

STATE OF CONNECTICUT
UNIVERSITY OF CONNECTICUT HEALTH CENTER



John Russell
Buyer Name

jjrussell@uchc.edu
Buyer E-mail Address

PURCHASING SERVICES DEPARTMENT
263 Farmington Avenue, MC4036
Farmington, CT 06032-4036

RFP NUMBER	PROPOSAL DUE DATE:	PROPOSAL DUE TIME:
2-2477	1/17/12	3:30 PM EST
RFP TITLE:	Audit Services	

RFP ADDENDUM # Addendum 1

Please incorporate the Attached/Following into your proposal documents.

FOR: The University of Connecticut Health Center
263 Farmington Avenue MC 4036
Farmington, CT 06032

PROPOSER'S NOTE: Provide answers to questions prepared for 2-2477 and note the DAS RFP # "2-247" is incorrect. Correct RFP# is "2-2477".

This Addendum must be Signed & Returned with your proposal.

Authorized Signature of Proposer

Company Name

Approved By: _____

John Russell
Fiscal Administrator Officer
(Original Signature on Document in Procurement Files)

Date Issued: 1/6/12

END OF ADDENDUM

STATE OF CONNECTICUT
 UNIVERSITY OF CONNECTICUT HEALTH CENTER



John Russell
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QUESTIONS & ANSWERS:

QUESTION #1A: Were there any internal control/SAS 115 matters (material weaknesses or significant deficiencies) communicated to the audit committee in the last two years?

UCHC RESPONSE: **There were no SAS 115 matters communicated in the last two years.**

QUESTION #1B: Have there been any disagreements with the current auditors in the last two years? If yes, please describe the matters.

UCHC RESPONSE: **There have been no disagreements with the auditors over the past two years.**

QUESTION #2: Were there any State audit findings reported during the last two years? If yes, please describe the findings.

UCHC RESPONSE: **State audits do not specifically address the entities out to bid as the State auditors normally obtain reliance letters for these entities. However, State Auditor findings tend to be broadly based and may indirectly impact the entities out to bid. State Audit findings are posted on the State Auditor website and the most recent report may be found at the following address:**

http://www.cga.ct.gov/apa/pdf2011/UCHC_73020_10.pdf

QUESTION #3: How many adjusting journal entries are typically recorded as a result of the audit?

UCHC RESPONSE: **We typically record less than 5 adjusting journal entries as a result of our audits**

QUESTION #4A: What are the Hospital, UConn Medical Group and University of Connecticut Health Center Finance Corporation's major financial systems/IT applications?

UCHC RESPONSE: Our key financial systems include Banner for general ledger and Human Resources recordkeeping, IDX for patient receivables, SciQuest for procurement activities, and Kronos for employee timekeeping.

QUESTION #4B: Is the Hospital on the State payroll system, "Core"?

UCHC RESPONSE: The hospital feeds payroll data to CORE for payroll processing but keeps and records its own payroll records.

QUESTION #4C: What are the significant system modifications planned during the next three years?

UCHC RESPONSE: Banner went live during the current fiscal year and will therefore require a first year audit. As we look forward with this new product we hope to bring online its travel module before year end.

QUESTION #5: Are the internal controls and financial statement records of the Hospital, UConn Medical Group, and University of Connecticut Health Center Finance Corporation performed by the same team and monitored and managed by the same individuals?

UCHC RESPONSE: Yes

QUESTION #6: Does the Hospital have an internal audit function and if so what audit procedures do they perform related to financial reporting controls or compliance?

UCHC RESPONSE: The Hospital has an internal audit function. Internal Audit has not performed any specific audit procedures related to financial reporting controls or compliance.

QUESTION #7: What financial statement areas have the current auditors communicated to the audit committee as being either significant or elevated risk, or as being a significant accounting estimate?

UCHC RESPONSE: Areas of emphasis from past audits have included: Internal Controls, accounts receivable aging and payor classifications, adequacy of allowance for doubtful accounts and reserve for bad debts, receivables/reserves related to open cost reports and other third party exposures, the Health Center's malpractice program, HR and payroll processes as well as accruals of payroll and related expenses, accounts payable, capital assets, account reconciliations, and journal entries and the financial reporting.

QUESTION #8: What are the significant capital asset activities expected in the next couple years?

UCHC RESPONSE: The Bioscience Connecticut initiative calls for the construction of a new University Hospital and Ambulatory Care Center (ACC). The construction and outfitting of the new hospital and ACC are the only current activities planned that are outside normal operating activities.

QUESTION #9: What is the Hospital's and UConn Medical Group's methodology for determining its medical malpractice liability?

UCHC RESPONSE: **Both the Hospital and the Medical Group are self insured and utilize the John Dempsey Hospital Malpractice Trust Fund. The fund holds the malpractice liability for the entire institution and resides on the Health Center's financials rather than that of any individual entity. The liability of the fund is determined based on actuarial estimates derived from our March 31 loss run reports and historical data. Management allocates annual expenses individual operating units based on the current estimate of cash claims to be processed to that unit.**

QUESTION #10A: What form of attestation is required for the quarterly certification of accounts receivable?

UCHC RESPONSE: **We currently receive Review attestations for the hypothecations**

QUESTION #10B: Is this an agreed upon procedures, audit of a specified element, or compliance with aspects of a contractual agreement?

UCHC RESPONSE: **Review of the accounts receivable and other receivables balances.**

QUESTION #11A: Are the financial statements produced in-house or by the Audit Firm?

UCHC RESPONSE: **The Financial Statements are prepared by Management and the final version is provided by the audit firm with a limited number of hard copies delivered (around 20) and a PDF of the finished statements provided back to Management.**

QUESTION #11B: When are financial statements with footnotes completed and provided to the Audit Firm

UCHC RESPONSE: **Drafts of the statements are generally available at the beginning of fieldwork and the statements usually finished within a couple weeks of the end of fieldwork.**

QUESTION #11C: When are the financial statements typically presented to the audit committee?

UCHC RESPONSE: **Financial Statements are targeted for presentation at the December Joint Audit and Compliance Committee meetings.**

QUESTION #12: Can you provide copies of the most recent financial statements for UConn Medical Group, and University of Connecticut Health Center Finance Corporation?

UCHC RESPONSE: **Please see addendum to questions with copy of financial statements and most recently completed hypothecations.**

QUESTION #13: What is the typical timing for interim field work and, for each of the entities, when are the year-end books closed and when can year-end audit testing begin?

UCHC RESPONSE: Fieldwork has typically taken place in April. Our year end books close around the third week of July and our audits have traditionally started the second or third week of August.

QUESTION #14: What were the actual audit fees and hours incurred for the 2011 audit? (or 2010 if 2011 is not yet completed.)

UCHC RESPONSE: The total amount projected to be paid to our prior auditors for FY 11 was \$225,500

QUESTION #15: I was wondering if you would be able to forward onto me the most recent audited financial statements, review opinions, and OCHA Agreed upon procedures opinion for John Dempsey Hospital, UMG and the Uconn Health Center Finance Corporation?

UCHC RESPONSE: Refer to Question # 12.

QUESTION #16A: Will the State of Connecticut internal auditors provide assistance to the independent auditors?

UCHC RESPONSE: Internal Audit has not assisted in previous engagements and prior to agreeing to provide assistance; the matter would have to go before the Board of Trustees' Joint Audit and Compliance Committee for discussion and approval.

QUESTION #16B: Also, will they make their internal audit reports available to the independent auditors?

UCHC RESPONSE: Yes

QUESTION #17: Could we please receive copies of the following audited financial statements for the year ended 6/30/11: John Dempsey Hospital, UCONN Medical Group, University of Connecticut Health Center Finance Corporation

UCHC RESPONSE: Refer to Question # 12.

QUESTION #18: Could we please receive copies of the accounts receivable certifications for the quarter ended 9/30/2011 for: John Dempsey Hospital, UCONN Medical Group

UCHC RESPONSE: Refer to Question # 12. Please note the most recently available hypothecation reports are those of 6/30/2011.

Date Issued: 1/6/12

END OF ADDENDUM



**UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL**

Schedule of Accounts Receivable

June 30, 2011

(With Independent Accountants' Review Report Thereon)

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL**

Schedule of Accounts Receivable

June 30, 2011

Table of Contents

	Page
Independent Accountants' Review Report	1
Schedule of Accounts Receivable	2
Note to Schedule of Accounts Receivable	3



KPMG LLP
One Financial Plaza
755 Main Street
Hartford, CT 06103

Independent Accountants' Review Report

Board of Directors of the
University of Connecticut Health Center:

We have reviewed the accompanying schedule of accounts receivable of University of Connecticut Health Center, John Dempsey Hospital (21002 Fund) (the Hospital), an enterprise fund of the State of Connecticut (Schedule), as of June 30, 2011. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the Schedule as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the Schedule in accordance with U.S. generally accepted accounting principles and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the Schedule.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the Schedule. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the schedule of accounts receivable of University of Connecticut Health Center, John Dempsey Hospital as of June 30, 2011, in order for it to be in conformity with generally accepted accounting principles.

KPMG LLP

November 29, 2011

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL**

Schedule of Accounts Receivable

June 30, 2011

Patient accounts receivable	\$ 52,832,925
Less allowance for doubtful accounts	<u>22,320,640</u>
Subtotal patient accounts receivable	30,512,285
Other	<u>431,489</u>
Total	<u><u>\$ 30,943,774</u></u>

See accompanying note to schedule of accounts receivable.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL**

Note to Schedule of Accounts Receivable

June 30, 2011

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The schedule includes those net patient and other accounts receivable reflected in the accounting records of John Dempsey Hospital (the Hospital), University of Connecticut Health Center (the Health Center) including the Dental Clinics, which are accounted for in the 21002 fund.

John Dempsey Hospital has an arrangement with the State of Connecticut whereby the Hospital can borrow up to 90% of its net patient and other accounts receivable, if the 21002 fund has an overall negative balance, to continue to fund operations. Therefore, the purpose of this report is to reflect the net patient and other accounts receivable available to John Dempsey Hospital to borrow against.

Use of Estimates

The preparation of the schedule of accounts receivable in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets at the date of the schedule of accounts receivable. Actual results could differ from those estimates.

Accounts Receivable and Revenues

Patient accounts receivable and net patient service revenues are recorded at the estimated net realizable amount from patients, third-party payors and others, when patient services are performed. Any patient accounts receivable sent to collection agencies are fully reserved in anticipation of eventual write-off. Any subsequent cash receipts are credited to bad debt expense when received.

Accounts receivable represent unpaid billings for services rendered at customary rates less contractual allowances. This schedule includes accounts receivable, less allowances of John Dempsey Hospital, which are accounted for in the 21002 fund of University of Connecticut Health Center.



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

Financial Statements
(With Management's Discussion and Analysis)

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

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

Financial Statements
(With Management's Discussion and Analysis)

June 30, 2011 and 2010

Table of Contents

	Page
Management's Discussion and Analysis	1
Independent Auditors' Report	7
Statements of Net Assets	8
Statements of Revenues, Expenses, and Changes in Net Assets	9
Statements of Cash Flows	10
Notes to Financial Statements	11

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

Management's Discussion and Analysis

June 30, 2011 and 2010

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, 2011, 2010, and 2009. 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 224 bed inpatient facility; 204 general acute care beds, and 20 nursery beds), the University of Connecticut 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 (CHMC) program. The Hospital has long been regarded as the premier facility in the region for neonatal intensive care and high-risk maternity. 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, 2011 and 2010, 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 257 cases to 9,256 from fiscal 2010 to fiscal 2011. Outpatient visits increased by 5,317, or 1.5%, from the prior year. The Hospital was significantly affected by increases in staffing costs as represented by salaries and internal contractual support.

