

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

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

**JUNE 30, 2012 AND 2011**

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

**CONTENTS**

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<b>Management's Discussion and Analysis .....</b>	<b>1-7</b>
<b>Independent Auditors' Report.....</b>	<b>8</b>
<b>Financial Statements</b>	
Statements of Net Assets .....	9-10
Statements of Revenues, Expenses, and Changes in Net Assets .....	11
Statements of Cash Flows.....	12-13
<b>Notes to Financial Statements.....</b>	<b>14-29</b>

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

**MANAGEMENTS' DISCUSSION AND ANALYSIS**

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The following discussion and analysis provides an overview of the financial position and activities of the University of Connecticut Health Center John Dempsey Hospital (21002 Fund) (the Hospital) as of and for the years ended June 30, 2012, 2011 and 2010. 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 184 general acute care beds), the University of Connecticut Health Center (the Health Center) provides specialized and routine inpatient and outpatient services. The Hospital also provides comprehensive healthcare services for Connecticut's incarcerated inmates through a contract with the Correctional Managed Health Care (CMHC) program. The Hospital has long been regarded as the premier facility in the region for neonatal intensive care and high-risk maternity services now provided in conjunction with Connecticut Children's Medical Center (CCMC). It also is recognized for its cardiovascular program (interventional cardiology and surgery), cancer, musculoskeletal, and behavioral mental health services which include geriatric as well as locked inpatient psychiatric units, ambulatory partial hospitalization, and outpatient treatment programs. Additionally, the Hospital is home to the only Emergency Department in Connecticut's fast-growing Farmington Valley.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of management's discussion and analysis and the financial statements. The basic financial statements (statements of net assets, statements of revenues, expenses, and changes in net assets, and statements of cash flows) present the financial position of the Hospital at June 30, 2012 and 2011, and the results of its operations and its financial activities for the years then ended. These financial statements report information about the Hospital using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the Hospital's assets and liabilities. The statements of revenues, expenses, and changes in net assets reflects the year's activities on the accrual basis of accounting, i.e., when services are provided or obligations are incurred, not necessarily when cash is received or paid. These financial statements report the Hospital's net assets and how they have changed. Net assets (the difference between assets and liabilities) is one way to measure financial health or position. The statements of cash flows provide relevant information about each year's cash receipts and cash payments and classifies them as to operating, investing, and capital and related financing activities.

**FINANCIAL HIGHLIGHTS**

Hospital discharges decreased 689 cases to 8,567 from fiscal 2011 to fiscal 2012. Outpatient visits increased by 56,453, or 15.87%, from the prior year. The Hospital was significantly affected by increases in staffing costs as represented by salaries.

Continued focus on revenue enhancement and cost containment strategies resulted in improvement of the Hospital's operating indicator. The Hospital finished the year with an operating loss of \$8.5 million compared to an operating loss of \$16.6 million in the prior year.

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

**MANAGEMENTS' DISCUSSION AND ANALYSIS**

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These losses were offset by non-operating revenue of \$436,000 and \$13.9 million in fiscal year 2012 and 2011, respectively. Non-operating revenue included \$13.5 million in State of Connecticut (State) appropriations for fiscal year 2011. The Hospital also received transfers from the Health Center of \$8.1 million and \$5.4 million in 2012 and 2011, respectively, allowing net assets to remain stable in FY12 and increase \$2.6 million in FY11. Current year transfers were made up primarily of \$4.6 million in fringe benefit recovery related to support services paid against the institutions general fund allotment and \$3.4 million transferred by UCHC to cover operating deficiencies in 2012. The Hospital's financial position at June 30, 2012, included assets of approximately \$115.7 million and liabilities of approximately \$47.7 million. Net assets, which represent the residual interest in the Hospital's assets after liabilities are deducted, remained flat at approximately \$68 million.

