patient service revenues for the years ended June 30, 2014 and 2013, respectively. Revenues from the Medicaid program accounted for approximately 31% and 30% of the Hospital's net patient service revenues for the years ended June 30, 2014 and 2013, 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 36% and 30% due from Medicare and approximately 16% and 9% due from Medicaid at June 30, 2014 and 2013, respectively.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 4 - NET PATIENT SERVICE REVENUES (CONTINUED)**

Patient service revenues reported net of allowances for the years ended June 30, were:

	2014	2013
Gross patient service revenues	\$ 649,596,982	\$ 581,954,466
Less contractual allowances	(357,461,826)	(297,190,471)
Less provision for bad debt	(5,377,566)	(3,351,113)
Net patient service revenues	\$ 286,757,590	\$ 281,412,882

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.

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 2011 with the exception of fiscal year 2006 which remains open.

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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 4 – NET PATIENT SERVICE REVENUES (CONTINUED)**

***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 2012.

***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



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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 4 – NET PATIENT SERVICE REVENUES (CONTINUED)**

*ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS (CONTINUED)*

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.

While HIPAA originally required implementation of ICD-10 to be achieved by October 1, 2013, CMS extended this deadline to October 1, 2015.

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 2016.

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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 5 – ELECTRONIC HEALTH RECORD REIMBURSEMENT (CONTINUED)**

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 for the year ended June 30, 2013, is included in contract and other revenues in the accompanying statement of revenues, expenses, and changes in net position. There was no EHR incentive payment revenue recognized by the Hospital for the year ended June 30, 2014. 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.

A receivable of \$556,340 was recorded for the Medicaid portion of the program as of June 30, 2013 and was included in contract and other receivables on the 2013 statement of net position. There were no receivables recorded for this program as of June 30, 2014.

**NOTE 6 – CAPITAL ASSETS, NET**

Capital assets at June 30 consist of the following:

	2014	2013
Land	\$ 183,137	\$ 183,137
Construction in progress (estimated cost to complete \$3.5 million)	11,801,640	12,904,730
Buildings	93,653,262	102,066,199
Equipment	71,501,502	80,613,427
Capital leases	<u>13,776,275</u>	<u>13,776,275</u>
	190,915,816	209,543,768
Less accumulated depreciation and amortization	<u>139,211,725</u>	<u>153,753,524</u>
Capital assets, net	<u>\$ 51,704,091</u>	<u>\$ 55,790,244</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 6 – CAPITAL ASSETS, NET (CONTINUED)**

Plant and equipment activity for the years ended June 30, 2014 and 2013 was as follows:

	2013	Additions	Deductions	2014
Land	\$ 183,137	\$ --	\$ --	\$ 183,137
Construction in progress	12,904,730	6,276,980	(7,380,070)	11,801,640
Buildings	102,066,199	2,592,870	(11,005,807)	93,653,262
Equipment	80,613,427	5,572,553	(14,684,478)	71,501,502
Capital leases	<u>13,776,275</u>	<u>--</u>	<u>--</u>	<u>13,776,275</u>
	<u>\$ 209,543,768</u>	<u>\$ 14,442,403</u>	<u>\$ (33,070,355)</u>	<u>\$ 190,915,816</u>
	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>

Related information on accumulated depreciation and amortization for the years ended June 30, 2014 and 2013 was as follows:

	2013	Additions	Deductions	2014
Buildings	\$ 79,493,841	\$ 2,342,805	\$ (9,396,471)	\$ 72,440,175
Equipment	61,024,680	6,135,645	(14,052,083)	53,108,242
Capital leases	<u>13,235,003</u>	<u>428,305</u>	<u>--</u>	<u>13,663,308</u>
	<u>\$ 153,753,524</u>	<u>\$ 8,906,755</u>	<u>\$ (23,448,554)</u>	<u>\$ 139,211,725</u>
	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>

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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 6 – CAPITAL ASSETS, NET (CONTINUED)**

Fiscal 2014 deductions include deductions associated with the transfer of assets to UConn Health. Specifically, \$13,150,174 of capital assets as well as their associated accumulated depreciation of \$10,325,932 were transferred as of July 1, 2014.