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 \$16.6 million compared to an operating loss of \$24.3 million in the prior year. These losses were offset by non-operating revenue of \$13.9 million and \$14.1 million in fiscal year 2011 and 2010, respectively. Non-operating revenue included \$13.5 million in state appropriations for fiscal year 2011 and 2010. The Hospital also received transfers from the Health Center of \$5.4 million and \$19.5 million in 2011 and 2010, respectively, resulting in changes to net assets of \$2.6 million and \$9.3 million. Current year transfers were made up primarily of \$5 million in fringe recovery related to support services paid against the institutions general fund allotment. The Hospital's financial position at June 30, 2011, included assets of approximately \$112.2 million and liabilities of approximately \$44.2 million.

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

Management's Discussion and Analysis

June 30, 2011 and 2010

Net assets, which represent the residual interest in the Hospital's assets after liabilities are deducted, increased approximately \$2.6 million to \$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, 2011, 2010, and 2009, including other changes in net assets, as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(In thousands)		
Summary of assets and liabilities at June 30:			
Current assets	\$ 56,504	\$ 53,156	\$ 53,875
Assets limited as to use, net of current portion	—	—	18,879
Other assets	623	613	601
Capital assets, net	<u>55,078</u>	<u>54,712</u>	<u>59,574</u>
Total assets	<u>\$ 112,205</u>	<u>\$ 108,481</u>	<u>\$ 132,929</u>
Current liabilities	\$ 35,454	\$ 33,538	\$ 47,936
Long term debt excluding current installments	415	1,246	2,076
Capital lease liabilities, net of current portion	472	1,087	2,318
Accrued compensated absences, net of current portion	7,828	7,203	6,224
Estimated malpractice costs, net of current portion	—	—	18,315
Net assets restricted for research and education	67	148	144
Unrestricted net assets	15,223	14,942	3,550
Invested in capital assets, net of related debt	<u>52,746</u>	<u>50,317</u>	<u>52,366</u>
Total liabilities and net assets	<u>\$ 112,205</u>	<u>\$ 108,481</u>	<u>\$ 132,929</u>
Summary of revenues, expenses, and transfers for the year ended June 30:			
Operating revenues	\$ 266,288	\$ 247,237	\$ 250,309
Operating expenses	<u>(282,919)</u>	<u>(271,527)</u>	<u>(265,782)</u>
Operating loss	(16,631)	(24,290)	(15,473)
Nonoperating revenue, net	<u>13,853</u>	<u>14,122</u>	<u>3,944</u>
Loss before transfers	(2,778)	(10,168)	(11,529)
Net asset transfers	<u>5,407</u>	<u>19,516</u>	<u>14,900</u>
Increase in net assets	<u>\$ 2,629</u>	<u>\$ 9,348</u>	<u>\$ 3,371</u>

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

Management's Discussion and Analysis

June 30, 2011 and 2010

Capital Assets

At June 30, 2011, the Hospital had plant and equipment of \$193.4 million before accumulated depreciation compared to \$187.1 million at June 30, 2010, as shown in the table below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(In thousands)		
Land	\$ 183	\$ 183	\$ 183
Construction in progress	7,170	6,030	5,578
Buildings	100,286	98,454	97,404
Equipment	71,941	68,630	66,609
Capital leases	13,776	13,776	13,776
	<u>\$ 193,356</u>	<u>\$ 187,073</u>	<u>\$ 183,550</u>

The Hospital's fiscal 2012 capital budget projects spending at approximately \$9.7 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.

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, 2011, 2010, and 2009 is as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(in thousands)		
Cash received from operations	\$ 274,112	\$ 257,336	\$ 250,009
Cash expended for operations	<u>(276,774)</u>	<u>(297,883)</u>	<u>(247,799)</u>
Net cash (used in) provided by operations	(2,662)	(40,547)	2,210
Net cash (used in) provided by investing activities	(9,865)	20,116	(13,047)
Net cash provided by noncapital financing activities	14,003	14,348	4,100
Net cash provided by capital and related financing activities	<u>101</u>	<u>6,083</u>	<u>6,737</u>
Net change in cash	<u>\$ 1,577</u>	<u>\$ —</u>	<u>\$ —</u>

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

Management's Discussion and Analysis

June 30, 2011 and 2010

Significant Variances in Financial Statements

In this section, the Hospital explains the reasons for those financial statement items with significant variances relating to fiscal 2011 amounts, compared to fiscal 2010.

Summary of Assets and Liabilities

Changes in assets are comprised of the following:

Cash – increased from an overdraft position in 2010 to \$1.6 million positive cash position; attributed in part to the \$13.5 million state appropriation. The Hospital expects to receive this appropriation again in fiscal year 2012.

Prepaid – increased from June 30, 2010 to June 30, 2011 by approximately \$590,000 or 19.4%. As a result of the new financial reporting system going live in July 2011 several expenses such as rent and affiliation dues were prepaid to avoid potential untimely payments. This is not expected to recur in fiscal year 2012.

Changes in liabilities are comprised of the following:

Accounts payable and accrued expenses – decreased from June 30, 2010 to June 30, 2011 by approximately \$2.4 million or 21.5%. This represents pay down of vendor balances prior to going live with the new purchasing/payables system.

Due to/from third-party payors – increased from June 30, 2010 to June 30, 2011 by approximately \$6.6 million or 232.3%. The change related to estimated 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.

Capital Leases – decreased from June 30, 2010 to June 30, 2011 by approximately \$1.2 million or 53.1%. The decrease is the result of the Hospital's repayment of current year lease obligation installments and final payments on two leases.

Summary of Revenues, Expenses, and Changes in Net Assets

Operating revenue – increased from June 30, 2010 to June 30, 2011 by approximately \$19 million or 7.7%. Net patient revenue went up \$18.2 million or 7.4% as a result of rate increases. Contract and other revenue increased by approximately \$900,000 or 80.7%; which was driven by increases in amounts received from dental and perfusion agreements with outside organizations.

Operating expenses – increased from June 30, 2010 to June 30, 2011 by approximately \$11.4 million or 4.2%, primarily due to increases in salary, fringe benefits and malpractice costs.

State appropriations – remained at \$13.5 million for June 30, 2011 and 2010, due to funding from Public Act 09-3 regarding in-kind fringe benefit; the Hospital expects the same funding for fiscal year 2012.

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

Management's Discussion and Analysis

June 30, 2011 and 2010

Transfer from Health Center – decreased from June 30, 2010 to June 30, 2011 by approximately \$14.1 million or 72.3%, primarily because the June 30, 2010 operating loss was not funded by the Health Center, in fiscal year 2011 as was done for the June 30, 2009 loss in fiscal year 2010.

FY 2012 Outlook:

As we look forward to fiscal year 2012, the Hospital's main concern focuses on maintaining outstanding clinical care while readying for changes resulting from the state's Bioscience Connecticut initiative, healthcare reform, and changes in the US and global economic environments. Average daily census at the Hospital finished slightly below budget while outpatient visits were 6% higher than budget. Management is addressing concerns on inpatient volume via its clinically focused advertising campaigns and has been encouraged by the results of increased recruiting efforts in core areas such as surgery, orthopedics and dermatology.

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

The plan is estimated to cost \$661 million and includes \$592 million in borrowing, \$338 million 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.

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

Management's Discussion and Analysis

June 30, 2011 and 2010

6. **Health Disparities Institute:** It will promote enhanced healthcare research, training and delivery to minority communities.
7. **Institute for Clinical and Translational Sciences:** It will be a super-site by network partners and will speed lab-to-bedside clinical trials and breakthrough medicine.
8. **Bioscience Enterprise Zone:** It will offer state tax breaks to private companies that create jobs and work with UConn Health Network partners.

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.



KPMG LLP
One Financial Plaza
755 Main Street
Hartford, CT 06103

Independent Auditors' Report

Joint Audit and Compliance Committee of the
University of Connecticut Health Center:

We have audited the accompanying statements 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, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2011 and 2010, and the results of its operations and changes in net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis (MD&A) on pages 1 to 7 is not a required part of the basic financial statements of University of Connecticut Health Center, John Dempsey Hospital (21002 Fund) but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

November 29, 2011

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

Statements of Net Assets

June 30, 2011 and 2010

Assets	2011	2010
Current assets:		
Cash	\$ 1,577,178	\$ —
Patient accounts receivable, net of estimated uncollectibles of \$22,321,000 and \$24,399,000 at June 30, 2011 and 2010, respectively	30,512,285	29,752,888
Due from other State and Health Center agencies	12,999,560	12,789,049
Inventory	7,348,436	7,090,582
Contract and other receivables	431,489	477,986
Prepaid expenses	3,634,955	3,045,246
Total current assets	56,503,903	53,155,751
Noncurrent assets:		
Other assets	623,030	613,242
Capital assets, net (note 5)	55,078,415	54,711,812
Total noncurrent assets	55,701,445	55,325,054
Total assets	\$ 112,205,348	\$ 108,480,805
Liabilities and Net Assets		
Current liabilities:		
Cash overdraft	\$ —	\$ 3,082,016
Accounts payable and accrued expenses	8,760,603	11,160,327
Accrued payroll	7,112,987	6,506,559
Due to State of Connecticut	3,261,633	2,888,485
Due to third-party payors	9,415,877	2,833,399
Accrued compensated absences, current portion (note 6)	5,458,013	5,005,189
Long-term debt, current installments (note 6)	830,396	830,396
Capital leases, current portion, (note 6)	614,731	1,231,751
Total current liabilities	35,454,240	33,538,122
Noncurrent liabilities:		
Accrued compensated absences, net of current portion (note 6)	7,827,458	7,202,589
Long-term debt, excluding current installments (note 6)	415,198	1,245,595
Liabilities under capital leases, net of current portion (note 6)	471,882	1,086,613
Total noncurrent liabilities	8,714,538	9,534,797
Total liabilities	44,168,778	43,072,919
Net assets:		
Invested in capital assets, net of related debt	52,746,208	50,317,457
Restricted for research and educational	67,124	148,123
Unrestricted	15,223,238	14,942,306
Total net assets	68,036,570	65,407,886
Total liabilities and net assets	\$ 112,205,348	\$ 108,480,805

