

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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**
(With Management's Discussion and Analysis)
JUNE 30, 2015 AND 2014

**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, 2015, 2014, and 2013. 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 contracts 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, ambulatory partial hospitalization, and outpatient treatment programs. Additionally, the Hospital is home to the only Emergency Department in Connecticut's 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, 2015 and 2014, 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 it has changed. Net position (the difference between assets and liabilities adjusted for deferred outflows and inflows) 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 noncapital financing activities.

The Hospital adopted GASB statements 68 and 71 in the current fiscal year. These statements required the Hospital to recognize its pro rata share of the State's pension liabilities as well as deferred inflows and outflows of resources. These changes were made by adjusting the July 1, 2014 opening balance to record the cumulative change in net assets. In conjunction with the adoption of these standards the Hospital decreased its beginning net assets by \$138.7 million though there was no effect on current year cash flows.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

Hospital discharges of 8,946 represent an increase of 380 cases from 2014. Outpatient visits increased by 10,261, or 3%, from the prior year. These changes are indicative of the general healthcare trend towards outpatient treatment.

The Hospital finished the year with an operating gain of \$19.5 million compared to an operating loss of \$17.9 million in the prior year. The Hospital received net transfers from UConn Health of \$8.0 million and \$13.0 million in 2015 and 2014, respectively. Current year transfers were for fringe benefit recoveries related to support services paid against the institutions' general fund allotment. Total net position increased \$19.5 million from operations in fiscal 2015, compared to a decrease of \$17.9 million in fiscal 2014. The Hospital's financial position at June 30, 2015, included assets of approximately \$149.5 million, deferred outflows of \$16.0 million, liabilities of approximately \$199.8 million and deferred inflows of \$5.3 million. Net position, which represents the residual interest in the Hospital's assets and deferred outflows after liabilities and deferred inflows are deducted, decreased \$111.0 million to approximately \$(39.6) million.

Changes in net position represent the activity of the Hospital, resulting from revenues, expenses, gains, losses, transfers and cumulative effect of change in accounting principles and are summarized for the years ended June 30, 2015, 2014, and 2013, including other changes in net position, as follows:

	2015	2014	2013
	<i>(in thousands)</i>		
Summary of assets, liabilities and net position at June 30:			
Current assets	\$ 89,222	\$ 67,324	\$ 54,535
Other assets	9,801	9,702	17,341
Capital assets, net	<u>50,492</u>	<u>51,704</u>	<u>55,790</u>
Total assets	<u>\$ 149,515</u>	<u>\$ 128,730</u>	<u>\$ 127,666</u>
Deferred outflows	<u>\$ 16,039</u>	<u>\$ --</u>	<u>\$ --</u>
Current liabilities	\$ 42,749	\$ 48,824	\$ 39,272
Pension liabilities	148,375	--	--
Accrued compensated absences, noncurrent portion	<u>8,725</u>	<u>8,551</u>	<u>8,720</u>
Total liabilities	<u>\$ 199,849</u>	<u>\$ 57,375</u>	<u>\$ 47,992</u>
Deferred inflows	<u>\$ 5,303</u>	<u>\$ --</u>	<u>\$ --</u>
Net investment in capital assets	\$ 50,492	\$ 51,704	\$ 55,790
Unrestricted	<u>(90,089)</u>	<u>19,651</u>	<u>23,884</u>
Total net position	<u>\$ (39,597)</u>	<u>\$ 71,355</u>	<u>\$ 79,674</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS (CONTINUED)

	2015	2014	2013
	<i>(in thousands)</i>		
Summary of revenues, expenses and transfers for the year ended June 30:			
Operating revenues	\$ 360,296	\$ 308,713	\$ 305,047
Operating expenses	<u>(340,779)</u>	<u>(326,572)</u>	<u>(309,097)</u>
Operating Income (Loss)	19,517	(17,859)	(4,050)
Nonoperating revenue, net	<u>200</u>	<u>414</u>	<u>505</u>
Income (Loss) before loss on disposal of Dental Clinics and transfers	19,717	(17,445)	(3,545)
Loss on disposal of Dental Clinics	--	(3,850)	--
Net transfers	8,002	12,976	15,178
Cumulative effect of change in accounting principle	<u>(138,671)</u>	<u>--</u>	<u>--</u>
(Decrease) Increase in net position	<u>\$ (110,952)</u>	<u>\$ (8,319)</u>	<u>\$ 11,633</u>

CAPITAL ASSETS

At June 30, 2015, the Hospital had property, plant, and equipment of \$193.6 million before accumulated depreciation compared to \$190.9 million at June 30, 2014, as shown in the table below:

	2015	2014	2013
	<i>(in thousands)</i>		
Land	\$ 183	\$ 183	\$ 183
Construction in progress	14,703	11,802	12,905
Buildings	95,594	93,653	102,066
Equipment	69,309	71,502	80,614
Capital leases	<u>13,776</u>	<u>13,776</u>	<u>13,776</u>
Total Property, Plant and Equipment	<u>\$ 193,565</u>	<u>\$ 190,916</u>	<u>\$ 209,544</u>

For fiscal 2016 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 property, plant and equipment is presented in note 7 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, 2015, 2014, and 2013 is as follows:

	2015	2014	2013
	<i>(in thousands)</i>		
Cash received from operations	\$ 373,977	\$ 304,520	\$ 291,619
Cash expended for operations	<u>(334,388)</u>	<u>(315,683)</u>	<u>(297,422)</u>
Net cash provided by/(used) in operations	39,589	(11,163)	(5,803)
Net cash used in investing activities	(7,017)	(7,781)	(7,415)
Net cash (used)/provided by noncapital financing activities	(8,267)	18,944	14,109
Net cash used in capital and related financing activities	<u>--</u>	<u>--</u>	<u>(891)</u>
Net change in cash	24,305	--	--
Cash - Beginning	<u>--</u>	<u>--</u>	<u>--</u>
Cash - Ending	<u>\$ 24,305</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 2015 amounts compared to fiscal 2014.