Changes in net assets represent the activity of the Hospital, resulting from revenues, expenses, gains, and losses, and are summarized for the years ended June 30, 2012, 2011, and 2010, including other changes in net assets, as follows:

	2012	2011	2010
	<i>(in thousands)</i>		
Summary of assets and liabilities at June 30:			
Current assets	\$ 48,212	\$ 47,483	\$ 53,156
Other assets	9,619	9,644	613
Capital assets, net	<u>57,918</u>	<u>55,078</u>	<u>54,712</u>
Total assets	<u>\$ 115,749</u>	<u>\$ 112,205</u>	<u>\$ 108,481</u>
Current liabilities	\$ 39,467	\$ 35,454	\$ 33,538
Long term debt excluding current installments	--	415	1,246
Capital lease liabilities net of current portion	--	472	1,087
Accrued compensated absences, net of current portion	8,241	7,828	7,203
Net assets restricted for research and education	--	67	148
Unrestricted net assets	11,010	15,223	14,942
Net assets invested in capital assets, net of related debt	<u>57,031</u>	<u>52,746</u>	<u>50,317</u>
Total liabilities and net assets	<u>\$ 115,749</u>	<u>\$ 112,205</u>	<u>\$ 108,481</u>

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

**MANAGEMENTS' DISCUSSION AND ANALYSIS**

	2012	2011	2010
	<i>(in thousands)</i>		
Summary of revenues, expenses and transfers for the year ended June 30:			
Operating revenues	\$ 289,410	\$ 266,288	\$ 247,237
Operating expenses	<u>(297,905)</u>	<u>(282,919)</u>	<u>(271,527)</u>
Operating loss	(8,495)	(16,631)	(24,290)
Nonoperating revenue, net	<u>436</u>	<u>13,853</u>	<u>14,122</u>
Loss before transfers	(8,059)	(2,778)	(10,168)
Net asset transfers	<u>8,064</u>	<u>5,407</u>	<u>19,516</u>
 Increase in net assets	 <u>\$ 5</u>	 <u>\$ 2,629</u>	 <u>\$ 9,348</u>

**CAPITAL ASSETS**

At June 30, 2012, the Hospital had plant and equipment of \$205.2 million before accumulated depreciation compared to \$193.3 million at June 30, 2011, as shown in the table below:

	2012	2011	2010
	<i>(in thousands)</i>		
Land	\$ 183	\$ 183	\$ 183
Construction in progress	11,254	7,170	6,030
Buildings	100,179	100,164	98,454
Equipment	79,775	72,063	68,630
Capital leases	<u>13,776</u>	<u>13,776</u>	<u>13,776</u>
 Total assets	 <u>\$ 205,167</u>	 <u>\$ 193,356</u>	 <u>\$ 187,073</u>

The Hospital's fiscal 2013 capital budget projects spending at approximately \$11.7 million on various capital improvement projects. More detailed information about the Hospital's plant and equipment is presented in note 5 to the financial statements.

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

**MANAGEMENTS' DISCUSSION AND ANALYSIS**

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**STATEMENTS OF CASH FLOWS**

The statements of cash flows provide additional information about the Hospital's financial results by reporting the major sources and uses of cash. A summary of the statements of cash flows for the years ended June 30, 2012, 2011, and 2010 is as follows:

	2012	2011	2010
	<i>(in thousands)</i>		
Cash received from operations	\$ 284,076	\$ 274,112	\$ 257,336
Cash expended for operations	<u>(284,098)</u>	<u>(276,774)</u>	<u>(297,883)</u>
Net cash used in operations	(22)	(2,662)	(40,547)
Net cash (used in) provided by investing activities	(11,811)	(9,865)	20,116
Net cash provided by noncapital financing activities	13,340	16,328	14,348
Net cash (used in) provided by capital and related financing activities	<u>(1,507)</u>	<u>(2,224)</u>	<u>6,083</u>
Net change in cash	<u>\$ --</u>	<u>\$ 1,577</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 2012 amounts compared to fiscal 2011.

**SUMMARY OF ASSETS AND LIABILITIES**

Changes in assets included the following:

*Cash* – decreased from June 30, 2011 to June 30, 2012 by approximately \$8.3 million, to a net overdraft position of \$6.7 million; Decreases in cash were driven by operating losses and continued investment in property, plant and equipment.

*Contract and other Receivables* – increased from June 30, 2011 to June 30, 2012 by approximately \$1.6 million. The change related to a new contract between the Health Center and CCMC whereby CCMC pays the Hospital for costs associated with its administration of the NICU unit.

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

**MANAGEMENTS' DISCUSSION AND ANALYSIS**

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Changes in liabilities included the following:

*Accounts payable and accrued expenses* – increased from June 30, 2011 to June 30, 2012 by approximately \$3.6 million or 41.2%. This represents normal balances in accounts payables for the current year. Balances were liquidated in the prior year ahead of the Hospital's system conversion.