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Net patient service revenues (note 4)	\$ 264,332,834	\$ 246,155,547
Contract and other revenues	1,954,663	1,081,457
Total operating revenues	<u>266,287,497</u>	<u>247,237,004</u>
Operating expenses:		
Salaries and wages	95,631,329	88,764,151
Fringe benefits	42,155,396	38,825,799
Medical/dental house staff	16,188,925	15,292,507
Medical contractual support	3,480,635	3,203,566
Internal contractual support	17,136,316	16,645,836
Outside agency per diems	1,650,395	1,931,044
Depreciation and amortization	9,298,913	10,571,031
Loss on disposal	199,767	13,970
Pharmaceutical/medical supplies	51,662,400	50,645,210
Utilities	2,780,030	2,668,129
Outside and other purchased services	29,007,441	29,950,586
Insurance	4,458,366	3,357,735
Repairs and maintenance	6,276,935	6,153,452
Other expenses	2,992,043	3,504,128
Total operating expenses	<u>282,918,891</u>	<u>271,527,144</u>
Operating loss	<u>(16,631,394)</u>	<u>(24,290,140)</u>
Nonoperating revenues (expenses):		
Gift income	502,896	847,835
State appropriations	13,500,000	13,500,000
Interest income	74	49,785
Interest expense	(149,794)	(275,340)
Net nonoperating revenues	<u>13,853,176</u>	<u>14,122,280</u>
Loss before transfers	<u>(2,778,218)</u>	<u>(10,167,860)</u>
Transfer from Health Center - unrestricted (note 7)	<u>5,406,902</u>	<u>19,515,386</u>
Increase in net assets	2,628,684	9,347,526
Net assets, beginning of year	<u>65,407,886</u>	<u>56,060,360</u>
Net assets, end of year	<u>\$ 68,036,570</u>	<u>\$ 65,407,886</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 272,110,578	\$ 255,677,804
Cash received from contract and other revenue	2,001,160	1,658,350
Cash paid to employees for salaries and fringe benefits	(139,843,994)	(118,238,424)
Cash paid for other than personal services	<u>(136,929,206)</u>	<u>(179,645,214)</u>
Net cash used in operating activities	<u>(2,661,462)</u>	<u>(40,547,484)</u>
Cash flows from investing activities:		
Malpractice trust fund	—	25,789,282
Investment income	74	49,785
Additions to property and equipment, net	<u>(9,865,283)</u>	<u>(5,723,019)</u>
Net cash (used in) provided by investing activities	<u>(9,865,209)</u>	<u>20,116,048</u>
Cash flows from noncapital financing activities:		
Gifts received	502,896	847,835
State appropriations	<u>13,500,000</u>	<u>13,500,000</u>
Net cash provided by noncapital financing activities	<u>14,002,896</u>	<u>14,347,835</u>
Cash flows from capital and related financing activities:		
Interest paid	(161,785)	(268,352)
Transfer from Health Center	5,406,902	19,515,386
Net repayments on cash overdraft	(3,082,016)	(10,349,923)
Repayment of long-term debt	<u>(2,062,148)</u>	<u>(2,813,510)</u>
Net cash provided by capital and related financing activities	<u>100,953</u>	<u>6,083,601</u>
Net change in cash	<u>\$ 1,577,178</u>	<u>\$ —</u>
Reconciliation of operating loss to net cash (used in) provided by operating activities:		
Operating loss	(16,631,394)	(24,290,140)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	9,298,913	10,571,031
Loss on disposal	199,767	13,970
Changes in operating assets and liabilities:		
Patients accounts receivable, net	(759,397)	4,012,110
Due from other State and Health Center agencies	(210,511)	(12,540,207)
Inventory	(257,854)	(1,185,991)
Contract and other receivables	46,497	576,893
Prepaid expenses	(589,709)	269,616
Due from third-party payors, net	6,582,478	5,510,147
Other assets	(9,788)	(12,097)
Accounts payable and accrued expenses	(2,387,733)	1,103,710
Due to other State and Health Center agencies	373,148	(9,862,771)
Accrued payroll	606,428	46,406
Accrued compensated absences	1,077,693	464,839
Estimated malpractice costs	—	<u>(15,225,000)</u>
Net cash used in operating activities	<u>\$ (2,661,462)</u>	<u>\$ (40,547,484)</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2011 and 2010

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

(a) 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, and the University of Connecticut Health Center's malpractice self-insurance fund (which was transferred to the Health Center in 2011), 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 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.

(b) 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

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

Notes to Financial Statements

June 30, 2011 and 2010

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 (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*, as of July 1, 2001.

John Dempsey 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.

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

(d) Proprietary Fund Accounting

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

(e) 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 statement of assets. See note 2 for discussion regarding the Hospital’s available borrowing.

(f) 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.

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

Notes to Financial Statements

June 30, 2011 and 2010

(g) Contract and Other Revenues

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

(h) 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.

(i) 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.

(j) Fair Value of Financial Instruments

Assets and liabilities such as accounts receivable, contract and other receivables, cash overdraft, accounts payable and accrued expenses and accrued payroll, the carrying amount approximates fair value because of the short maturity of these instruments.

(k) Retirement Plans

Eligible Hospital employees, as defined, may participate in the following State of Connecticut 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 of Connecticut defined contribution deferred compensation plan, which is funded by payroll deductions from employees.

In 2008, the State of Connecticut 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 John Dempsey 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 of Connecticut. Therefore, the liability is reported by the State of Connecticut 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.

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

Notes to Financial Statements

June 30, 2011 and 2010

Information is not available from the State of Connecticut specifically allocating pension benefits; plan assets, obligations, and expenses applicable to employees of the Hospital. (Reference is also made to note 6).

(l) *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.

(m) *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.

(n) *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 John Dempsey 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 John Dempsey Hospital, designed to reflect an estimate for the current year's cash claims to be processed. For the years ended June 30, 2011 and 2010 such premiums were \$4,145,224 and \$3,064,018, respectively. These premiums are included in the Hospital's statements of revenues, expenses, and changes in net assets as insurance expense.

(o) *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 on construction of those assets. Expendable funds for research and education represent balances held for use in promoting various Hospital initiatives. All other assets are classified as unrestricted net assets.

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

Notes to Financial Statements

June 30, 2011 and 2010

(p) Regulatory Matters

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

(2) Hypothecation

In accordance with State Statute, John Dempsey 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, 2011 and 2010, the Hospital had drawn down \$-0- and \$3,082,016, respectively. As of June 30, 2011 and 2010, the Hospital has available \$27,849,397 and \$24,125,771, respectively, under the State Statute.

(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 2011 and 2010, the Hospital provided charity care services of \$912,282 and \$1,013,714, respectively. The cost basis of these services was \$480,274 and \$511,090, respectively. No net patient service revenue was recorded for these services and expenses associated with these services were included in operating expenses.

(4) Net Patient Service Revenues

The Hospital provides health care services primarily to residents of the region. Revenues from the Medicare programs accounted for approximately 40% and 37% of the Hospital's net patient service revenues for the years ended June 30, 2011 and 2010, respectively. Revenues from the Medicaid programs accounted for approximately 29% and 27% of the Hospital's net patient service revenues for the years ended June 30, 2011 and 2010, 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 32% and 29% due from Medicare and approximately 12% and 13% due from Medicaid at June 30, 2011 and 2010.

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

Notes to Financial Statements

June 30, 2011 and 2010

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

	2011	2010
Gross patient service revenue	\$ 543,303,930	\$ 514,239,006
Less contractual allowances	(275,186,908)	(260,249,422)
Less provision for bad debt	(3,784,188)	(7,834,037)
Net patient service revenue	\$ 264,332,834	\$ 246,155,547

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

Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system which are based on clinical, diagnostic, and other factors. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. Services to Medicare beneficiaries are paid based on a prospective payment system (PPS) based on the classification of each case into a Diagnostic-Related Group (DRG). Inpatient psychiatric services are also reimbursed via a PPS system established for inpatient psychiatric patients based on pre-determined hospital specific per diems. The Hospital is reimbursed for Direct Graduate Medical Education and Medicare Bad Debts at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through fiscal year 2007.

Medicaid

In-patient 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 2008.

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

Notes to Financial Statements

June 30, 2011 and 2010

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.

(5) Capital Assets, Net

Capital assets at June 30 consist of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 183,137	\$ 183,137
Construction in progress (estimated cost to complete \$4.6 million)	7,169,410	6,030,347
Buildings	100,285,929	98,453,605
Equipment	71,941,150	68,629,917
Capital leases	<u>13,776,275</u>	<u>13,776,275</u>
	193,355,901	187,073,281
Less accumulated depreciation and amortization	<u>138,277,486</u>	<u>132,361,469</u>
Capital assets, net	<u>\$ 55,078,415</u>	<u>\$ 54,711,812</u>

Plant and equipment activity for the years ended June 30, 2011 and 2010 was as follows:

	<u>2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>2011</u>
Land	\$ 183,137	—	—	\$ 183,137
Construction in progress	6,030,347	2,854,329	(1,715,266)	7,169,410
Buildings	98,453,605	1,832,324	—	100,285,929
Equipment	68,629,917	6,893,896	(3,582,663)	71,941,150
Capital leases	<u>13,776,275</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>

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

Notes to Financial Statements

June 30, 2011 and 2010

	<u>2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>2010</u>
Land	\$ 183,137	—	—	\$ 183,137
Construction in progress	5,577,936	2,466,871	(2,014,460)	6,030,347
Buildings	97,403,562	1,050,043	—	98,453,605
Equipment	66,608,686	4,220,565	(2,199,334)	68,629,917
Capital leases	13,776,275	—	—	13,776,275
	<u>\$ 183,549,596</u>	<u>7,737,479</u>	<u>(4,213,794)</u>	<u>\$ 187,073,281</u>

Related information on accumulated depreciation and amortization for the years ended June 30, 2011 and 2010 was as follows:

	<u>2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>2011</u>
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	11,287,518	1,080,126	—	12,367,644
Total	<u>\$ 132,361,469</u>	<u>9,298,913</u>	<u>(3,382,896)</u>	<u>\$ 138,277,486</u>

	<u>2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>2010</u>
Buildings	\$ 68,317,171	2,839,758	—	\$ 71,156,929
Equipment	46,119,058	5,983,328	(2,185,364)	49,917,022
Capital leases	9,539,573	1,747,945	—	11,287,518
Total	<u>\$ 123,975,802</u>	<u>10,571,031</u>	<u>(2,185,364)</u>	<u>\$ 132,361,469</u>

(6) Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2011 and 2010 were as follows:

	<u>June 30, 2010 balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011 balance</u>	<u>Amounts due within 1 year</u>
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	2,075,991	—	(830,397)	1,245,594	830,396
Total long-term liabilities	<u>\$ 16,602,133</u>	<u>11,997,127</u>	<u>(12,981,582)</u>	<u>\$ 15,617,678</u>	<u>\$ 6,903,140</u>

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

Notes to Financial Statements

June 30, 2011 and 2010

	<u>June 30, 2009 balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010 balance</u>	<u>Amounts due within 1 year</u>
Accrued compensated absences	\$ 11,742,939	10,770,227	(10,305,388)	\$ 12,207,778	\$ 5,005,189
Estimated malpractice costs	25,225,000	—	(25,225,000) *	—	—
Capital leases	4,301,478	—	(1,983,114)	2,318,364	1,231,751
Long-term debt	<u>2,906,387</u>	<u>—</u>	<u>(830,396)</u>	<u>2,075,991</u>	<u>830,396</u>
Total long-term liabilities	<u>\$ 44,175,804</u>	<u>10,770,227</u>	<u>(38,343,898)</u>	<u>\$ 16,602,133</u>	<u>\$ 7,067,336</u>

* See note 8 for additional details

Long-term debt and capital lease obligations as of June 30, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Leasehold note-People's Bank, fixed rate beginning December 1, 2006 and maturing November 30, 2012 at a fixed rate of 6.35%.	\$ 1,245,594	\$ 2,075,991
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.	1,086,613	1,685,232
Capital lease obligation – GE Capital: Phillips Medical Beginning in 2005 for five years at 4.8%	—	360,698
Capital lease obligation – GE Capital: Medical Equipment Beginning in 2006 for five years at 5.2%	<u>—</u>	<u>272,434</u>
Total	2,332,207	4,394,355
Less current portion	<u>1,445,127</u>	<u>2,062,147</u>
Long-term debt, less current portion	<u>\$ 887,080</u>	<u>\$ 2,332,208</u>

Aggregate maturities of notes payable at June 30, 2011 were:

	<u>Leasehold note</u>
Fiscal year:	
2012	\$ 830,396
2013	<u>415,198</u>
	<u>\$ 1,245,594</u>

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

Notes to Financial Statements

June 30, 2011 and 2010

Aggregate maturities of capital leases at June 30, 2011 were:

	Capital leases
Fiscal year:	
2012	\$ 633,484
2013	475,041
	1,108,525
Total minimum lease payments	1,108,525
Less amount representing interest	21,912
	1,086,613
Present value of minimum lease payments	\$ 1,086,613

The Hospital also participates in operating lease agreements under the University for which its departments are allocated expenses based on square footage occupied. Rent expense was \$2,500,888 and \$2,081,928 in 2011 and 2010, respectively. Aggregate minimum lease payments for the leases are as follows:

	Amount
Fiscal year:	
2012	\$ 2,113,145
2013	1,937,082
2014	1,948,076
2015	1,321,564
2016	1,014,073
Thereafter	3,088,680
	11,422,620
Total	\$ 11,422,620

(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 Health Center have been reported in the financials as part of the internal contractual support.