SUMMARY OF ASSETS AND LIABILITIES

Changes in assets included the following:

Cash – increased from June 30, 2014 to June 30, 2015 by approximately \$43.1 million, to a positive position of \$24.3 million. Medicaid and Medicare settlements of \$21.5 million and \$3.3 million respectively, accounted for approximately \$24.8 million of the change in cash and third party receivables. This year the Hospital also settled RAC receivable cases with The Center for Medicare Services which resulted in \$3.9 million of cash collected. UConn Health transferred \$8 million to the Hospital in fiscal year 2015.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF ASSETS AND LIABILITIES (CONTINUED)

Contract and other receivables – decreased from June 30, 2014 to June 30, 2015 by approximately \$6.3 million. The decrease was mostly due from the receipt of funds against the CT Children's receivable. CT Children's pays the Hospital for costs associated with its administration of the Neonatal Intensive Care Unit (NICU).

Due from Finance Corporation – decreased by \$2 million due to the repayment of funds advanced to Finance Corporation during construction of the Outpatient Pavilion.

Changes in liabilities included the following:

Due to third-party payors – increased from June 30, 2014 to June 30, 2015 by approximately \$12.2 million. 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 – decreased from June 30, 2014 to June 30, 2015 by \$1.3 million. The balance of \$260,676 represents the June allocation of 2015 premiums for malpractice coverage owed to UConn Health's malpractice fund.

Pension Liability – increased in the current year due to the adoption of GASB 68. As a result the Hospital ended the year with a liability of \$148.4 million which represents its proportional share of the State's State Employees' Retirement System (SERS) and Teachers' Retirement System pension plans as determined by the Hospital's percentage of overall contributions.

SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Operating revenue – increased from June 30, 2014 to June 30, 2015 by approximately \$51.6 million or 16.7%. Net patient revenue went up \$50.6 million or 17.6%. In fiscal year 2015, the Hospital reported approximately \$1.8 million in contract revenue from meaningful use. There were no meaningful use payments recognized in fiscal year 2014.

Operating expenses – increased from June 30, 2014 to June 30, 2015 by approximately \$14.2 million or 4.4% 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 2015.

Transfers from UConn Health – decreased from June 30, 2014 to June 30, 2015 by approximately \$5.0 million. In the current year, the Hospital did not receive any transfers related to covering operating deficiencies and to fund strategic initiatives whereas in 2014, approximately \$4.0 million was received. In the current year, the Hospital received transfers of \$8.0 million related to fringe benefit recoveries for support services paid by the general fund compared to \$8.9 million in fiscal year 2014.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL 2016 OUTLOOK

As we look forward to fiscal year 2016, 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 and infrastructure.

Average daily census and Hospital discharges finished below budget in 2015 but 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 and strategic hiring ahead of the opening of the new Hospital Tower in 2016.

BIOSCIENCE CONNECTICUT

A significant amount of progress on the construction work related to the Bioscience Connecticut initiative has been achieved. The Outpatient Pavilion (formerly named the Ambulatory Care Center) was substantially completed and is 95% occupied (a portion of the 8th floor construction was postponed and will be complete in 2016). The 3rd phase of the project that renovates research labs in the Main Building is also 95% complete. Scientists have moved in and research is being conducted in the newly renovated space. The new Hospital Tower, which also includes the 3rd and final parking garage, is 70% complete and work is on schedule to be completed in 2016. Construction of the Academic Building and Incubator Lab additions to the Cell and Genome Sciences Building continues and both are on schedule. Design for both the Main Building Lab and the Clinic Building renovations will be completed this Fall and construction is scheduled to begin in early 2016. In addition, the Jackson Lab for Genomic Medicine was completed and opened in October 2014.

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 the 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, 2015 and 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2015 and 2014, 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.

Change in Method of Accounting for Pensions

As discussed in Note 2 to the financial statements, the Hospital changed its method for accounting and financial reporting of pensions as a result of the adoption of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No 27* and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, both effective July 1, 2014. Our opinion is not modified with respect to this matter.

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, the Schedule of Changes in John Dempsey Hospital's Net Position Liability and Related Ratios on page 43 and the Schedule of Pension Contributions on Page 44 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2016 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Marcum LLP

Hartford, CT
January 22, 2016

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

STATEMENTS OF NET POSITION

JUNE 30, 2015 AND 2014

	2015	2014
Assets		
Current Assets		
Cash	\$ 24,305,080	\$ --
Patient accounts receivable, net of estimated uncollectibles of \$22,528,000 and \$19,303,000 at June 30, 2015 and 2014, respectively	38,296,752	33,443,105
Inventory	7,446,576	7,660,191
Contract and other receivables	8,017,666	14,318,504
Due from Finance Corporation, current portion	5,710,122	7,710,122
Prepaid expenses	5,445,640	4,191,603
Total Current Assets	89,221,836	67,323,525
Noncurrent Assets		
Other assets	765,629	666,641
Due from Finance Corporation, noncurrent portion	9,035,784	9,035,784
Capital assets, net (note 7)	50,491,734	51,704,091
Total Noncurrent Assets	60,293,147	61,406,516
Total Assets	149,514,983	128,730,041
Deferred Outflows of Resources		
Deferred amount for pensions	16,039,083	--