*Due to third-party payors* – decreased from June 30, 2011 to June 30, 2012 by approximately \$2.7 million or 28.4%. The change related to estimated and actual settlements. These amounts are the result of Management's analysis of outstanding Medicare and Medicaid cost reports and other potential settlement of claims with HMO's.

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

*Operating revenue* – increased from June 30, 2011 to June 30, 2012 by approximately \$23 million or 8.7%. Net patient revenue went up \$9.2 million or 3.5% as a result of rate increases. Contract and other revenue increased by approximately \$13.9 million, which was driven by increases in amounts received from dental and perfusion agreements with outside organizations and the CCMC-NICU Contract.

*Operating expenses* – increased from June 30, 2011 to June 30, 2012 by approximately \$15 million or 5.3%, primarily due to increases in salaries and fringe benefits.

*Transfer from Health Center* – increased from June 30, 2011 to June 30, 2012 by approximately \$2.7 million or 49.2%. In the current year JDH received a transfer of funds from the Health Center to maintain a static net asset balance in addition to normal non-operating transfers related to employee fringe charges.

**FY 2013 OUTLOOK:**

As we look forward to fiscal year 2013, the Hospital's main concern focuses on maintaining outstanding clinical care while managing changes associated with the State's Bioscience Connecticut initiative, implementation of healthcare reform, and changes in the US and global economic environments. Average daily census and Hospital discharges finished below budget in FY12 while outpatient equivalents were higher than budget. Management continues to focus on maintaining inpatient volume via clinically focused advertising campaigns such as those for surgery, orthopedics and dermatology.

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

## MANAGEMENTS' DISCUSSION AND ANALYSIS

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

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

1. **Encouraging Job Growth Through Clinical Collaboration:** Local and state-wide health care organizations will collaborate on clinical and translational sciences to achieve breakthrough successes and drive the bioscience industry in the State thereby creating long term jobs.
2. **Neonatal Intensive Care Unit:** The operations will be managed by Connecticut Children's Medical Center. Patients will continue to be treated at the Health Center; some NICU physicians and all staff will remain Health Center employees. A Certificate of Need application was filed and approved for the transfer.
3. **Nationally recognized cancer center:** The goal will be to achieve National Institutes of Health designation as a Comprehensive Cancer Center, making it the second in the State.
4. **Regional Simulation Center:** It will train up to 2,000 medical practitioners each year on newest equipment and technology in simulated care settings and will be located at Hartford Hospital.
5. **Primary Care Institute:** It will be located at St. Francis Hospital and will develop new models of chronic disease management and primary care delivery and education. It will also serve to address the impending shortage of primary care providers in Connecticut.
6. **Health Disparities Institute:** It will promote enhanced health care research, training and delivery to minority communities.
7. **Institute for Clinical and Translational Sciences:** It will be a super-site by network partners and will speed lab-to-bedside clinical trials and breakthrough medicine.
8. **Bioscience Enterprise Zone:** It will offer State tax breaks to private companies that create jobs and work with UConn Health Network partners.

Bioscience Connecticut construction is currently underway across the Health Center campus. The new Hospital tower, currently in the planning stages, includes plans for an eleven story building which will house an emergency department, surgery suite, MRI suite, renal dialysis unit, respiratory therapy unit, inpatient rehab (orthopaedics, rehab gym and workspace), clinical support space, and patient education space. Support services located in the new tower will include central sterile processing and a new main lobby.

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

**MANAGEMENTS' DISCUSSION AND ANALYSIS**

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**CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT**

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



## INDEPENDENT AUDITORS' REPORT

Joint Audit and Compliance Committee  
**University of Connecticut Health Center**

We have audited the accompanying statement of net assets of University of Connecticut Health Center, John Dempsey Hospital (21002 Fund) (the Hospital), an enterprise fund of the State of Connecticut, as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Hospital as of June 30, 2011 and for the year then ended, were audited by other auditors whose report dated November 29, 2011, expressed an unqualified opinion on those statements.