The Health Center transferred \$5 million in 2011 and \$4.9 million in 2010, related to fringe benefit recoveries for support services paid by the general fund. During the years ended June 30, 2011 and 2010, \$400,000 and \$3.7 million was transferred to fund capital projects. These transfers are reflected as a net

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

Notes to Financial Statements

June 30, 2011 and 2010

asset transfer in the statements of revenues, expenses and changes in net assets. In 2010, the Health Center transferred \$11.5 million of cash to the Hospital to subsidize the prior year loss.

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 of Connecticut retirement plans. The State charges the Hospital for these and other fringe benefits. During the years ended June 30, 2011 and 2010, the Hospital incurred \$42,155,396 and \$38,825,799, respectively, for employee fringe benefits. The State subsidized approximately \$13.5 million of employee fringe benefits for fiscal years 2011 and 2010. Related salary costs were \$95,631,329 and \$88,764,151, respectively.

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

The Hospital provides medical services to correctional managed health care patients under a Health Center contract with the State of Connecticut Department of Correction (CTDOC). Revenue recorded under this contract was approximately \$9,610,000 and \$10,218,000 for the years ended June 30, 2011 and 2010, 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.

In 2011 and 2010, the Hospital recorded the liability for Finance Corporation purchases directly in accounts payable and accrued expenses in the statements of net assets.

(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.

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

Notes to Financial Statements

June 30, 2011 and 2010

In fiscal year 2010, the State of Connecticut passed Public Act No. 09-3, *AN ACT CONCERNING EXPENDITURES AND REVENUE FOR THE BIENNIUM ENDING JUNE 30, 2011*, (Public Act) . Sec. 74. of the Public Act states “(Effective from passage) (a) Notwithstanding the provisions of section 10a-256 of the general statutes, the sum of \$10,000,000 shall be transferred from The University of Connecticut Health Center Medical Malpractice Trust Fund and credited to the resources of the General Fund for each of the fiscal years ending June 30, 2010, and June 30, 2011.” The Public Act also states “the amount of funding necessary to protect the Health Center for malpractice shall be determined and approved by the Board of Trustees of the University of Connecticut.” Since the State effectively removed control and responsibility for maintaining and managing the malpractice fund from the Hospital, the Fund was transferred from the Hospital to the Health Center. Accordingly, beginning in 2010, the reporting of the 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. To the extent that claims for cases exceed current year premium charged by the Health Center, the Health Center may petition the State to make up the difference. 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. At June 30, 2011 and 2010, the Health Center Malpractice Trust Fund had actuarial reserves of approximately \$20.4 million and \$18.3 million and assets of approximately \$4.3 million and \$10 million for fiscal year 2011 and 2010, respectively.

(9) Subsequent Events

The Hospital has evaluated subsequent events through November 29, 2011, 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.



KPMG LLP
One Financial Plaza
755 Main Street
Hartford, CT 06103

Independent Accountants' Report on Applying Agreed-Upon Procedures

The Board of Trustees
University of Connecticut Health Center
John Dempsey Hospital:

We have performed the procedures enumerated below, which were agreed to by the State of Connecticut Office of Health Care Access (OHCA) and the University of Connecticut Health Center, John Dempsey Hospital (the "Hospital), solely to assist the specified parties in evaluating the Hospital's compliance with OHCA's requirements for completing the State of Connecticut Office of Health Care Access Report 600 (Report 600) for the fiscal year ended September 30, 2010. The Hospital's management is responsible for compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. We were informed by the Hospital's management and other personnel of the Hospital, who have responsibility for accounting and financial matters, that the filing is presented on the basis prescribed by OHCA's instructions and related OHCA correspondence.

Our procedures and findings were as follows:

1. We agreed the total charges per the Hospital's records used to prepare Report 600 to total Medical Assistance inpatient charges shown on Section I. A., Line 3 of Report 600. We selected a random sample of 15 inpatient accounts from the Hospital's records that were used to generate the total shown on Section I. A., Line 3 of Report 600 (Medical Assistance inpatient charges) and performed the following:
 - a. Agreed the financial class per the patient bill to the financial class shown on the records used to prepare Report 600.
 - b. Randomly selected four charges of \$50 or more and selected one room and board charge. Agreed the five charges from the detailed bill for each patient selected to the pricemaster in effect for the billing period.
 - c. Agreed the financial class per the remittance to the financial class shown on the records used to prepare Report 600. For patients in the sample for which payment has not yet been received, we selected an alternate patient for testing.

Findings: No exceptions were noted.

2. We agreed the total charges per the Hospital's records used to prepare Report 600 to total Medical Assistance outpatient charges shown on Section I. B., Line 3 of Report 600. We selected a random

sample of 10 outpatient accounts from the Hospital's records that were used to generate the total shown on Section I. B., Line 3 of Report 600 (Medical Assistance outpatient charges) and performed the following:

- a. Agreed the financial class per the patient bill to the financial class shown on the records used to prepare Report 600.
- b. Randomly selected five charges of \$50 or more. Agreed the five charges from the detailed bill for each patient selected to the pricemaster in effect for the billing period.
- c. Agreed the financial class per the remittance to the financial class shown on the records used to prepare Report 600. For patients in the sample for which payment has not yet been received, we selected an alternate patient for testing.

Findings: No exceptions were noted.

3. We agreed the total charges per the Hospital's records used to prepare Report 600 to total inpatient charges shown on Section I. A., Lines 1, 2, 6 and 7 of Report 600. We selected a random sample of 15 inpatient accounts from the Hospital's records that were used to generate totals shown on Section I. A., Lines 1, 2, 6 and 7 of Report 600 (all inpatient charges other than Medical Assistance charges) and performed the following:

- a. Agreed the financial class per the patient bill to the financial class shown on the records used to prepare Report 600.
- b. Randomly selected four charges of \$50 or more and selected one room and board charge. Agreed the five charges from the detailed bill for each patient selected to the pricemaster in effect for the billing period.
- c. Agreed the financial class per the remittance to the financial class shown on the records used to prepare Report 600. For patients in the sample for which payment has not yet been received, we selected an alternate patient for testing.

Findings: No exceptions were noted.

4. We agreed the total charges per the Hospital's records used to prepare Report 600 to total outpatient charges shown on Section I. B., Lines 1, 2, 6 and 7 of Report 600. We selected a random sample of 10 outpatient accounts from the Hospital's records that were used to generate totals shown on Section I. B., Lines 1, 2, 6 and 7 of Report 600 (all outpatient charges other than Medical Assistance charges) and performed the following:

- a. Agreed the financial class per the patient bill to the financial class shown on the records used to prepare Report 600.
- b. Randomly selected five charges of \$50 or more. Agreed the five charges from the detailed bill for each patient selected to the pricemaster in effect for the billing period.
- c. Agreed the financial class per the remittance to the financial class shown on the records used to prepare Report 600. For patients in the sample for which payment has not yet been received, we selected an alternate patient for testing.

Findings: No exceptions were noted.

5. From the Hospital's records that were used to generate the charity care total shown on Section II. C., Line 8 of Report 600, we performed the following:
 - a. Compared the charity care total on Report 600 to the total charity care disclosed in the footnotes to the Hospital's September 30, 2010 audited financial statements.
 - b. Compared the charity care total on Report 600 to the total charity care recorded in the Hospital's general ledger.
 - c. Obtained from the Hospital a copy of its charity care policy including a patient sliding fee scale that was in effect for the year ending September 30, 2010. Refer to the attached Hospital charity care policy.
 - d. Selected a random sample of 25 accounts and obtained documentation to support that the write-off was in compliance with the attached Hospital charity care policy.

Findings: KPMG notes that the Hospital has a fiscal year end of June 30, 2010. As such, the free care disclosed in the audited financial statements does not agree to Report 600. The Hospital performs a reconciliation to exclude the period from July 1, 2009 through September 30, 2009 and include the period from July 1, 2010 through September 30, 2010. KPMG agreed the amounts in the reconciliation to the general ledger and Report 600.

No exceptions noted.

6. We selected a random sample of 25 accounts from the Hospital's records, on which payments were made subsequent to the write-off of an outstanding balance as uncollectible and the placement of the account with a collection agent in the current year, and performed the following:
 - a. Compared the amounts per the Hospital's records to the amounts from the collection agent remittances.
 - b. Determined whether the bad debt recoveries were recorded as a component of the allowance for doubtful accounts, provision for bad debts, or as other operating revenue.
 - c. Determined whether the collection agent fees were recorded as a component of the allowance for doubtful accounts, provision for bad debts, or as an operating expense.

Findings: KPMG determined that the amounts per the Hospital's records were in agreement with the amounts from the collection agent remittances. KPMG determined that the bad debt recoveries are recorded as a component of the provision for bad debts. KPMG determined that collection agent fees are recorded as an operating expense. No exceptions noted.

7. From the Hospital's records that were used to generate the Plus/Minus Other Adjustments total shown on Section III. A., Line 3 in the Net Revenue Reconciliation section of Report 600 ("Plus/Minus Other Adjustments to OHCA Defined Net Revenue"), we performed the following:
 - a. Read the description of the amounts included in Other Adjustments and compared the description to OHCA's definition of items that are not components of net revenue and are adjustments necessary to reconcile net revenue in accordance with accounting principles generally accepted in the United States to net revenue in accordance with OHCA's definition.
 - b. Agreed amounts included in Other Adjustments to a supporting schedule prepared by the Hospital from its accounting records.

Findings: There were no Other Adjustments listed in the Net Revenue Reconciliation section of Report 600.

8. From the Hospital's records that were used to generate the Plus/Minus Other Adjustments total shown on Section III. B., Line 2 in the Gross Revenue Reconciliation section of Report 600 ("Plus/Minus Other Adjustments to OHCA Defined Gross Revenue"), we performed the following:
 - a. Read the description of the amounts included in Other Adjustments and compared the description to OHCA's definition of items that are not components of gross revenue and are adjustments necessary to reconcile gross revenue in accordance with accounting principles generally accepted in the United States to gross revenue in accordance with OHCA's definition.
 - b. Agreed amounts included in Other Adjustments to a supporting schedule prepared by the Hospital from its accounting records.

Findings: There were no Other Adjustments listed in the Gross Revenue Reconciliation section of Report 600.

9. From the Hospital's records that were used to generate the Plus/Minus Other Adjustments total shown on Section III. C., Line 2 in the Uncompensated Care Reconciliation section of Report 600 ("Plus/Minus Other Adjustments to OHCA Defined Uncompensated Care"), we performed the following:
 - a. Read the description of the amounts included in Other Adjustments and compared the description to OHCA's definition of items that are not components of uncompensated care and are adjustments necessary to reconcile uncompensated care in accordance with accounting principles generally accepted in the United States to uncompensated care in accordance with OHCA's definition.
 - b. Agreed amounts included in Other Adjustments to a supporting schedule prepared by the Hospital from its accounting records.