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, 2015 AND 2014

	2015	2014
Liabilities and Net Position		
Current Liabilities		
Cash overdraft	\$ --	\$ 18,819,807
Accounts payable and accrued expenses	10,381,117	9,737,077
Accrued payroll	5,426,177	4,973,857
Due to UConn Health Malpractice Fund	260,676	1,564,057
Due to State of Connecticut	3,055,636	2,705,656
Due to third-party payors	16,725,852	4,491,574
Accrued compensated absences, current portion (note 8)	6,899,653	6,532,440
Total Current Liabilities	42,749,111	48,824,468
Noncurrent Liabilities		
Pension liabilities	148,374,928	--
Accrued compensated absences, net of current portion (note 8)	8,724,561	8,550,544
Total Noncurrent Liabilities	157,099,489	8,550,544
Total Liabilities	199,848,600	57,375,012
Deferred Inflows of Resources		
Deferred amount for pensions	5,302,978	--
Net Position		
Net investment in capital assets	50,491,734	51,704,091
Unrestricted	(90,089,246)	19,650,938
Total Net Position	\$ (39,597,512)	\$ 71,355,029

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, 2015 AND 2014

	2015	2014
Operating Revenues		
Net patient service revenues (note 5)	\$ 337,300,171	\$ 286,757,590
Contract and other revenues	<u>22,995,416</u>	<u>21,955,590</u>
Total Operating Revenues	<u>360,295,587</u>	<u>308,713,180</u>
Operating Expenses		
Salaries and wages	107,310,852	104,623,208
Fringe benefits	57,429,802	55,729,014
Medical/dental house staff	2,138,571	1,600,000
Medical contractual support	4,500,409	5,199,144
Internal contractual support	55,087,765	50,145,627
Outside agency per diems	788,427	1,361,771
Depreciation and amortization	7,879,044	8,906,755
Pharmaceutical/medical supplies	58,778,144	54,445,527
Utilities	2,179,542	2,129,221
Outside and other purchased services	31,469,406	28,620,860
Insurance	3,390,766	3,444,465
Repairs and maintenance	7,729,172	7,039,298
Other expenses	<u>2,097,358</u>	<u>3,327,751</u>
Total Operating Expenses	<u>340,779,258</u>	<u>326,572,641</u>
Operating Income (Loss)	<u>19,516,329</u>	<u>(17,859,461)</u>
Nonoperating Revenues (Expenses)		
Gift income	550,000	550,000
Loss on disposals	<u>(350,209)</u>	<u>(136,094)</u>
Net Nonoperating Revenues	199,791	413,906
Income (Loss) before Loss on Disposal of Dental Clinics and Transfers	19,716,120	(17,445,555)
Loss on Disposal of Dental Clinics	--	(3,850,361)
Transfers from UConn Health - Unrestricted (note 10)	<u>8,002,293</u>	<u>12,976,347</u>
Increase (Decrease) in Net Position	<u>27,718,413</u>	<u>(8,319,569)</u>
Net Position - Beginning of year (as previously stated)	71,355,029	79,674,598
Cumulative effect of implementing GASB 68 and 71	<u>(138,670,954)</u>	<u>--</u>
Net Assets - Beginning of year as restated	<u>(67,315,925)</u>	<u>--</u>
Net Position - End of year	<u>\$ (39,597,512)</u>	<u>\$ 71,355,029</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

JUNE 30, 2015 AND 2014

	2015	2014
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 344,680,802	\$ 285,308,590
Cash received from contract and other revenue	29,296,254	19,210,912
Cash paid to employees for salaries and fringe benefits	(163,397,124)	(160,952,664)
Cash paid for other than personnel services	<u>(170,990,442)</u>	<u>(154,730,344)</u>
Net Cash Provided by (Used in) Operating Activities	<u>39,589,490</u>	<u>(11,163,506)</u>
Cash Flows from Investing Activities		
Additions to property and equipment	<u>(7,016,896)</u>	<u>(7,780,938)</u>
Net Cash Used in Investing Activities	<u>(7,016,896)</u>	<u>(7,780,938)</u>
Cash Flows from Noncapital Financing Activities		
Gifts received	550,000	550,000
Transfer of Dental Clinics' cash	--	(601,740)
Transfer from UConn Health	8,002,293	12,976,347
Cash received from Finance Corporation	2,000,000	--
Net (repayments) draw downs on cash overdraft	<u>(18,819,807)</u>	<u>6,019,837</u>
Net Cash (Used in) Provided by Noncapital Financing Activities	<u>(8,267,514)</u>	<u>18,944,444</u>
Net Change in Cash	24,305,080	--
Cash - Beginning	<u>--</u>	<u>--</u>
Cash - Ending	<u>\$ 24,305,080</u>	<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 (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Reconciliation of Operating Income (Loss)		
to Net Cash Used in Operating Activities		
Operating income (loss)	\$ 19,516,329	\$ (17,859,461)
Adjustments to reconcile operating income (loss)		
to net cash used in operating activities:		
Depreciation and amortization	6,846,913	8,906,755
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(4,853,647)	(3,226,614)
Due from UConn Health agencies	--	10,980
Inventory	213,615	349,889
Contract and other receivables	6,300,838	(2,744,678)
Prepaid expenses	(1,254,037)	(895,562)
Other assets	(98,988)	(67,011)
Due to third-party payors	12,234,278	1,777,614
Accounts payable and accrued expenses	644,040	420,083
Due to State of Connecticut	349,980	399,670
Due to UConn Health Malpractice Fund	(1,303,381)	1,564,057
Accrued payroll	452,320	243,234
Accrued compensated absences	541,230	(42,462)
	\$ 39,589,490	\$ (11,163,506)
Net Cash Provided by (Used in) Operating Activities		

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, 2015 AND 2014

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

REPORTING ENTITY

The financial statements include those asset, deferred outflows, liability, deferred inflows, 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 one 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.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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 GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statements No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, and No. 37, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus*, 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 Statement 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 12 for additional information.