**NOTE 7 – LONG-TERM LIABILITIES**

Long-term liability activity for the years ended June 30, 2014 and 2013 was as follows:

	June 30, 2013 Balance	Additions	Deductions	June 30, 2014 Balance	Amounts due within 1 year
Accrued compensated absences	\$ 15,298,446	\$ 11,727,346	\$ (11,942,808)	\$ 15,082,984	\$ 6,532,440
<b>Total</b>	<b>\$ 15,298,446</b>	<b>\$ 11,727,346</b>	<b>\$ (11,942,808)</b>	<b>\$ 15,082,984</b>	<b>\$ 6,532,440</b>
	June 30, 2012 Balance	Additions	Deductions	June 30, 2013 Balance	Amounts due within 1 year
Accrued compensated absences	\$ 14,452,321	\$ 12,185,784	\$ (11,339,659)	\$ 15,298,446	\$ 6,578,332
Capital leases	471,882	--	(471,882)	--	--
Long-term debt	415,198	--	(415,198)	--	--
<b>Total</b>	<b>\$ 15,339,401</b>	<b>\$ 12,185,784</b>	<b>\$ (12,226,739)</b>	<b>\$ 15,298,446</b>	<b>\$ 6,578,332</b>

The Hospital participates in operating lease agreements under UConn Health for which its departments are allocated expenses based on square footage occupied. Rent expense was \$3,614,343 and \$3,498,769 in 2014 and 2013, respectively.

Upon completion of the Outpatient Pavilion (formerly the Ambulatory Care Center), scheduled for April of 2015, the Hospital will lease 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 Outpatient Pavilion will be approximately \$3.5 million in fiscal year 2015 and approximately \$14 million annually thereafter for the remainder of the lease term, which expires in March 2040. Refer to note 8 for additional details regarding advances made by the Hospital to construct the Outpatient Pavilion.

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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 7 – LONG-TERM LIABILITIES (CONTINUED)**

The following is a schedule by year of existing future minimum lease payments under non-cancellable operating leases as of June 30, 2014, including space in the Outpatient Pavilion through the lease term with the Finance Corporation that expires in March 2040:

<u>Year ending June 30,</u>	
2015	\$ 4,461,173
2016	8,026,864
2017	7,951,297
2018	7,650,587
2019	7,649,829
Thereafter	<u>108,238,335</u>
	<u>\$ 143,978,085</u>

**NOTE 8 – RELATED PARTY TRANSACTIONS**

The expenses reported in the statements of revenues, expenses, and changes in net position do not include undetermined amounts for salaries, services, and expenses provided to and received from UConn Health and other state agencies. Complete allocations have not been made for salaries and other services incurred by the Hospital on behalf of other UConn Health 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 UConn Health.

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

UConn Health transferred \$8.9 million and \$4.9 million in 2014 and 2013, respectively, related to fringe benefit recoveries for support services paid by the general fund. During the year ended June 30, 2013 \$22,000 was transferred to fund capital projects. No amounts were transferred to fund capital projects during the year ended June 30, 2014.

The Hospital transferred all Dental Clinic assets and liabilities to UConn Health as of July 1, 2013. See note 10 for additional information.

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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 8 – RELATED PARTY TRANSACTIONS (CONTINUED)**

In 2014 and 2013, \$4.0 million and \$10.2 million, respectively, were transferred to the Hospital from UConn Health's operating fund for budgeted operating support. These transfers are included in transfers in the statements of revenues, expenses and changes in net position.

As more fully described in note 9, UConn Health charges the Hospital with an annual premium for medical malpractice costs which is determined annually by UConn Health. The Hospital is not liable beyond the annual premium, but may have future operational subsidies affected by the performance of the malpractice 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, 2014 and 2013, the Hospital incurred \$55,729,014 and \$50,774,180, respectively, for employee fringe benefits. Related salary costs were \$104,623,208 and \$110,136,856, respectively. The amounts due to the State related to the fringe benefit programs as of June 30, 2014 and 2013 are included in the statements of net position.

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 UConn Health contract with the State of Connecticut's Department of Correction (CTDOC). The Hospital provides inpatient and outpatient care to Correctional Managed Health Care patients at Medicaid rates. The Hospital also provides certain other services under capitated contracts whereby Correctional Managed Healthcare pays a set amount per year for services regardless of volume. The Hospital recorded revenues of \$2,224,745 and \$2,235,786 for fiscal 2014 and 2013, respectively, and included these revenues in net patient services revenue in the statements of revenues, expenses, and changes in net position.