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

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

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

*Marcum LLP*

Hartford, CT  
November 28, 2012



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

**STATEMENTS OF NET ASSETS**

**JUNE 30, 2012 AND 2011**

	2012	2011
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ --	\$ 1,577,178
Patient accounts receivable, net of estimated uncollectibles of \$23,963,000 and \$22,321,000 at June 30, 2012 and 2011, respectively	31,531,470	30,512,285
Due from other Health Center agencies, current portion	3,500,000	3,978,837
Inventory	7,586,687	7,348,436
Contract and other receivables	2,070,790	431,489
Prepaid expenses	3,522,933	3,634,955
<b>Total Current Assets</b>	<b>48,211,880</b>	<b>47,483,180</b>
<b>Noncurrent Assets</b>		
Other assets	598,631	623,030
Due from Finance Corporation, net of current portion	9,020,723	9,020,723
Capital assets, net (note 5)	57,918,287	55,078,415
<b>Total Noncurrent Assets</b>	<b>67,537,641</b>	<b>64,722,168</b>
<b>Total Assets</b>	<b>\$ 115,749,521</b>	<b>\$ 112,205,348</b>

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

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

**STATEMENTS OF NET ASSETS (CONTINUED)**

**JUNE 30, 2012 AND 2011**

	2012	2011
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Cash overdraft	\$ 6,698,130	\$ --
Accounts payable and accrued expenses	12,369,091	8,760,603
Accrued payroll	4,562,702	7,112,987
Due to State of Connecticut	1,998,221	3,261,633
Due to third-party payors	6,740,571	9,415,877
Accrued compensated absences, current portion (note 6)	6,210,929	5,458,013
Long-term debt, current installments (note 6)	415,198	830,396
Capital leases, current portion, (note 6)	<u>471,882</u>	<u>614,731</u>
<b>Total Current Liabilities</b>	<u>39,466,724</u>	<u>35,454,240</u>
<b>Noncurrent Liabilities</b>		
Accrued compensated absences, net of current portion (note 6)	8,241,392	7,827,458
Long-term debt, excluding current installments (note 6)	--	415,198
Liabilities under capital leases, net of current portion (note 6)	<u>--</u>	<u>471,882</u>
<b>Total Noncurrent Liabilities</b>	<u>8,241,392</u>	<u>8,714,538</u>
<b>Total Liabilities</b>	<u>47,708,116</u>	<u>44,168,778</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	57,031,207	52,746,208
Restricted for research and education	--	67,124
Unrestricted	<u>11,010,198</u>	<u>15,223,238</u>
<b>Total Net Assets</b>	<u>68,041,405</u>	<u>68,036,570</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 115,749,521</u>	<u>\$ 112,205,348</u>

*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 ASSETS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
<b>Operating Revenues</b>		
Net patient service revenues (note 4)	\$ 273,520,671	\$ 264,332,834
Contract and other revenues	<u>15,889,186</u>	<u>1,954,663</u>
<b>Total Operating Revenues</b>	<u>289,409,857</u>	<u>266,287,497</u>
<b>Operating Expenses</b>		
Salaries and wages	106,047,292	95,631,329
Fringe benefits	46,031,162	42,155,396
Medical/dental house staff	17,482,692	16,188,925
Medical contractual support	3,201,800	3,480,635
Internal contractual support	17,083,878	17,136,316
Outside agency per diems	1,417,927	1,650,395
Depreciation and amortization	8,971,611	9,298,913
Loss on disposal	--	199,767
Pharmaceutical/medical supplies	52,316,677	51,662,400
Utilities	2,686,597	2,780,030
Outside and other purchased services	29,393,599	29,007,441
Insurance	3,726,623	4,458,366
Repairs and maintenance	6,815,697	6,276,935
Other expenses	<u>2,729,700</u>	<u>2,992,043</u>
<b>Total Operating Expenses</b>	<u>297,905,255</u>	<u>282,918,891</u>
<b>Operating Loss</b>	<u>(8,495,398)</u>	<u>(16,631,394)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Gift income	500,000	502,896
State appropriations	--	13,500,000
Interest income	--	74
Interest expense	<u>(64,233)</u>	<u>(149,794)</u>
<b>Net Nonoperating Revenues</b>	<u>435,767</u>	<u>13,853,176</u>
<b>Loss before Transfers</b>	(8,059,631)	(2,778,218)
<b>Transfer from Health Center - unrestricted (note 7)</b>	<u>8,064,466</u>	<u>5,406,902</u>
<b>Increase in Net Assets</b>	4,835	2,628,684
<b>Net Assets - Beginning</b>	<u>68,036,570</u>	<u>65,407,886</u>
<b>Net Assets - End</b>	<u>\$ 68,041,405</u>	<u>\$ 68,036,570</u>