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.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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, pension liabilities, 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 3 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 5 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, 2015 AND 2014

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 POSTEMPLOYMENT 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. 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.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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

RETIREMENT PLANS AND OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

In 2008, the State implemented GASB 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.

During the year ended June 30, 2015, the Hospital adopted GASB statements No. 68 *Accounting and Financial Reporting for Pensions* and No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These GASB pronouncements require the pro rata share of State pension liabilities be recorded at the entity level. The Hospital continues to pay into State retirement plans on a pay-as-you-go basis but has recorded its liability as prescribed by the pronouncements. GASB 68 affects pensions only and does not supersede GASB 45. See Note 2 regarding the implementation of GASB 68.

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.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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

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 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 each of the years ended June 30, 2015 and 2014, premiums were \$3,128,114. 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, 2015 and 2014 statements of net position represented premiums payable for occurrence based coverage through June 30, 2015 and 2014, respectively.

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.

PENSION LIABILITIES

In accordance with GASB 68, the Hospital records its proportionate share of collective net pension liability and collective pension expense for each defined benefit plan offered to its employees. The collective net position liability for each plan is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is the portion of the actuarial present value of projected benefits payments that are attributable to the past periods of plan member service. Information about the fiduciary net

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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

PENSION LIABILITIES (CONTINUED)

position and additions to/deductions from each pension plan's fiduciary net position have been determined on the same basis as they are reported by each pension plan. For this purpose, plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized in the period in which the contributions are appropriated. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

The Hospital reports its proportionate share of collective deferred outflows of resources and collective deferred inflows of resources related to its defined benefit plans. Differences between expected and actual experience in the measurement of the total pension liability, changes of assumptions or other inputs, and differences between actual contributions and proportionate share of contributions are classified as either deferred outflows or deferred inflows, and are recognized over the average of the expected remaining service lives of employees eligible for pension benefits. The net differences between projected and actual earnings on pension plan investments are reported as deferred outflows or deferred inflows and are recognized over five years. Contributions to the pension plan from the Hospital subsequent to the measurement date of the net pension liability and before the end of the reporting period are reported as a deferred outflow of resources related to pensions.

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 2014 amounts, including the reclassification of \$18,583,070 of expenses from medical house staff expense to internal contractual support expense, 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, 2015 AND 2014

NOTE 2 - CHANGE IN METHOD FOR ACCOUNTING FOR PENSIONS AND UPCOMING ACCOUNTING PRONOUNCEMENTS

As of July 1, 2014, the Hospital adopted GASB 68 and GASB 71. GASB 68 requires employers to recognize liabilities, deferred outflows of resources and deferred inflows of resources for their proportionate share of the pension plans that they participate in. As the State Employees' Retirement System (SERS) and Teachers' Retirement System (TRS) did not have a practical way to provide each of its component units with all of the information needed to fully restate their prior period financial statements, the Hospital has elected to apply the "cumulative effect" method, as permitted by GASB 68, by restating beginning net position as of July 1, 2014. The implementation of this standard resulted in an adjustment to reduce the Hospital's beginning net position by \$138.7 million as of July 1, 2014.

GASB 71 requires that, at transition, a government recognize a deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the government's beginning net pension liability and the end of the government's reporting period. The provisions of this Statement are required to be applied simultaneously with the provisions of GASB 68. As of July 1, 2014, the Hospital recorded an adjustment to increase beginning net position by \$11.7 million for contributions made to SERS for service during the period from July 1, 2013 through June 30, 2014.

The cumulative effect of applying GASB 68 and 71 is reported as a restatement of beginning net position. The following table shows the impact of the cumulative effect method of adopting and implementing GASB 68 and 71 on beginning net position.

	<i>(in millions)</i>
Net position, beginning of period,	
July 1, 2014 (as previously stated)	\$ 71.4
Cumulative effect of adopting GASB 68 and 71	<u>(138.7)</u>
Net position, beginning of period,	
July 1, 2014 (as restated)	<u>\$ (67.3)</u>

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 2 - CHANGE IN METHOD FOR ACCOUNTING FOR PENSIONS AND UPCOMING ACCOUNTING PRONOUNCEMENTS (CONTINUED)

UPCOMING ACCOUNTING PRONOUNCEMENTS

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015. The Hospital is evaluating the impact this standard will have on its financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, will require additional disclosures and the recording of the Hospital's proportionate share of the net liabilities related to its participation in the postemployment benefit plans on the statements of net position as well as more extensive disclosure and requires supplementary information about the postemployment liabilities. This Statement is effective for fiscal year beginning June 15, 2017. The Hospital is evaluating the impact this standard will have on its financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of accounting principles generally accepted in the United States of America (GAAP). The "GAAP Hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The provisions of this Statement are effective for fiscal years beginning after June 15, 2015. The Hospital is evaluating the impact this standard will have on its financial statements.

NOTE 3 - 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, 2015 and 2014, the Hospital had drawn down zero and \$18,819,807, respectively. As of June 30, 2015 and 2014, the Hospital had available \$41,682,976 and \$24,165,640, respectively, under the State Statute.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 4 - 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 2015 and 2014, the Hospital provided charity care services of \$327,517 and \$629,512, respectively. The cost of these services was \$159,281 and \$320,939, respectively. No net patient service revenue was recorded for these services and expenses associated with these services were included in operating expenses.

NOTE 5 - NET PATIENT SERVICE REVENUES

The Hospital provides health care services primarily to residents of the region. Revenues from the Medicare program accounted for approximately 46% and 45% of the Hospital's net patient service revenues for the years ended June 30, 2015 and 2014, respectively. Revenues from the Medicaid program accounted for approximately 31% of the Hospital's net patient service revenues for the years ended June 30, 2015 and 2014, 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. 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 33% and 36% due from Medicare and approximately 17% and 16% due from Medicaid at June 30, 2015 and 2014, respectively.