Findings: There were no Other Adjustments listed in the Uncompensated Care Reconciliation section of Report 600.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on Report 600. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 29, 2011

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL, UMG/UHP
ADMINISTRATIVE MANUAL

SECTION: FINANCIAL MANAGEMENT

NUMBER: 04-005

SUBJECT: CHARITY CARE

PAGE: 1 OF 3

PURPOSE:

To provide a policy and procedure for the determination and handling of University of Connecticut Health Center's (UCHC) Charity Care. Charity Care is a financial assistance program offered by the UConn Health Center which provides a reduced cost rate for medically necessary services incurred by State of Connecticut legal residents whose household income does not exceed 250% of the Federal Income Poverty Guidelines for a family unit.

Patients must meet the State of Connecticut definition of "Uninsured", having applied and been denied eligibility for any medical or health care coverage provided under the General Assistance Program or the CT Medicaid program, or not be eligible for coverage under the Medicare or CHAMPUS programs, or any other governmental or privately sponsored health or accident insurance. Patients must furnish proof of income to qualify for charity care.

PROCEDURE:

A. Notice of Charity Care:

Signs in both English and Spanish are posted in the operational areas indicated below:

- Health Center Cashier Offices
- Financial Counseling Offices
- Hospital outpatient departments
- Patient Financial Services departments
- Hospital Emergency department
- Same Day Surgery department
- UMG/UHP Physician Offices**

B. Applications for Charity Care:

Patients may obtain an application for Charity Care from Financial Counselors or the Collection units of the Patient Financial Services Department. The completed application must be returned to the attention of the Collections Supervisor of the Patient Financial Services Department.

Financial Counselors, Case Managers, and Social Workers are available to assist the patient with this process. Additionally, UConn Health Center has translation services available through the Language Line services via AT&T to also assist with this process.

C. Eligibility Requirements

All patients who apply for Charity Care consideration must be State of Connecticut legal residents whose household income does not exceed 250% of the Federal Income Poverty Guidelines for a family unit. Patients must meet the definition of "Uninsured", having applied and been denied eligibility for any medical or health care coverage provided under the General Assistance Program or the CT Medicaid program, or not eligible for coverage under the Medicare or CHAMPUS programs, or any other governmental or privately sponsored health or accident insurance. Patients must furnish proof of income to qualify for charity care.

Federal Income Poverty Guidelines will be adjusted annually based upon the inflation rate as determined by the Consumer Price Index (CPI) as published at the end of the calendar year.

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL
ADMINISTRATIVE MANUAL

SECTION: FINANCIAL MANAGEMENT

NUMBER: 04-005

SUBJECT: CHARITY CARE

PAGE: 2 OF 3

D. Services Covered by the Program:

Medically necessary services, which are deemed essential to identify or treat a patient's condition, illness or injury, based on the patient's symptoms, diagnosis or treatment of the underlying condition, in accordance with professional standards of medical care generally accepted in the medical community.

E. Services NOT Covered:

Not medically necessary services, which are solely for the convenience of the patient

Disputes with respect to medically necessary services may be appealed to the Associate Dean for Clinical Affairs

F. Application Documentation Requirements:

1. Applications must include documentation of all household income. The required form of documentation will be one or more of the following:
 - a. Pay stubs for the previous three (3) months
 - b. The previous year's income tax return (Schedule C for self-employed applicants)
 - c. The previous year's W-2 form
 - d. Social Security verification of monthly pension
2. Patient's whose income is known to exceed the poverty income guidelines must also provide documentation of their assets, which incorporate the following items:
 - a. Savings and passbook accounts
 - b. Stocks, bonds, and certificates of deposit
 - c. Money market accounts
 - d. Annuities
 - e. Pensions
3. Applications must include documentation of unpaid UCHC expenses. Any unpaid UCHC expenses must be documented by a billing invoice and a balance due statement.
4. Proof of State of Connecticut legal residency.

G. Eligibility Determination

1. An applicant will be considered eligible for Charity Care consideration only if eligibility and documentation requirements are met, and the application is returned within 90 days of receipt.
2. After making the eligibility determination, the Collection Supervisor or their designee will notify the patient of the decision in writing within three business days.
3. Approved Charity Care applications will cover only those services where payment is due from the patient at the time of the eligibility determination. Patients may reapply for Charity Care on a per episode basis. Also, if additional services are requested related to the current treatment, those services will be covered as well under the initial application

THE UNIVERSITY OF CONNECTICUT HEALTH CENTER
JOHN DEMPSEY HOSPITAL
ADMINISTRATIVE MANUAL

SECTION: FINANCIAL MANAGEMENT

NUMBER: 04-005

SUBJECT: CHARITY CARE

PAGE: 3 OF 3

H. Collection Procedure

1. Normal billing procedures will continue during the application process. However, the account will not be referred to an outside collection agency, or if the account is already with an outside collection agency, collection efforts will be delayed until final determination is made on the patient's eligibility for Charity Care.
2. Control logs are maintained by the collection department for John Dempsey Hospital (JDH) and University Medical Group (UMG) to record allowances processed by fiscal year and will include the transaction date, the patient name and patient visit number(s), the transaction amount and the year to date total. The JDH control log is made available to the State of Connecticut's Office of Health Care Access upon request. Applications will be retained for a six (6) month period after the end of the fiscal year and logs are retained for permanently for audit and statistical purposes.

Mike Summerer MD. MS.
Interim Hospital Director

Date Issued: 2/95

Date Reviewed: 10/95; 10/97

Date Revised: 12/97, 10/01, 11/01, 7/03, 1/05; 01/07; 06/08; 02/09

2010 POVERTY LEVEL GUIDELINES

Federal Income Poverty Guidelines as published in the Federal Register on February 3, 2010

Family Size	% of Poverty Level	100%		101%		126%		151%		176%		201%		226%	
		% of Discount of charges	42.50%	42.50%	125%	150%	175%	200%	225%	250%	42.50%	42.50%	28%	14%	
	Charity Care Discount	100%	84%	70%	56%	42%	28%	14%							
1	Total Household Income Up to	\$10,830	\$13,538	\$16,245	\$18,953	\$21,660	\$24,368	\$27,075							
2	Total Household Income Up to	\$14,570	\$18,213	\$21,855	\$25,498	\$29,140	\$32,783	\$36,425							
3	Total Household Income Up to	\$18,310	\$22,888	\$27,465	\$32,043	\$36,620	\$41,198	\$45,775							
4	Total Household Income Up to	\$22,050	\$27,563	\$33,075	\$38,588	\$44,100	\$49,613	\$55,125							
5	Total Household Income Up to	\$25,790	\$32,238	\$38,685	\$45,133	\$51,580	\$58,028	\$64,475							
6	Total Household Income Up to	\$29,530	\$36,913	\$44,295	\$51,678	\$59,060	\$66,443	\$73,825							
7	Total Household Income Up to	\$33,270	\$41,588	\$49,905	\$58,223	\$66,540	\$74,858	\$83,175							
8	Total Household Income Up to	\$37,010	\$46,263	\$55,515	\$64,768	\$74,020	\$83,273	\$92,525							

For each additional person in family add \$3,740

2009 POVERTY LEVEL GUIDELINES

Federal Income Poverty Guidelines as published in the Federal Register on February 3, 2009

Family Size	% of Poverty Level	100%	101%	126%	151%	176%	201%	226%
	% of Discount of charges	42.50%	42.50%	42.50%	42.50%	42.50%	42.50%	42.50%
	Charity Care Discount	100%	84%	70%	56%	42%	28%	14%
1	Total Household Income Up to	\$10,830	\$13,538	\$16,245	\$18,953	\$21,660	\$24,368	\$27,075
2	Total Household Income Up to	\$14,570	\$18,213	\$21,855	\$25,498	\$29,140	\$32,783	\$36,425
3	Total Household Income Up to	\$18,310	\$22,888	\$27,465	\$32,043	\$36,620	\$41,198	\$45,775
4	Total Household Income Up to	\$22,050	\$27,563	\$33,075	\$38,588	\$44,100	\$49,613	\$55,125
5	Total Household Income Up to	\$25,790	\$32,238	\$38,685	\$45,133	\$51,580	\$58,028	\$64,475
6	Total Household Income Up to	\$29,530	\$36,913	\$44,295	\$51,678	\$59,060	\$66,443	\$73,825
7	Total Household Income Up to	\$33,270	\$41,588	\$49,905	\$58,223	\$66,540	\$74,858	\$83,175
8	Total Household Income Up to	\$37,010	\$46,263	\$55,515	\$64,768	\$74,020	\$83,273	\$92,525

For each additional person in family add \$3,740



**UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

Consolidated Financial Statements

(With Management's Discussion and Analysis)

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

Consolidated Financial Statements
(With Management's Discussion and Analysis)

June 30, 2011 and 2010

Table of Contents

	Page
Management's Discussion and Analysis	1
Independent Auditors' Report	3
Consolidated Statements of Net Assets	4
Consolidated Statements of Revenues, Expenses, and Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Schedule 1 – Consolidating Statement of Net Assets (June 30, 2011)	14
Schedule 2 – Consolidating Statement of Revenues, Expenses, and Changes in Net Assets (Year ended June 30, 2011)	15

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

Management's Discussion and Analysis

June 30, 2011 and 2010

The following discussion and analysis provides an overview of the consolidated financial position and activities of the University of Connecticut Health Center Finance Corporation and subsidiary (Finance Corporation) as of and for the years ended June 30, 2011, 2010 and 2009. This discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and the notes thereto, which follow this section.

Financial Highlights

Finance Corporation's financial position at June 30, 2011, 2010 and 2009, included assets of \$37,230,378, \$47,727,453 and \$36,529,028, respectively, and liabilities of \$33,551,317, \$45,163,129 and \$34,287,169, respectively. The value of both the assets and liabilities is attributable to the Finance Corporation's maintaining the real estate and related financing on the Medical Arts and Research Building (MARB) and the property at 16 Munson Road. The increase in net assets is primarily attributable to decrease in interest expenses associated with the repayment of the Munson Road note. Changes in net assets represent the operating activity of the Finance Corporation, which results primarily from service and rental revenues and expenses, and are summarized for the years ended June 30, 2011, 2010 and 2009:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Summary of assets and liabilities at June 30:			
Current assets	\$ 5,725,414	\$ 15,325,717	\$ 3,394,211
Noncurrent assets	31,504,964	32,401,736	33,134,817
Total assets	<u>\$ 37,230,378</u>	<u>\$ 47,727,453</u>	<u>\$ 36,529,028</u>
Current liabilities	\$ 16,270,410	26,994,426	4,657,277
Long-term liabilities	17,280,907	18,168,703	29,629,892
Total liabilities	33,551,317	45,163,129	34,287,169
Unrestricted net deficit	(9,713,355)	(47,927)	(40,740)
Invested in capital assets, net of related debt	13,392,416	2,612,251	2,282,599
Total liabilities and net assets	<u>\$ 37,230,378</u>	<u>\$ 47,727,453</u>	<u>\$ 36,529,028</u>
Summary of revenues, expenses, and transfers for the year ended June 30:			
Operating revenues	\$ 3,359,494	\$ 3,252,131	\$ 3,235,933
Operating expenses	(2,238,207)	(2,923,623)	(2,987,836)
Nonoperating expenses	(6,550)	(6,043)	(6,286)
Increase in net assets	<u>\$ 1,114,737</u>	<u>\$ 322,465</u>	<u>\$ 241,811</u>

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

Management's Discussion and Analysis

June 30, 2011 and 2010

Overview of the Financial Statements

This annual report consists of management's discussion and analysis and the consolidated financial statements. The basic financial statements (consolidated statements of net assets, consolidated statements of revenues, expenses, and changes in net assets, and consolidated statements of cash flows) present the financial position of the Finance Corporation at June 30, 2011 and 2010, respectively and the results of its operations and its financial activities for the years then ended. These statements report information about the Finance Corporation using accounting methods similar to those used by private-sector companies. The consolidated statements of net assets include all of the Finance Corporation's assets and liabilities. The consolidated statements of revenues, expenses, and changes in net assets reflects the years' 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 consolidated statements report the Finance Corporation'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 consolidated statements of cash flows provides relevant information about each year's cash receipts and cash payments and classifies them as to operating, investing, and capital and related financing activities. The consolidated financial statements include notes that explain information in the consolidated financial statements and provide more detailed data.