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

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

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
<b>Cash Flows from Operating Activities</b>		
Cash received from patients and third-party payors	\$ 269,826,180	\$ 272,110,578
Cash received from contract and other revenue	14,249,885	2,001,160
Cash paid to employees for salaries and fringe benefits	(149,431,607)	(139,843,994)
Cash paid for other than personal services	<u>(134,666,204)</u>	<u>(136,929,206)</u>
<b>Net Cash Used in Operating Activities</b>	<u>(21,746)</u>	<u>(2,661,462)</u>
<b>Cash Flows from Investing Activities</b>		
Investment income	--	74
Additions to property and equipment, net	<u>(11,811,483)</u>	<u>(9,865,283)</u>
<b>Net Cash Used in Investing Activities</b>	<u>(11,811,483)</u>	<u>(9,865,209)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Gifts received	500,000	502,896
Transfer from Health Center	4,564,466	5,406,902
Net draw downs (repayments) on cash overdraft	8,275,308	(3,082,016)
State appropriations	<u>--</u>	<u>13,500,000</u>
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>13,339,774</u>	<u>16,327,782</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Interest paid	(61,418)	(161,785)
Repayment of long-term debt	<u>(1,445,127)</u>	<u>(2,062,148)</u>
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>(1,506,545)</u>	<u>(2,223,933)</u>
<b>Net Change in Cash</b>	<u>\$ --</u>	<u>\$ 1,577,178</u>

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

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

**STATEMENTS OF CASH FLOWS (CONTINUED)**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
<b>Reconciliation of Operating Loss to Net Cash</b>		
<b>Used in Operating Activities</b>		
Operating loss	\$ (8,495,398)	\$ (16,631,394)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	8,971,611	9,298,913
Loss on disposal	--	199,767
Changes in operating assets and liabilities:		
Patients accounts receivable, net	(1,019,185)	(759,397)
Due from other State and Health Center agencies	3,978,837	(210,511)
Inventory	(238,251)	(257,854)
Contract and other receivables	(1,639,301)	46,497
Prepaid expenses	112,022	(589,709)
Due to third party payors	(2,675,306)	6,582,478
Other assets	24,399	(9,788)
Accounts payable and accrued expenses	3,605,673	(2,387,733)
Due to State of Connecticut	(1,263,412)	373,148
Accrued payroll	(2,550,285)	606,428
Accrued compensated absences	1,166,850	1,077,693
<b>Net Cash Used in Operating Activities</b>	<b>\$ (21,746)</b>	<b>\$ (2,661,462)</b>

*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, 2012 AND 2011**

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

***REPORTING ENTITY***

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

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

Reference is made to note 7 for related party transactions.

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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

***BASIS OF PRESENTATION***

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

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

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

***USE OF ESTIMATES***

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

***PROPRIETARY FUND ACCOUNTING***

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

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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

*CASH AND CASH OVERDRAFT*

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

*ACCOUNTS RECEIVABLE AND NET PATIENT SERVICE REVENUES*

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

*CONTRACT AND OTHER REVENUES*

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

*CAPITAL ASSETS*

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

---

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

***INVENTORY***

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

***RETIREMENT PLANS***

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

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

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

Information is not available from the State specifically allocating pension benefits, plan assets, obligations, and expenses applicable to employees of the Hospital. (Reference is also made to note 7).

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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

*COMPENSATED ABSENCES*

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

*THIRD PARTY PAYORS*

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

*MEDICAL MALPRACTICE*

Health care providers and support staff of the Hospital are fully protected by State statutes from any claim for damage or injury, not wanton, reckless or malicious, caused in the discharge of their duties or within the scope of their employment (statutory immunity). Any claims paid for actions brought against the State as permitted by waiver of statutory immunity have been charged against the Health Center's malpractice self-insurance fund. Prior to 2011, the malpractice trust fund was controlled by the Hospital, which annually retained a qualified actuary to assist with calculating and determining the appropriate malpractice reserve. The calculated actuarial reserve was also equally funded as was required by Section 10a-256 (the public act that established the malpractice trust fund). As more fully described in note 8, in 2010, the State of Connecticut passed Public Act No. 09-3, which resulted in control of the fund being transferred from the Hospital to the Health Center. As a result of the transfer, the Health Center now allocates an annual malpractice premium to the Hospital, designed to reflect an estimate of the current year's cash claims to be processed. For the years ended June 30, 2012 and 2011, such premiums were \$3,413,844 and \$4,145,224, respectively. These premiums are included in insurance expense in the Hospital's statements of revenues, expenses, and changes in net assets.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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