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

	<u>2015</u>	<u>2014</u>
Gross patient service revenues	\$ 740,812,802	\$ 649,596,982
Less contractual allowances	(394,107,610)	(357,461,826)
Less provision for bad debt	<u>(9,405,021)</u>	<u>(5,377,566)</u>
Net patient service revenues	<u>\$ 337,300,171</u>	<u>\$ 286,757,590</u>

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 5 - NET PATIENT SERVICE REVENUES (CONTINUED)

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 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 settled by the Medicare fiscal intermediary through fiscal year 2011 with the exception of fiscal year 2006 which remains open.

During the year ended June 30, 2015, the Hospital received payments for the filed cost report for fiscal year 2013. The Hospital recognized \$1,000,473 as a reduction of contractual allowances during the year ended June 30 2015 related to this cost report.

MEDICAID

Inpatient services rendered to Medicaid program beneficiaries admitted prior to January 1, 2015 were 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. Beginning January 1, 2015, Medicaid converted to an APR DRG Prospective Payment Methodology. The Hospital was reimbursed at an interim rate prior to January 1, 2015 with final settlement determined after submission of annual cost reports. Payments for inpatient services for patients admitted after January 1, 2015 will have settlement distributions for GME and Case Mix Index withholds only.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 5 - NET PATIENT SERVICE REVENUES (CONTINUED)

MEDICAID (CONTINUED)

Outpatient services rendered to patients are reimbursed based on the cost of services provided. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through 2012. Unaudited cost reports have been submitted as requested by Department of Social Services (DSS) through fiscal year 2014 with payments made through 2013 to the Hospital.

During the year ended June 30, 2015, the Hospital received payments for filed cost reports for the fiscal years 2011, 2012 and 2013. The Hospital recognized \$6,661,127 as a reduction of contractual allowances during the year ended June 30, 2015 related to these cost reports.

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.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 5 - NET PATIENT SERVICE REVENUES (CONTINUED)

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 at the Hospital will require much greater specificity.

Implementation of ICD-10 on October 1, 2015 has required a significant investment in technology, resources and training. The Hospital may experience productivity delays in coding as physicians and staff transition to the new requirements of ICD-10. Cash collections and payments of claims will likely be delayed as the Hospital and payors transition to ICD-10.

NOTE 6 – 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.

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.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 6 – ELECTRONIC HEALTH RECORD REIMBURSEMENT (CONTINUED)

EHR incentive payment revenue totaling \$1,831,037 for the year ended June 30, 2015 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 \$373,649 was recorded for the Medicaid portion of the program as of June 30, 2015 and was included in Contract and Other Receivables on the 2015 statement of net position. There were no receivables recorded for this program as of June 30, 2014.

NOTE 7 – CAPITAL ASSETS, NET

Capital assets at June 30 consist of the following:

	2015	2014
Land	\$ 183,137	\$ 183,137
Construction in progress (estimated cost to complete \$3.7 million)	14,702,819	11,801,640
Buildings	95,593,964	93,653,262
Equipment	69,308,916	71,501,502
Capital leases	13,776,275	13,776,275
	193,565,111	190,915,816
Less accumulated depreciation and amortization	143,073,377	139,211,725
Capital assets, net	\$ 50,491,734	\$ 51,704,091

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 7 – CAPITAL ASSETS, NET (CONTINUED)

Plant and equipment activity for the years ended June 30, 2015 and 2014 was as follows:

	2014	Additions	Deductions	2015
Land	\$ 183,137	\$ --	\$ --	\$ 183,137
Construction in progress	11,801,640	5,761,341	(2,860,162)	14,702,819
Buildings	93,653,262	2,768,270	(827,568)	95,593,964
Equipment	71,501,502	1,347,447	(3,540,033)	69,308,916
Capital leases	13,776,275	--	--	13,776,275
	<u>\$ 190,915,816</u>	<u>\$ 9,877,058</u>	<u>\$ (7,227,763)</u>	<u>\$ 193,565,111</u>

	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	13,776,275	--	--	13,776,275
	<u>\$ 209,543,768</u>	<u>\$ 14,442,403</u>	<u>\$ (33,070,355)</u>	<u>\$ 190,915,816</u>

Related information on accumulated depreciation and amortization for the years ended June 30, 2015 and 2014 was as follows:

	2014	Additions	Deductions	2015
Buildings	\$ 72,440,175	\$ 2,223,625	\$ (624,662)	\$ 74,039,138
Equipment	53,108,242	5,544,059	(3,392,730)	55,259,571
Capital leases	13,663,308	111,360	--	13,774,668
	<u>\$ 139,211,725</u>	<u>\$ 7,879,044</u>	<u>\$ (4,017,392)</u>	<u>\$ 143,073,377</u>

	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	13,235,003	428,305	--	13,663,308
	<u>\$ 153,753,524</u>	<u>\$ 8,906,755</u>	<u>\$ (23,448,554)</u>	<u>\$ 139,211,725</u>

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, 2013.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 8 – LONG-TERM LIABILITIES AND OPERATING LEASES

Activity related to compensated absences for the years ended June 30, 2015 and 2014 was as follows:

	June 30, 2014 Balance	Additions	Deductions	June 30, 2015 Balance	Amounts due within 1 year
Accrued compensated absences	<u>\$ 15,082,984</u>	<u>\$ 12,220,517</u>	<u>\$ (11,679,287)</u>	<u>\$ 15,624,214</u>	<u>\$ 6,899,653</u>
	June 30, 2013 Balance	Additions	Deductions	June 30, 2014 Balance	Amounts due within 1 year
Accrued compensated absences	<u>\$ 15,298,446</u>	<u>\$ 11,727,346</u>	<u>\$ (11,942,808)</u>	<u>\$ 15,082,984</u>	<u>\$ 6,532,440</u>

The Hospital participates in operating lease agreements under UConn Health for which its departments are allocated expenses based on square footage occupied. Rent expense, included in outside and other purchased services, was \$4,665,010 and \$3,614,343 in 2015 and 2014, respectively.