Capital and Debt Related Activities

In the current year, the Finance Corporation continued to facilitate the University of Connecticut Health Center's (the Health Center) efforts to increase patient facility space on campus by maintaining payments on a secured mortgage on the Medical Arts and Research Building (MARB) on campus. As of June 30, 2011, 2010, and 2009, the Finance Corporation had made all regularly scheduled payments thereby reducing the amount of secured mortgage principal debt by \$905,256, \$782,326, and \$734,391, respectively.

The Finance Corporation also maintained regularly scheduled payments on a promissory note and mortgage of the property located at 16 Munson Road. At June 30, 2011, 2010, and 2009, these payments reduced principal debt by \$10,627,792, \$300,209, and \$279,106, respectively. The Finance Corporation paid off the mortgage and promissory note in the fiscal year 2011 and continues to rent space to UConn Health Center.

Fiscal Year 2012 Outlook

The Finance Corporation was created by statute in recognition of the Health Center's need to implement decisions rapidly in order to provide excellent care in a competitive health care environment with a special focus on the need for rapid and smoother processes in the areas of purchasing, leasing, construction, and through joint ventures with other organizations.

The Finance Corporation will continue to maintain the MARB and 16 Munson Road properties.

The economic position of the Finance Corporation is closely tied to that of the University of Connecticut Health Center's clinical entities that the Finance Corporation services. 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



KPMG LLP
One Financial Plaza
755 Main Street
Hartford, CT 06103

Independent Auditors' Report

Joint Audit and Compliance Committee
Health Center Finance Corporation:

We have audited the accompanying consolidated statements of net assets of University of Connecticut Health Center Finance Corporation and Subsidiary ("Finance Corporation" or "the Company"), a component unit of the State of Connecticut, as of June 30, 2011 and 2010, and the related consolidated statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Company'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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University of Connecticut Health Center Finance Corporation and Subsidiary as of June 30, 2011 and 2010, and the results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in Schedules 1 and 2 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. The consolidating information referred to in this report has been subjected to the auditing procedures applied in the audit of the 2011 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2011 consolidated financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) on pages 1 and 2 is not a required part of the basic financial statements of University of Connecticut Health Center Finance Corporation but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

November 29, 2011

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

Consolidated Statements of Net Assets

June 30, 2011 and 2010

Assets	2011	2010
	<hr/>	<hr/>
Current assets:		
Cash	\$ 5,495,841	\$ 10,622,509
Malpractice fund	176,649	2,460,337
Due from:		
UConn Medical Group	—	1,715,050
University Dentists	15,061	229,691
Correctional Managed Health Care	37,863	298,130
Total current assets	<hr/> 5,725,414	<hr/> 15,325,717
Noncurrent assets:		
Assets limited to use	15,700	159,591
Capital assets, net	31,489,264	32,242,145
Total noncurrent assets	<hr/> 31,504,964	<hr/> 32,401,736
Total assets	<hr/> <u>\$ 37,230,378</u>	<hr/> <u>\$ 47,727,453</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 97,046	\$ 47,542
Due to John Dempsey Hospital	13,014,620	13,018,739
Due to UConn Health Center – Malpractice Fund	176,649	2,460,337
Due to UConn Medical Group	1,881,187	—
Advances for construction	6,619	6,619
Deferred revenue	278,352	—
Loans payable, current portion	815,937	11,461,189
Total current liabilities	<hr/> 16,270,410	<hr/> 26,994,426
Long-term liabilities:		
Loans payable, net of current portion	17,280,907	18,168,703
Total long-term liabilities	<hr/> 17,280,907	<hr/> 18,168,703
Total liabilities	<hr/> 33,551,317	<hr/> 45,163,129
Net assets (deficit):		
Unrestricted	(9,713,355)	(47,927)
Invested in capital assets, net of related debt	13,392,416	2,612,251
Total net assets	<hr/> 3,679,061	<hr/> 2,564,324
Total liabilities and net assets	<hr/> <u>\$ 37,230,378</u>	<hr/> <u>\$ 47,727,453</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

Consolidated Statements of Revenues, Expenses, and Changes in Net Assets
Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Service charges	\$ 19,259	\$ 16,896
Rental and other income	3,340,235	3,235,235
Total operating revenues	<u>3,359,494</u>	<u>3,252,131</u>
Operating expenses:		
Professional services	58,674	46,469
Interest expense	1,420,037	2,089,037
Depreciation	752,881	752,881
Other	6,615	35,236
Total operating expenses	<u>2,238,207</u>	<u>2,923,623</u>
Operating income	<u>1,121,287</u>	<u>328,508</u>
Nonoperating expenses:		
Loan servicing fee	(6,550)	(6,043)
Total nonoperating expenses	<u>(6,550)</u>	<u>(6,043)</u>
Increase in net assets	1,114,737	322,465
Net assets, beginning of year	<u>2,564,324</u>	<u>2,241,859</u>
Net assets, end of year	<u>\$ 3,679,061</u>	<u>\$ 2,564,324</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

Consolidated Statements of Cash Flows

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from the State of Connecticut and other entities related to the Health Center and John Dempsey Hospital	\$ 24,651,000	\$ 31,721,460
Cash paid to suppliers, contractors, and others	(21,779,740)	(24,158,029)
Cash received for rental income, service charges and other income	3,455,050	3,110,301
Cash paid for administrative expenses	(57,271)	(43,719)
Net cash provided by operating activities	<u>6,269,039</u>	<u>10,630,013</u>
Cash flows from investing activities:		
Decrease (increase) in assets limited to use	<u>143,891</u>	<u>(19,800)</u>
Net cash provided by (used in) by investing activities	<u>143,891</u>	<u>(19,800)</u>
Cash flows from capital financing activities:		
Repayments of capital debt	(11,533,048)	(1,082,535)
Loan servicing fees	(6,550)	(6,043)
Net cash used in capital financing activities	<u>(11,539,598)</u>	<u>(1,088,578)</u>
Net (decrease) increase in cash	(5,126,668)	9,521,635
Cash, beginning of year	<u>10,622,509</u>	<u>1,100,874</u>
Cash, end of year	<u>\$ 5,495,841</u>	<u>\$ 10,622,509</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,121,287	\$ 328,508
Depreciation	752,881	752,881
Changes in operating assets and liabilities:		
Due from UConn Medical Group	1,715,050	(1,715,050)
Due from University Dentists	214,630	643,485
Due from Correctional Managed Health Care	260,267	631,300
Accounts payable, accrued expenses, and deferred revenue	327,856	—
Due to John Dempsey Hospital	(4,119)	11,896,721
Due to UConn Medical Group	<u>1,881,187</u>	<u>(1,907,832)</u>
Net cash provided by operating activities	<u>\$ 6,269,039</u>	<u>\$ 10,630,013</u>

See accompanying notes to consolidated financial statements.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

(a) Reporting Entity

Effective July 1, 1987, the University of Connecticut Health Center Finance Corporation (Finance Corporation or Company) was established pursuant to Public Act No. 87-458. The purpose of the Finance Corporation is to provide greater flexibility for John Dempsey Hospital (21002 Fund) (the Hospital), UConn Medical Group, University Dentists, and Correctional Managed Health Care (collectively the entities) 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 accounts receivable, negotiate joint ventures, shared service, and other agreements for all of the entities, as well as process malpractice claims on behalf of the University of Connecticut Health Center, Hospital, UConn Medical Group, and University Dentists.

The Finance Corporation is administered by a board of directors currently consisting of the President of the University of Connecticut, the Secretary of the Office of Policy and Management for the State of Connecticut, a member of the Board of Directors of the University of Connecticut Health Center, the Vice President for Health Affairs, and the Chairman of the Board of Trustees for the University of Connecticut who is appointed by the governor of the State of Connecticut. The governor appoints one of these members as Chairman of the Board of the University of Connecticut Health Center Finance Corporation.

The UCHCFC Munson Road Corporation, a subsidiary of the Finance Corporation, was formed pursuant to Section 10a-254 of the Connecticut General Statutes by the University of Connecticut Health Center Finance Corporation (its sole member). This subsidiary corporation is administered by a board of directors elected on an annual basis by the sole member's board of directors. The number of directors shall be not less than four or more than seven, and 50% shall be members of the board of directors of the sole member. There are four members of the subsidiary corporation's board of directors, and five members on the sole member's board of directors.

The expenses reported in the consolidated 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 University of Connecticut Health Center and other Connecticut State agencies.

The Finance Corporation is a component unit of the State of Connecticut and is therefore generally exempt from federal income taxes under Section 115 of the Internal Revenue Code of 1986.

(b) Basis of Presentation

The Finance Corporation's consolidated 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.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

The Finance Corporation has adopted Governmental Accounting Standards Board (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*, as of July 1, 2001. The Finance Corporation also adopted GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001.

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

(d) Proprietary Fund Accounting

The Finance Corporation utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis.

(e) Cash

Cash includes cash in banks.

(f) Malpractice Trust Fund

The malpractice trust fund includes investments held on behalf of the University of Connecticut Health Center (the Health Center) and is offset by due to the Health Center on the consolidated statements of net assets. The funds are invested in the State of Connecticut Short-Term Investment Fund. The cost of these funds approximates market value. The Finance Corporation is responsible for the timely payment of malpractice fund claims payments, therefore it holds an amount estimated to be the current portion due of the malpractice fund liabilities in its account. The liability is reflected on the Health Center’s financial statements.

(g) 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 assets 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.

(h) Service Charge Revenue

Service charge revenue each month is \$22 per transaction charge for John Dempsey Hospital, UConn Medical Group, and University Dentists. A service charge is not charged on expenditures processed

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

for the Correctional Managed Health Care Program (CMHC). Total expenditures processed for CMHC during the years ended June 30, 2011 and 2010 were \$1,054,719 with 17 transactions and \$768,700 with 21 transactions, respectively.

(i) Assets Limited as to Use

Assets limited as to use consist of funds in escrow for the Medical Arts and Research Building (MARB) and the Munson Road Property. These amounts were held either in money market funds or in certificates of deposits with varying maturity dates in order to meet the projects' funding needs.

(2) Due from (to) related parties

As of June 30, 2011 and 2010, the Finance Corporation had the following amounts due (to) from related parties:

	<u>2011</u>		<u>2010</u>
UConn Medical Group	\$ (1,881,187)	\$	1,715,050
University Dentists	15,061		229,691
Correctional Managed Health Care	37,863		298,131
John Dempsey Hospital	(13,014,620)		(13,018,739)
UConn Health Center – Malpractice Fund	(176,649)		(2,460,337)

(3) Advances for Construction

Advances for construction in the amount of \$6,619 as of June 30, 2011 and 2010, represent the unused portion of bond proceeds that were received in March 1993 by the Finance Corporation which are to be used for the Farm Hollow Building renovations.