*NET ASSETS*

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

*REGULATORY MATTERS*

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

*RECLASSIFICATIONS*

Certain 2011 amounts have been reclassified to conform to the current year presentation.

**NOTE 2 - HYPOTHECATION**

In accordance with State Statute, the Hospital can borrow from the State up to 90% of its net patient receivables, contract and other receivables to fund operations. As of June 30, 2012 and 2011, the Hospital had drawn down \$6,698,130 and \$0, respectively. As of June 30, 2012 and 2011, the Hospital has available \$23,543,904 and \$27,849,397, respectively, under the State Statute.

**NOTE 3 - CHARITY CARE**

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. During 2012 and 2011, the Hospital provided charity care services of \$543,109 and \$912,282, respectively. The cost basis of these services was \$279,796 and \$480,274, respectively. No net patient service revenue was recorded for these services and expenses associated with these services were included in operating expenses.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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**NOTE 4 - NET PATIENT SERVICE REVENUES**

The Hospital provides health care services primarily to residents of the region. Revenues from the Medicare program accounted for approximately 44% and 40% of the Hospital's net patient service revenues for the years ended June 30, 2012 and 2011, respectively. Revenues from the Medicaid program accounted for approximately 27% and 29% of the Hospital's net patient service revenues for the years ended June 30, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrong doing. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

Patient accounts receivable included approximately 35% and 32% due from Medicare and approximately 11% and 12% due from Medicaid at June 30, 2012 and 2011, respectively.

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

	2012	2011
Gross patient service revenues	\$ 547,510,368	\$ 543,303,930
Less contractual allowances	(268,524,698)	(275,186,908)
Less provision for bad debt	(5,464,999)	(3,784,188)
Net patient service revenue	\$ 273,520,671	\$ 264,332,834

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.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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

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

***MEDICARE***

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system which are based on clinical, diagnostic, and other factors. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. Services to Medicare beneficiaries are paid based on a prospective payment system (PPS) based on the classification of each case into a Diagnostic-Related Group (DRG). Inpatient psychiatric services are also reimbursed via a PPS system established for inpatient psychiatric patients based on pre-determined hospital specific per diems. The Hospital is reimbursed for Direct Graduate Medical Education and Medicare Bad Debts at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through fiscal year 2008.

***MEDICAID***

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

Outpatient services rendered to patients are reimbursed based on the cost of services provided except for individuals in the managed Medicaid program where reimbursement is based on contracts as described above. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through 1997. Unaudited cost reports have been submitted as requested by Department of Social Services (DSS) through fiscal year 2009.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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

*COMMERCIAL INSURANCE AND MANAGED CARE*

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

**NOTE 5 - CAPITAL ASSETS, NET**

Capital assets at June 30 consist of the following:

	2012	2011
Land	\$ 183,137	\$ 183,137
Construction in progress (estimated cost to complete \$5.6 million)	11,253,841	7,169,410
Buildings	100,179,050	100,163,782
Equipment	79,775,081	72,063,297
Capital leases	13,776,275	13,776,275
	205,167,384	193,355,901
Less accumulated depreciation and amortization	147,249,097	138,277,486
Capital assets, net	\$ 57,918,287	\$ 55,078,415

Plant and equipment activity for the years ended June 30, 2012 and 2011 was as follows:

	2011	Additions	Deductions	2012
Land	\$ 183,137	\$ --	\$ --	\$ 183,137
Construction in progress	7,169,410	5,747,849	(1,663,418)	11,253,841
Buildings	100,163,782	15,268	--	100,179,050
Equipment	72,063,297	7,711,784	--	79,775,081
Capital leases	13,776,275	--	--	13,776,275
	\$ 193,355,901	\$ 13,474,901	\$ (1,663,418)	\$ 205,167,384