The Outpatient Pavilion (formerly the Ambulatory Care Center), was substantially completed and opened in 2015, and the Hospital leases space in the new facility under a sublease from UConn Health. While the sublease is expected to be renewed on an annual basis, there is no written sublease that extends beyond a one year period. UConn Health has leased the Outpatient Pavilion from Finance Corporation under a direct financing lease that expires on March 31, 2040. The amount of rent expense that was charged to the Hospital was \$1,652,722 for the year ended June 30, 2015 and will be approximately \$4.4 million annually thereafter. Refer to Note 10 for additional details regarding advances made by the Hospital to construct the Outpatient Pavilion.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 8 – LONG-TERM LIABILITIES AND OPERATING LEASES (CONTINUED)

The following is a schedule by year of existing future minimum lease payments under non-cancellable operating leases as of June 30, 2015, in addition to space in the Outpatient Pavilion through the sublease with UConn Health based on the assumption that the sublease will be extended annually through March 31, 2040:

<u>Year ending June 30,</u>	
2016	\$ 8,091,999
2017	8,107,014
2018	7,809,126
2019	7,812,315
2020	7,759,512
Thereafter	<u>100,609,077</u>
	<u>\$ 140,189,043</u>

NOTE 9 – PENSION PLANS

Employees of the Hospital are eligible to participate in the State Employees' Retirement System, a defined benefit pension plan, which is administered by the State Employees' Retirement Commission, the State of Connecticut Deferred Compensation Section 457 Plan, a defined contribution plan administered by the State, or the Connecticut State Teacher's Retirement System (TRS), a defined benefit plan administered by the Teacher's Retirement Board. Information on the plans' total funding status and progress, contributions required and trend information can be found in the State of Connecticut's Comprehensive Annual Financial Report available on the State's website. Information for the SERS plan, in which the Hospital holds a significant liability under GASB 68, is presented below.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 – PENSION PLANS (CONTINUED)

PLAN DESCRIPTION

SERS is a single-employer defined benefit Public Employees' Retirement System (PERS) established in 1939 and governed by sections 5-152 to 5-192 of the Connecticut General Statutes. Employees are covered under one of four tiers. Tier I, Tier IIA, and Tier III are contributory plans and Tier II is a non-contributory plan. Tier I Plan B participants contribute 2% or 5% of their pay, depending on their elections. Tier II Plan A and Tier III participants contribute 2% of their pay. Members who joined the retirement system prior to July 1, 1984 are enrolled in Tier I. Tier I employees who retire at or after age 65 with 10 years of credited service, or at or after age 55 with 25 years of service, or at age 55 with 10 years of credited service with reduced benefits are entitled to an annual retirement benefit payable monthly for life, in the amount of 2% of the annual average earnings (which are based on the three highest years of service) over \$4,800 plus 1% of \$4,800 for each year of credited service. Tier II employees who retire at or after age 60 with 25 years of service, or at age 62 with 10 years of service, or at age 70 with 5 years of service, or at age 55 with 10 years of service with reduced benefits are entitled to 1.4% times average salary at or below the breakpoint in the year of retirement, for each year of credited service. Tier III covers employees first hired on or after July 1, 2011. Tier III employees to retire at, or after age 63 with 25 years of service, or at age 65 with 10 years of service, or at age 58 with 10 years of service with reduced benefits are entitled to 1.4% times average salary at or below the breakpoint in the year of retirement, for each year of credited service.

All Tier I, Tier II, Tier IIA, and Tier III members are vested after ten years. For the June 30, 2014, valuation, there were two changes in benefit terms.

The 2011 SEBAC Agreement changed the benefit multiplier for the portion of the benefit below the breakpoint from 1.33% to 1.40%. This change was made effective for all active members who retire on or after July 1, 2013 in Tier II, IIA, and III.2. A one-time decision was granted to members not eligible to retire by July 1, 2022 to elect to maintain the same normal retirement eligibility applicable to members eligible to retire before July 1, 2022. Employees who elected by July 1, 2013 to maintain their eligibility are required to make additional employee contributions for the length of their remaining active service with SERS. The additional contribution was up to 0.72% of pensionable earnings.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 – PENSION PLANS (CONTINUED)

CONTRIBUTIONS MADE

The Hospital's SERS contribution is determined by applying a State-mandated percentage to eligible salaries and wages. The mandated total fringe benefit rate, which includes allocations for retiree health care costs, rollforwards, and other adjustments, was 53.58%, 50.50%, and 54.71%, during fiscal years 2015, 2014, and 2013, respectively. The SERS contributions made compared to covered payroll follows:

	2015	2014
Total Hospital payroll covered by SERS	\$ 39,054,418	\$ 34,257,752
Total Hospital SERS contributions	\$ 13,358,494	\$ 11,749,744
Contributions as a percentage of covered payroll	34.2%	34.3%

PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES

The implementation of GASB 68 resulted in the Hospital reporting a net pension liability for SERS in fiscal year 2015. The Statement required the Hospital to recognize a net pension liability for the difference between the present value of the projected benefits for past service known as the Total Pension Liability (TPL) and the restricted resources held in trust for the payment of pension benefits, known as the Fiduciary Net Position (FNP). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of SERS and additions to/deductions from SERS fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit term. Investments are recorded at fair value.