(4) Capital Assets

Capital assets as of June 30, 2011 and 2010 consisted of the following:

	<u>2011</u>		<u>2010</u>
MARB building	\$ 23,873,966	\$	23,873,966
UCHCFC Munson Road Corp. land	6,058,136		6,058,136
UCHCFC Munson Road Corp. building	5,302,201		5,302,201
16 Munson Road Land	534,948		534,948
16 Munson Road Building	554,703		554,703
Office equipment	20,998		20,998
Less: accumulated depreciation	(4,855,688)		(4,102,807)
Capital assets, net	<u>\$ 31,489,264</u>	\$	<u>32,242,145</u>

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

Capital assets and depreciation activity for the years ended June 30, 2011 and 2010 was as follows:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2011</u>
MARB building	\$ 23,873,966	—	—	\$ 23,873,966
UHCFC Munson Road Corp. land	6,058,136	—	—	6,058,136
UHCFC Munson Road Corp. building	5,302,201	—	—	5,302,201
16 Munson Road land	534,948	—	—	534,948
16 Munson Road building	554,703	—	—	554,703
Office equipment	20,998	—	—	20,998
Less: depreciation – buildings	(4,081,809)	(752,881)	—	(4,834,690)
Less: depreciation – office equipment	(20,998)	—	—	(20,998)
Total	<u>\$ 32,242,145</u>	<u>(752,881)</u>	<u>—</u>	<u>\$ 31,489,264</u>

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2010</u>
MARB building	\$ 23,873,966	—	—	\$ 23,873,966
UHCFC Munson Road Corp. land	6,058,136	—	—	6,058,136
UHCFC Munson Road Corp. building	5,302,201	—	—	5,302,201
16 Munson Road land	534,948	—	—	534,948
16 Munson Road building	554,703	—	—	554,703
Office equipment	20,998	—	—	20,998
Less: depreciation – buildings	(3,328,928)	(752,881)	—	(4,081,809)
Less: depreciation – office equipment	(20,998)	—	—	(20,998)
Total	<u>\$ 32,995,026</u>	<u>(752,881)</u>	<u>—</u>	<u>\$ 32,242,145</u>

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(5) Long-term Liabilities

On December 2, 2003, the Finance Corporation entered into a loan agreement with Capital Lease Funding to finance the construction of the MARB. On November 12, 2004, the Finance Corporation entered into a promissory note with Munson Road, LLC and assumed the existing mortgage for the acquisition of the property located at 16 Munson Road. During the year, the Finance Corporation made its final, balloon payment on the MARB paying off the remaining balance of the note. Activity related to these loans were as follows:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011</u>	<u>Amount due within 1 year</u>
Secured Mortgage – Capital Lease Funding	\$ 19,002,100	—	(905,256)	18,096,844	\$ 815,937
Secured Mortgage – Prudential	10,524,790	—	(10,524,790)	—	—
Promissory Note – Konover	103,002	—	(103,002)	—	—
Total	<u>\$ 29,629,892</u>	<u>—</u>	<u>(11,533,048)</u>	<u>18,096,844</u>	<u>\$ 815,937</u>

	<u>June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010</u>	<u>Amount due within 1 year</u>
Secured Mortgage – Capital Lease Funding	\$ 19,784,426	—	(782,326)	19,002,100	\$ 833,397
Secured Mortgage – Prudential	10,695,185	—	(170,395)	10,524,790	10,524,790
Promissory Note – Konover	232,816	—	(129,814)	103,002	103,002
Total	<u>\$ 30,712,427</u>	<u>—</u>	<u>(1,082,535)</u>	<u>29,629,892</u>	<u>\$ 11,461,189</u>

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

Long-term debt obligations as of June 30, 2011 and 2010 consisted of the following:

	2011	2010
Secured Mortgage - Capital Lease Funding, principal and interest payments began January 2004 and continue until November 2024, with interest at 6.34%	\$ 18,096,844	\$ 19,002,100
Secured Mortgage - Prudential, principal and interest payments begin February 2001 and continue until the stipulated \$10.5 million balloon payment due January 2011, with interest at 7.85%	—	10,524,790
Promissory Note - Konover, principal and interest payments began April 2005 and continue until January 2011, with interest at 6.50%	—	103,002
Total	18,096,844	29,629,892
Less current portion	815,937	11,461,189
Long-term debt, less current portion	\$ 17,280,907	\$ 18,168,703

Aggregate maturities of long-term debt at June 30, 2011 are as follows:

Fiscal year:	
2012	\$ 815,937
2013	945,746
2014	1,007,480
2015	1,073,243
2016	1,143,299
Thereafter	13,111,139
	\$ 18,096,844

(6) Related Party Transactions

The Finance Corporation enters into transactions for the benefit of Health Center entities. In 2006, the Finance Corporation entered into transactions resulting in the acquisition of the MARB and Munson Road properties. The Finance Corporation master leases these buildings to entities from the University of Connecticut Health Center thereby supporting the associated mortgage payments.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

Revenue under these agreements over the next five years and thereafter are as follows:

	MARB	Munson Road
Fiscal year:		
2012	\$ 2,020,230	\$ 1,320,000
2013	2,020,230	1,320,000
2014	2,020,230	1,320,000
2015	2,020,230	1,320,000
2016	2,020,230	1,320,000
Thereafter	17,003,603	2,770,548
Total	\$ 27,104,753	\$ 9,370,548

(7) Subsequent Events

The Company has evaluated subsequent events through November 29, 2011, which represents the date the financial statements were available to be issued and noted no subsequent events that would have impacted the Company's financial statements.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

Consolidating Statement of Net Assets

June 30, 2011

Assets	University of Connecticut Health Center Finance Corporation	UCHCFC Munson Road Corp.	Eliminations	Total
Current assets:				
Cash	\$ 3,782,206	\$ 1,713,635	\$ —	\$ 5,495,841
Malpractice fund	176,649	—	—	176,649
Due from:				
UConn Medical Group	—	—	—	—
University Dentists	15,061	—	—	15,061
UCHCFC Munson Rd. Corp	10,658,493	—	(10,658,493)	—
Correctional Managed Health Care	37,863	—	—	37,863
Total current assets	<u>14,670,272</u>	<u>1,713,635</u>	<u>(10,658,493)</u>	<u>5,725,414</u>
Noncurrent assets:				
Assets limited to use	—	15,700	—	15,700
Capital assets, net:	<u>21,098,545</u>	<u>10,390,719</u>	<u>—</u>	<u>31,489,264</u>
Total noncurrent assets	<u>21,098,545</u>	<u>10,406,419</u>	<u>—</u>	<u>31,504,964</u>
Total assets	<u>\$ 35,768,817</u>	<u>\$ 12,120,054</u>	<u>\$ (10,658,493)</u>	<u>\$ 37,230,378</u>
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	\$ 97,046	\$ —	\$ —	\$ 97,046
Due to John Dempsey Hospital	13,014,620	—	—	13,014,620
Due to UCHC – Malpractice Fund	176,649	—	—	176,649
Due to UCHC Finance Corporation	—	10,658,493	(10,658,493)	—
Due to UCONN Medical Group	1,881,187	—	—	1,881,187
Advances for construction	6,619	—	—	6,619
Deferred revenue	168,352	110,000	—	278,352
Loans payable, current portion	815,937	—	—	815,937
Total current liabilities	<u>16,160,410</u>	<u>10,768,493</u>	<u>(10,658,493)</u>	<u>16,270,410</u>
Long-term liabilities:				
Loans payable, net of current portion	<u>17,280,907</u>	<u>—</u>	<u>—</u>	<u>17,280,907</u>
Total long-term liabilities	<u>17,280,907</u>	<u>—</u>	<u>—</u>	<u>17,280,907</u>
Total liabilities	<u>33,441,317</u>	<u>10,768,493</u>	<u>(10,658,493)</u>	<u>33,551,317</u>
Net assets (deficit):				
Unrestricted	(674,197)	(9,039,158)	—	(9,713,355)
Invested in capital assets, net of related debt	<u>3,001,697</u>	<u>10,390,719</u>	<u>—</u>	<u>13,392,416</u>
Total net assets	<u>2,327,500</u>	<u>1,351,561</u>	<u>—</u>	<u>3,679,061</u>
Total liabilities and net assets	<u>\$ 35,768,817</u>	<u>\$ 12,120,054</u>	<u>\$ (10,658,493)</u>	<u>\$ 37,230,378</u>

See accompanying independent auditors' report.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
FINANCE CORPORATION**

Consolidating Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2011

	University of Connecticut Health Center Finance Corporation	UHCFC Munson Road Corp.	Total
	<u> </u>	<u> </u>	<u> </u>
Operating revenues:			
Service charges	\$ 17,380	\$ 1,879	\$ 19,259
Rental and other income	2,091,147	1,249,088	3,340,235
Total operating revenues	<u>2,108,527</u>	<u>1,250,967</u>	<u>3,359,494</u>
Operating expenses:			
Professional services	57,271	1,403	58,674
Interest expense	1,280,149	139,888	1,420,037
Depreciation	606,457	146,424	752,881
Other	—	6,615	6,615
Total operating expenses	<u>1,943,877</u>	<u>294,330</u>	<u>2,238,207</u>
Operating income	<u>164,650</u>	<u>956,637</u>	<u>1,121,287</u>
Nonoperating expenses:			
Loan servicing fee	<u>(6,550)</u>	<u>—</u>	<u>(6,550)</u>
Total nonoperating expenses	<u>(6,550)</u>	<u>—</u>	<u>(6,550)</u>
Increase in net assets	158,100	956,637	1,114,737
Net assets, beginning of year	<u>2,169,400</u>	<u>394,924</u>	<u>2,564,324</u>
Net assets, end of year	<u>\$ 2,327,500</u>	<u>\$ 1,351,561</u>	<u>\$ 3,679,061</u>

See accompanying independent auditors' report.



**UNIVERSITY OF CONNECTICUT HEALTH CENTER,
UCONN MEDICAL GROUP (CLINICAL OPERATIONS)**

Schedule of Accounts Receivable

June 30, 2011

(With Independent Accountants' Review Report Thereon)

**UNIVERSITY OF CONNECTICUT HEALTH CENTER,
UCONN MEDICAL GROUP (CLINICAL OPERATIONS)**

Schedule of Accounts Receivable

June 30, 2011

Table of Contents

	Page
Independent Accountants' Review Report	1
Schedule of Accounts Receivable	2
Note to Schedule of Accounts Receivable	3



KPMG LLP
One Financial Plaza
755 Main Street
Hartford, CT 06103

Independent Accountants' Review Report

Board of Directors of the
University of Connecticut Health Center:

We have reviewed the accompanying schedule of accounts receivable of University of Connecticut Health Center, UCONN Medical Group (Clinical Operations) (the Company), an enterprise fund of the State of Connecticut (Schedule), as of June 30, 2011. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the Schedule as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the Schedule in accordance with U.S. generally accepted accounting principles and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the Schedule.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the Schedule. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the schedule of accounts receivable of University of Connecticut Health Center, UCONN Medical Group (Clinical Operations) as of June 30, 2011, in order for it to be in conformity with generally accepted accounting principles.

KPMG LLP

November 29, 2011

**UNIVERSITY OF CONNECTICUT HEALTH CENTER,
UCONN MEDICAL GROUP (CLINICAL OPERATIONS)**

Schedule of Accounts Receivable

June 30, 2011

Patient accounts receivable	\$ 14,554,700
Less allowance for doubtful accounts	<u>3,700,965</u>
Subtotal patient accounts receivable	10,853,735
Other	<u>1,899,239</u>
Total	<u><u>\$ 12,752,974</u></u>

See accompanying note to schedule of accounts receivable.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER,
UCONN MEDICAL GROUP (CLINICAL OPERATIONS)**

Note to Schedule of Accounts Receivable

June 30, 2011

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The schedule includes those net patient and other accounts receivable reflected in the accounting records of UCONN Medical Group (UMG) which is operated as a separate, identifiable unit (included in the 1162 fund) of University of Connecticut Health Center (the Health Center). The 1162 fund represents the operating fund for all the entities that comprise University of Connecticut Health Center.