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 5 - CAPITAL ASSETS, NET (CONTINUED)**

	2010	Additions	Deductions	2011
Land	\$ 183,137	\$ --	\$ --	\$ 183,137
Construction in progress	6,030,347	2,854,329	(1,715,266)	7,169,410
Buildings	98,331,458	1,832,324	--	100,163,782
Equipment	68,752,064	6,893,896	(3,582,663)	72,063,297
Capital leases	<u>13,776,275</u>	<u>--</u>	<u>--</u>	<u>13,776,275</u>
	<u>\$ 187,073,281</u>	<u>\$ 11,580,549</u>	<u>\$ (5,297,929)</u>	<u>\$ 193,355,901</u>

Related information on accumulated depreciation and amortization for the years ended June 30, 2012 and 2011 was as follows:

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

	2010	Additions	Deductions	2011
Buildings	\$ 71,156,929	\$ 2,816,077	\$ --	\$ 73,973,006
Equipment	49,917,022	5,402,710	(3,382,896)	51,936,836
Capital leases	<u>11,287,518</u>	<u>1,080,126</u>	<u>--</u>	<u>12,367,644</u>
	<u>\$ 132,361,469</u>	<u>\$ 9,298,913</u>	<u>\$ (3,382,896)</u>	<u>\$ 138,277,486</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

**NOTE 6 - LONG-TERM LIABILITIES**

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

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

	June 30, 2010 Balance	Additions	Deductions	June 30, 2011 Balance	Amounts due within 1 year
Accrued compensated absences	\$ 12,207,778	\$ 11,997,127	\$ (10,919,434)	\$ 13,285,471	\$ 5,458,013
Capital leases	2,318,364	--	(1,231,751)	1,086,613	614,731
Long-term debt	<u>2,075,991</u>	<u>--</u>	<u>(830,397)</u>	<u>1,245,594</u>	<u>830,396</u>
<b>Total</b>	<b><u>\$ 16,602,133</u></b>	<b><u>\$ 11,997,127</u></b>	<b><u>\$ (12,981,582)</u></b>	<b><u>\$ 15,617,678</u></b>	<b><u>\$ 6,903,140</u></b>

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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**NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)**

Long-term debt and capital lease obligations as of June 30, 2012 and 2011 consisted of the following:

	2012	2011
Leasehold note - People's Bank, beginning December 1, 2006 and maturing November 30, 2012 at a fixed rate of 6.35%	\$ 415,198	\$ 1,245,594
Capital lease obligation - Citicorp Leasing, Inc. beginning January 18, 2008. Payments of principal and interest at 2.7%, begin April 1, 2008 and continue until January 13, 2013, collateralized by financed equipment.	<u>471,882</u>	<u>1,086,613</u>
	887,080	2,332,207
Less current portion	<u>887,080</u>	<u>1,445,127</u>
Long-term debt, less current portion	<u>\$ --</u>	<u>\$ 887,080</u>

Aggregate maturities of notes payable at June 30, 2012 were:

<u>Year ending June 30,</u>	<u>Leasehold Note</u>
2013	<u>\$ 415,198</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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**NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)**

Aggregate maturities of capital leases at June 30, 2012 were:

<u>Year ending June 30,</u>	<u>Capital Leases</u>
2013	\$ <u>475,041</u>
Total minimum lease payments	475,041
Less amount representing interest	<u>3,159</u>
Present value of minimum lease payments	<u>\$ 471,882</u>

The Hospital also participates in operating lease agreements under the Health Center for which its departments are allocated expenses based on square footage occupied. Rent expense was \$3,300,433 and \$2,500,888 in 2012 and 2011, respectively. Aggregate minimum lease payments for the leases are as follows:

<u>Year ending June 30,</u>	
2013	\$ 3,011,961
2014	2,918,114
2015	2,923,298
2016	2,936,609
2017	2,947,754
Thereafter	<u>16,203,785</u>
	<u>\$ 30,941,521</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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**NOTE 7 - RELATED PARTY TRANSACTIONS**

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

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

The Health Center transferred \$4.6 million in 2012 and \$5.4 million in 2011, related to fringe benefit recoveries for support services paid by the general fund. During the years ended June 30, 2012 and 2011, \$33,000 and \$400,000 was transferred to fund capital projects. An additional \$3.5 million was transferred from the Health Center in 2012 to maintain a stable net asset balance. As of June 30, 2012, the Hospital recorded a receivable of \$3.5 million related to this net asset transfer. These transfers are reflected as net asset transfers in the statements of revenues, expenses and changes in net assets.