At June 30, 2015, the Hospital reported a SERS related liability of \$148.3 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by actuarial valuation as of that date based on actuarial experience studies. The Hospital's allocation of the net pension liability was based on the Hospital's percentage of total overall contributions to the SERS plan during the 2014 fiscal year. At June 30, 2014, the Hospital's proportion of contributions was .9260%.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 – PENSION PLANS (CONTINUED)

PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES (CONTINUED)

For the year ended June 30, 2015, the Hospital recognized a SERS pension expense of \$12.3 million. Pension expense is reported in the Hospital's financial statements as part of fringe benefits expense. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to SERS pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<i>(in thousands)</i>	
Changes in proportionate allocation of pension expense	\$ 2,596	\$ --
Changes in assumptions	--	--
Hospital contributions subsequent to measurement date	13,358	--
Net difference between projected and actual earnings on pension plan investments	--	(5,296)
	\$ 15,954	\$ (5,296)

The amount recognized as deferred inflows of resources, representing the net difference between projected and actual earnings, and the deferred outflows related to changes in proportionate allocation of pension expense will be amortized over a five-year, closed period beginning in the year in which the difference occurs and will be recognized as an increase (decrease) to fringe benefits expense as follows:

	Change in proportionate participation in SERS plan	Net difference between projected and actual earnings on pension plan investments
<u>Year ending June 30, 2015</u>	<i>(in thousands)</i>	
2016	\$ 549	\$ (1,324)
2017	549	(1,324)
2018	549	(1,324)
2019	549	(1,324)
2020	400	--
Thereafter	--	--
	\$ 2,596	\$ (5,296)

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 – PENSION PLANS (CONTINUED)

PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES (CONTINUED)

The amortization of the aforementioned deferred inflows and deferred outflows decreased fringe benefits expense by \$1,032,131 during the year ended June 30, 2015.

The Hospital also has a limited number of participants in the Connecticut State Teachers' Retirement System.

As of June 30, 2015, the Hospital recorded the following amounts in the financial statements related to the TRS:

	<i>(in thousands)</i>
Deferred outflows of resources	\$ 85
Deferred inflows of resources	(7)
Pension liability	84

ACTUARIAL METHODS AND ASSUMPTIONS

The total SERS pension liability in the June 30, 2014 actuarial valuation was determined based on the results of an actuarial experience study for the period July 1, 2007 - June 30, 2011. The key actuarial assumptions are summarized below:

Inflation:	2.75%
Salary increase:	4.00% - 20.00%, including inflation
Investment rate of return:	8.00%, net of pension plan investment expense, including inflation
Cost of living adjustment:	2.30% - 3.60% for certain tiers

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 – PENSION PLANS (CONTINUED)

EXPECTED RATE OF RETURN ON INVESTMENTS

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimate of arithmetic real rates of return for each major asset class in the SERS plan are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap U.S. Equities	21%	5.8%
Developed Non-U.S. Equities	18%	6.6%
Emerging Market (Non-U.S.)	9%	8.3%
Real Estate	7%	5.1%
Private Equity	11%	7.6%
Alternative Investments	8%	4.1%
Fixed Income (Core)	8%	1.3%
High Yield Bonds	5%	3.9%
Emerging Market Bond	4%	3.7%
TIPS	5%	1.0%
Cash	<u>4%</u>	0.4%
	<u>100%</u>	

DISCOUNT RATE

The discount rate used to measure the total SERS pension liability at June 30, 2015, was the long term expected rate of return, 8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rates and that employer contributions will be made equal to the difference between the projected actuarially determined contribution and member contributions. Projected future benefit payments for all current plan members were projected through the year 2115.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 – PENSION PLANS (CONTINUED)

SENSITIVITY OF THE HOSPITAL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the Hospital's proportionate share of the SERS net pension liability calculated using the discount rate of 8.00 percent, as well as the proportionate share of the net pension liability using a 1.00 percent increase or decrease from the current discount rate:

	1% Decrease 7.00%	Discount Rate 8.00%	1% Increase 9.00%
Hospital's proportionate share of the net pension liability	\$ 176,899,258	\$ 148,290,790	\$ 124,231,414

ALTERNATE RETIREMENT PLAN

Defined Contribution Plan. The Hospital also sponsors the Alternate Retirement Plan (ARP), a defined contribution plan administered through a third-party administrator, Voya Retirement Insurance and Annuity Company. Beginning July 1, 2015, administration of ARP has changed to Prudential Financial, Inc. The Connecticut State Employees Retirement Commission has the authority to supervise and control the operation of the plan including the authority to make and amend rules and regulations relating to the administration of the plan.

All unclassified employees, not already in a pension plan, of a constituent unit of the state system of higher education and the central office staff of the Department of Higher Education, are eligible to participate in ARP. Participants must contribute 5% of eligible compensation each pay period while the State will contribute an amount equal to 8% of the participant's eligible compensation via a charge recouped from the Hospital. Participant and State contributions are both 100% vested immediately. For fiscal years 2015 and 2014, charges to JDH for ARP were approximately \$7.4 million and \$7.6 million, respectively. The liability for fiscal years 2015 and 2014 were approximately, \$387,000 and \$376,000, respectively.