As described in Note 1, Finance Corporation performs critical services on behalf of the Hospital. These services include the acquisition, construction, and maintenance of clinical space such as the new Outpatient Pavilion building. Total amounts advanced to the Finance Corporation were \$16,745,906 and \$16,741,825 at June 30, 2014 and 2013, respectively. The Hospital has received a financial guarantee from UConn Health that it will provide the funding required for Finance Corporation to repay the \$16.7 million of advances if required. Amounts advanced for construction of the Outpatient Pavilion are expected to be returned at the completion of construction in fiscal 2015.

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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 9 – REPORTING OF THE MALPRACTICE FUND**

UConn Health is self-insured with respect to medical malpractice risks. Estimated losses from asserted and unasserted claims identified under UConn Health's incident reporting system and an estimate of incurred but not reported claims are accrued based on actuarially determined estimates that incorporate UConn Health'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 UConn Health to assist UConn Health in maintaining appropriate reserve balances.

To the extent that claims for cases exceed current year premiums charged by UConn Health, UConn Health may petition the State to make up the difference. The Hospital is not responsible for amounts beyond the annual premium allocated by UConn Health. However, operational subsidies from the State and/or UConn Health may be affected by the performance of UConn Health's malpractice program. At June 30, 2014 and 2013, UConn Health's Malpractice Fund had actuarial reserves of approximately \$21.9 million and \$19.9 million and assets of approximately \$9.9 million and \$8.4 million as of June 30, 2014 and 2013, respectively.

**NOTE 10 – TRANSFER OF DENTAL CLINICS TO UCONN HEALTH**

On July 1, 2013, UConn Health realigned the Dental Clinics by removing them from the Hospital's operating unit and aligning them with the institution's other dental practices. The change was made by transferring all assets and liabilities included in the Hospital's financial statements to UConn Health. In accordance with GASB 69, during the year ended June 30, 2014, the Hospital recognized a loss of \$3,850,361 on the disposal of its Dental Clinics as a special item. The Dental Clinics comprised net patient service revenues of \$7,531,254 and total operating expenses of \$10,476,216 that were included in the 2013 statement of revenues, expenses and changes in position.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 10 – TRANSFER OF DENTAL CLINICS TO UCONN HEALTH (CONTINUED)**

The effect of the transfer of the Dental Clinics' assets and liabilities on July 1, 2013 is summarized in the table below.

	June 30, 2013 Balances in the Statement of Net Position	Dental Account Transfers on July 1, 2013	Balances Net of Dental Transfers
Patient accounts receivable, net	\$ 30,976,682	\$ (760,191)	\$ 30,216,491
Inventory	8,234,194	(224,114)	8,010,080
Contract and other receivables	12,027,621	(453,795)	11,573,826
Due from Finance Corporation, noncurrent portion	16,741,825	15,061	16,756,886
Capital assets, net	<u>55,790,244</u>	<u>(2,824,242)</u>	<u>52,966,002</u>
 Total assets impacted by the transfer	 <u>\$ 123,770,566</u>	 <u>\$ (4,247,281)</u>	 <u>\$ 119,523,285</u>
 Cash overdraft	 \$ 12,799,970	 \$ 601,740	 \$ 13,401,710
Accounts payable and accrued expenses	9,877,274	(560,280)	9,316,994
Accrued payroll	4,917,699	(187,076)	4,730,623
Due to State of Connecticut	2,384,290	(78,304)	2,305,986
Accrued compensated absences, current portion	6,578,332	(74,390)	6,503,942
Accrued compensated absences, net of current portion	<u>8,720,114</u>	<u>(98,610)</u>	<u>8,621,504</u>
 Total liabilities impacted by the transfer	 <u>\$ 45,277,679</u>	 <u>\$ (396,920)</u>	 <u>\$ 44,880,759</u>

**NOTE 11 – SUBSEQUENT EVENTS**

The Hospital has evaluated subsequent events through October 22, 2014, which represents the date the financial statements were available to be issued and noted no subsequent events that would have impacted the Hospital's financial statements.