As more fully described in note 8, beginning in 2010, the Health Center charges the Hospital with an annual premium for medical malpractice costs which is determined by the Health Center under this self-insured program. The Hospital is not liable beyond the annual premium, but may have future operational subsidies affected by the performance of the malpractice trust fund.

As described in note 1, the Hospital participates in certain State retirement plans. The State charges the Hospital for these and other fringe benefits. During the years ended June 30, 2012 and 2011, the Hospital incurred \$46,031,162 and \$42,155,396, respectively, for employee fringe benefits. The State subsidized approximately \$13.5 million of employee fringe benefits for fiscal year 2011. Related salary costs were \$106,047,292 and \$95,631,329, respectively.

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.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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**NOTE 7 - RELATED PARTY TRANSACTIONS (CONTINUED)**

The Hospital provides medical services to correctional managed health care patients under a Health Center contract with the State of Connecticut's Department of Correction (CTDOC). Revenue recorded under this contract was approximately \$7,081,406 and \$9,610,000 for the years ended June 30, 2012 and 2011, respectively, and is included in net patient service revenues in the statements of revenues, expenses, and changes in net assets. The Hospital also provides outpatient care to Correctional Managed Health Care patients at Medicaid rates.

As described in Note 1, Finance Corporation makes purchases on behalf of the Hospital. The Hospital advanced funds to Finance Corporation to make these purchases and had a receivable balance due from Finance Corporation of \$9,020,723 and \$12,999,560 at June 30, 2012 and 2011, respectively.

**NOTE 8 - REPORTING OF THE MALPRACTICE TRUST FUND**

The Health Center is self-insured with respect to medical malpractice risks. Estimated losses from asserted and unasserted claims identified under the Health Center's incident reporting system and an estimate of incurred but not reported claims are accrued based on actuarially determined estimates that incorporate the Health Center's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. The Hospital provides timely incident reporting to the Health Center to assist the Health Center in maintaining appropriate reserve balances.

In fiscal year 2010, the State passed Public Act No. 09-3, *AN ACT CONCERNING EXPENDITURES AND REVENUE FOR THE BIENNIUM ENDING JUNE 30, 2011*, (Public Act). Sec. 74. of the Public Act states "(Effective from passage) (a) Notwithstanding the provisions of section 10a-256 of the general statutes, the sum of \$10,000,000 shall be transferred from The University of Connecticut Health Center Medical Malpractice Trust Fund and credited to the resources of the General Fund for each of the fiscal years ending June 30, 2010, and June 30, 2011." The Public Act also states "the amount of funding necessary to protect the Health Center for malpractice shall be determined and approved by the Board of Trustees of the University of Connecticut." Since the State effectively removed control and responsibility for maintaining and managing the malpractice trust fund from the Hospital, the Fund was transferred from the Hospital to the Health Center. Accordingly, beginning in 2010, the reporting of the malpractice trust fund is now reflected in the Health Center's financial statements. Also beginning in 2010, the Health Center charges each affiliate or clinical area with an annual malpractice premium that is designed to approximate the current year claim payments of the malpractice trust fund.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

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**NOTE 8 - REPORTING OF THE MALPRACTICE TRUST FUND (CONTINUED)**

To the extent that claims for cases exceed current year premiums charged by the Health Center, the Health Center may petition the State to make up the difference. The Hospital is not responsible for amounts beyond the annual premium allocated by the Health Center. However, operational subsidies from the State and/or the Health Center may be affected by the performance of the Health Center's malpractice program. In fiscal year 2011, an additional \$10 million was transferred to the State of Connecticut's General Fund as required by the Public Act – no further transfers are required. At June 30, 2012 and 2011, the Health Center Malpractice Trust Fund had actuarial reserves of approximately \$19.9 million and \$20.4 million and assets of approximately \$8.1 million and \$4.5 million as of June 30, 2012 and 2011, respectively.

**NOTE 9 - SUBSEQUENT EVENTS**

The Hospital has evaluated subsequent events through November 28, 2012 which represents the date the financial statements were issued and noted no subsequent events that would have impacted the Hospital's financial statements.