Upon separation from service, retirement, death or divorce (for alternate payee under a Qualified Domestic Relations Order), if the participant is age 55 or over and have more than 5 years of plan participation, a participant or designated beneficiary can withdraw a partial or lump cash payment, rollover to another eligible retirement plan or IRA, or receive installment payments or annuity payments. Other ARP provisions are described in Title 5 – State Employees, Chapter 66 – State Employees Retirement Act of the Connecticut General Statutes.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 9 – PENSION PLANS (CONTINUED)

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

In addition to the pension benefits, the State provides post-retirement health care and life insurance benefits to the Hospital employees in accordance with State Statutes Sections 5-257(d) and 5-259(a). When employees retire, the State may pay up to 100% of their health care insurance premium cost (including dependents' coverage) based on the plan chosen by the employee. In addition, the State pays 100% of the premium cost for a portion of the employee's life insurance continued after retirement. The amount of life insurance continued at no cost to the retiree is determined by a formula based on the number of years of State service that the retiree had at the time of retirement. Currently, the State is responsible and 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; therefore, no liability is recorded in the Hospital's financial statements. However, implementation of GASB Statement No. 75, will require additional disclosures and the recording of the Hospital's proportionate share of the net liability related to its participation in the postemployment benefit plans on the Statements of Net Position as well as more extensive note disclosures and required supplementary information about the postemployment liabilities. This Statement is effective for fiscal years beginning after June 15, 2017.

NOTE 10 – 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 internal contractual support expenses.

UConn Health transferred \$8.0 million in 2015 and \$8.9 million in 2014, respectively, related to fringe benefit recoveries for support services paid by the general fund.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 10 – RELATED PARTY TRANSACTIONS (CONTINUED)

In 2014, \$4.0 million was transferred to the Hospital from UConn Health's operating fund for budgeted operating support. This transfer is included in transfers in the statements of revenues, expenses and changes in net position.

The Hospital's pension liability (note 9) is owed back to the State of Connecticut. The State finances this on a pay as you go basis through allocated retirement plan rates.

During Fiscal 2014, the Hospital transferred all Dental Clinic assets and liabilities to UConn Health. See note 12 for additional information.

As more fully described in note 11, 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, 2015 and 2014, the Hospital incurred \$57,429,802 and \$55,729,014, respectively, for employee fringe benefits. Related salary costs were \$107,310,852 and \$104,623,208, respectively. The amounts due to the State related to the fringe benefit programs as of June 30, 2015 and 2014 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 \$2,123,679 and \$2,224,745 for fiscal 2015 and 2014, respectively, and included these revenues in net patient services revenues 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 \$14,745,906 and \$16,745,906 at June 30, 2015 and 2014, respectively.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 10 – RELATED PARTY TRANSACTIONS (CONTINUED)

During the year ended June 30, 2015, \$2 million was returned as part of the overall plan to refund advanced amounts. The Hospital has received a financial guarantee from UConn Health that it will provide the funding required for Finance Corporation to repay the \$14.7 million of advances if required. Amounts advanced for construction of the Outpatient Pavilion are expected to be returned at the completion of construction.

NOTE 11 – 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, 2015 and 2014, UConn Health's Malpractice Fund had actuarial reserves of approximately \$26.8 million and \$21.9 million and assets of approximately \$10.1 million and \$9.9 million as of June 30, 2015 and 2014, respectively.

NOTE 12 – TRANSFER OF DENTAL CLINICS TO UCONN HEALTH

In fiscal 2014, 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.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

NOTE 13 – SUBSEQUENT EVENTS

The Hospital has evaluated subsequent events through January 22, 2016, 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.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Joint Audit and Compliance Committee
University of Connecticut Health Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the University of Connecticut Health Center, John Dempsey Hospital (21002 Fund) (the Hospital), which comprise the statement of net position as of June 30, 2015 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 22, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Hartford, CT
January 22, 2016

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

**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN JOHN DEMPSEY HOSPITAL'S NET PENSION
LIABILITY AND RELATED RATIOS – STATE EMPLOYEES' RETIREMENT
SYSTEM ONLY**

	<i>(dollars in thousands)</i>
Total Pension Liability	
Service cost	\$ 2,662
Interest	18,508
Benefit payments, including refunds of member contributions	<u>(14,510)</u>
Net Change in Total Pension Liability	6,660
Total Pension Liability - Beginning	<u>238,606</u>
Total Pension Liability - Ending (a)	<u><u>\$ 245,266</u></u>
Fiduciary Net Position	
Contributions - employer	\$ 11,750
Contributions - employee	1,341
Net investment income	13,366
Benefit payments, including refunds of member contributions	<u>(14,510)</u>
Net Change in Fiduciary Net Position	11,947
Fiduciary Net Position - Beginning	<u>85,029</u>
Fiduciary Net Position - Ending (b)	<u><u>\$ 96,976</u></u>
Hospital's Net Pension Liability - Ending (a)-(b)	<u><u>\$ 148,290</u></u>
Hospital's Portion of SERS Net Pension Liability	0.92599%
Fiduciary Net Position as a Percentage of the Total Pension Liability	39.54%
Hospital's Covered-Employee Payroll	\$ 34,258
Hospital's Net Pension Liability as a Percentage of Covered-Employee Payroll	432.81%

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

**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
TO THE STATE EMPLOYEES' RETIREMENT SYSTEM**

	2015	2014	2013	2012	2011	2010
	<i>(dollars in thousands)</i>					
Contractually required	\$ 13,358	\$ 11,750	\$ 9,812	\$ 8,578	\$ 8,742	\$ 8,310
Contributions in relation to the contractually required contribution	<u>13,358</u>	<u>11,750</u>	<u>9,798</u>	<u>8,578</u>	<u>7,647</u>	<u>6,672</u>
Contribution deficiency	\$ --	\$ --	\$ 14	\$ --	\$ 1,095	\$ 1,638
Hospital's covered-employee payroll	\$ 39,054	\$ 34,258	\$ 30,600	\$ 29,722	\$ 30,636	\$ 27,045
Contributions as a percentage of covered-employee payroll	34.20%	34.30%	32.02%	28.86%	24.96%	24.67%