UCONN Medical Group has an arrangement with the State of Connecticut whereby UMG can borrow up to 70% of its net patient and other accounts receivable, if the 1162 fund has an overall negative balance, to continue to fund operations. Therefore, the purpose of this report is to reflect the net patient and other accounts receivable available to UMG to borrow against.

Use of Estimates

The preparation of the schedule of accounts receivable in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets at the date of the schedule of accounts receivable. Actual results could differ from those estimates.

Accounts Receivable and Revenues

Patient accounts receivable and net patient service revenues are recorded at the estimated net realizable amount from patients, third-party payors and others, when patient services are performed. Any patient accounts receivable sent to collection agencies are fully reserved in anticipation of eventual write-off. Any subsequent cash receipts are credited to bad debt expense when received.

Accounts receivable represent unpaid billings for services rendered at customary rates less contractual allowances. This schedule includes accounts receivable, less allowances of UCONN Medical Group, which are accounted for in the 1162 Fund of University of Connecticut Health Center.



**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Financial Statements

(With Management's Discussion and Analysis)

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Financial Statements

(With Management's Discussion and Analysis)

June 30, 2011 and 2010

Table of Contents

	Page
Management's Discussion and Analysis	1
Independent Auditors' Report	7
Statements of Net Assets	8
Statements of Revenues, Expenses, and Changes in Net Assets	9
Statements of Cash Flows	10
Notes to Financial Statements	11

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Management's Discussion and Analysis

June 30, 2011 and 2010

The following discussion and analysis provides an overview of the financial position and activities of the University of Connecticut Health Center UConn Medical Group (UConn Medical Group or UMG) as of and for the years ended June 30, 2011, 2010, and 2009. UConn Medical Group is operated as a separate, identifiable unit (included in the 12018 fund) of The University of Connecticut Health Center (the Health Center). The 12018 fund represents the operating fund for all the entities that comprise the University of Connecticut Health Center. UConn Medical Group has access to the funds available in the 12018 fund to fund their operations.

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.

UConn Medical Group's clinical operations are modeled, in part, on private group practices and include approximately 350 providers practicing in a wide variety of specialties. The UConn Medical Group operation is an essential element for the education and training of medical students that enables the School of Medicine to accomplish its mission. Medical students, for example, learn diagnosis and treatment by training side-by-side with faculty clinicians as these doctors see patients. Funds transferred from the Health Center support this educational mission.

Financial Highlights

The UConn Medical Group's financial position at June 30, 2011, consisted of assets of \$30.0 million and liabilities of \$13.8 million. Net assets, which represent the residual interest in the UConn Medical Group's assets after liabilities are deducted, increased approximately \$1.2 million in fiscal 2011 to \$16.2 million from \$15.0 million at June 30, 2010. Changes in net assets represent the operating and nonoperating activity of the UConn Medical Group. Account balances are summarized as follows:

	2011	2010	2009
		(In thousands)	
Summary of assets, liabilities, and net assets at June 30:			
Current assets	\$ 16,489	\$ 18,373	\$ 41,389
Capital assets, net	13,478	10,303	9,474
Total assets	<u>\$ 29,967</u>	<u>\$ 28,676</u>	<u>\$ 50,863</u>
Current liabilities	\$ 10,729	\$ 10,801	\$ 10,797
Accrued compensated absences, noncurrent portion	3,064	2,857	2,749
Total liabilities	<u>13,793</u>	<u>13,658</u>	<u>13,546</u>
Unrestricted net assets	2,696	4,715	27,843
Net assets invested in capital assets	13,478	10,303	9,474
Total net assets	<u>16,174</u>	<u>15,018</u>	<u>37,317</u>
Total liabilities and net assets	<u>\$ 29,967</u>	<u>\$ 28,676</u>	<u>\$ 50,863</u>

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Management's Discussion and Analysis

June 30, 2011 and 2010

	2011	2010	2009
		(In thousands)	
Summary of revenues, expenses and transfers for the year ended June 30:			
Total operating revenues	\$ 91,547	\$ 91,059	\$ 84,580
Operating expenses:			
Direct expenses	40,785	39,961	34,023
Indirect expenses	17,201	16,680	15,558
Physician expenses	46,549	42,964	52,173
Total operating expenses	104,535	99,605	101,754
Loss from operations	(12,988)	(8,546)	(17,174)
Transfers, net	14,144	(13,753)	23,842
(Decrease) increase in net assets	\$ 1,156	\$ (22,299)	\$ 6,668

Fiscal year 2011 total operating revenue increased 0.5% or approximately \$500,000. Overall, operational results were unfavorable to prior year, with the loss from operations increasing approximately \$4.4 million.

In the ordinary course of managing working capital needs among the Health Center and its affiliates, including UConn Medical Group, the organizations transfer cash and net assets to one another on an as needed basis. During 2011, UConn Medical Group received approximately \$14.1 million in net assets from the Health Center. In 2010, the UConn Medical Group transferred approximately \$13.8 million to the Health Center. Fiscal year 2011 and 2010 net transfers include transfers related to general fund employee salary and fringe benefits charges to the State and credited back to UConn Medical Group.

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 UConn Medical Group at June 30, 2011 and 2010, and the results of its operations and its financial activities for the years then ended. These statements report information about the UConn Medical Group using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the UConn Medical Group's assets and liabilities. The statements of revenues, expenses, and changes in net assets reflect the years' activities on the accrual basis of accounting, i.e., when services are provided or obligations are incurred, not when cash is received or paid. These statements report the UConn Medical Group'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 classify them as to operating, noncapital, and capital and related financing activities. The financial statements include notes that explain information in the financial statements and provide more detailed data.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Management's Discussion and Analysis

June 30, 2011 and 2010

Significant Variances in the Financial Statements

In this section, UConn Medical Group explains the reasons for those financial statement items with significant variances relating to fiscal 2011 amounts compared to fiscal 2010.

Summary of Assets and Liabilities

Changes in assets are comprised of the following:

Patient accounts receivable – decreased approximately \$500,000 or 4.6% from June 30, 2010 to June 30, 2011. In Fiscal year 2011 gross patient accounts received decreased while the contractual rates that drive the contractual reserve increased.

Due from Finance Corporation – at June 30, 2011, UMG had a \$1.9 million receivable from Finance Corporation as opposed to a \$1.7 million payable at June 30, 2010. Finance Corporation enters into certain transactions on behalf of UMG. Due to and due from balance changes arise from timing differences between Finance Corporation purchases and cash draws to support those purchases.

Changes in liabilities are comprised of the following:

Cash overdraft – In fiscal year 2010 cash was at a positive position. Current year overdraft is a result of transferring cash to the Health Center.

Accounts payable – decreased approximately \$400,000 from June 30, 2010 to June 30, 2011. Accounts payable were liquidated ahead of year end to facilitate the implementation of the Health Center's new accounting software.

Accrued payroll – increased approximately \$600,000 from June 30, 2010 to June 30, 2011. Accrued payroll and compensated absences balances fluctuate in relation to the number, salaries, and length of remaining unpaid periods in relation to each fiscal year end. In the current year, pay rates were impacted by the conclusion of the employee furlough days from the last union agreement.

Summary of Revenues, Expenses, and Changes in Net Assets

Operating revenues – increased from June 30, 2010 to June 30, 2011 by approximately \$500,000 or 0.5%. Net patient revenues decreased \$1.3 million or 1.7% from prior year partly attributed to physician turnover. At the same time, contractual allowances increased, reflecting continuing shifts in the payer mix and the difficult economy. UMG realization rate fell from 39.4% in 2010 to 39.0% in 2011. These decreases were offset by increases in other revenues in the current year including \$3.0 million related to UMG's Anesthesia contract, \$4.6 million related to the performance of administrative duties elsewhere in the Health Center by UMG physicians and \$6.9 million in an outside service contract.

Direct expenses – increased from June 30, 2010 to June 30, 2011 by approximately \$800,000 or 2.1%. This increase was primarily attributed to increased salary and fringe expenses for Clinical Support Staff.

Indirect expenses – increased from June 30, 2010 to June 30, 2011 by approximately \$500,000 or 3.1%. This increase was primarily attributed to increases in amounts paid for billings, collections, information technology services, malpractice insurance, and depreciation.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Management's Discussion and Analysis

June 30, 2011 and 2010

Physician expenses – increased from June 30, 2010 to June 30, 2011 by approximately \$3.6 million or 8.3%. This increase was due to higher salaries and fringe benefits than prior year.

Summary of Cash Flows

The statements of cash flows provide additional information about the UConn Medical Group'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, 2011, 2010, and 2009 is as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
		(In thousands)	
Cash received from operations	\$ 90,982	\$ 93,607	\$ 83,553
Cash expended for operations	<u>(105,623)</u>	<u>(96,560)</u>	<u>(101,113)</u>
Net cash used in operations	(14,641)	(2,953)	(17,560)
Net cash provided by (used in) noncapital financing activities	14,144	(13,753)	23,843
Net cash used in capital and related financing activities	<u>(2,941)</u>	<u>(1,820)</u>	<u>(2,540)</u>
Net (decrease) increase in cash	(3,438)	(18,526)	3,743
Cash, beginning of year	<u>3,438</u>	<u>21,964</u>	<u>18,221</u>
Cash end of year	<u>\$ —</u>	<u>\$ 3,438</u>	<u>\$ 21,964</u>

Capital Activities

At June 30, 2011, UConn Medical Group had plant and equipment, net of accumulated depreciation, of \$13.5 million. UConn Medical Group's fiscal 2012 capital budget projects spending at approximately \$4.4 million.

More detailed information about the UConn Medical Group's capital assets activities are presented in note 4 of the financial statements.

Fiscal Year 2012 Outlook:

As we look forward to 2012, UMG's main concern continues to be volume. Using Relative Value Units (RVU's) as a measure of productivity, UMG continued to trend lower than expected in fiscal year 2011. Management is addressing these results through clinically focused advertising campaigns and faculty recruiting efforts in core areas such as surgery, orthopedics and dermatology.

UMG is expected to face the following challenges in fiscal year 2012:

1. Recruitment and retention of clinical faculty;
2. Upward trending costs for labor, advanced medical equipment, pharmaceuticals, and investments to improve patient safety;

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Management's Discussion and Analysis

June 30, 2011 and 2010

3. High fringe benefit costs based on the State benefit package requirement;
4. Increased market competition;
5. Inadequate reimbursement due to lower payments for Medicare and Medicaid per procedure combined with increased program utilization will continue to be a probable outcome amid the economic downturn;
6. Securing adequate access to capital to support long-term capital needs.

On July 8, 2011, the State passed Public Act 11-75 An Act Concerning the University of Connecticut Health Center (Bioscience Connecticut). The bill formalized and amended plans established by the State to establish the UConn Health Network. The new act still calls for partnership with area hospitals aimed at creating jobs and improving access to quality health care in the state. The centerpiece of the partnership remains a new patient care tower and renovations to John Dempsey Hospital at the Health Center. The plan also allocates \$203 million to be for the construction of a new UMG outpatient center on the Health Center campus and provides for 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.

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 healthcare research, training and delivery to minority communities.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Management's Discussion and Analysis

June 30, 2011 and 2010

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.

Contacting UConn Medical Group's Financial Management

This financial report provides the reader with a general overview of the UConn Medical Group'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.



KPMG LLP
One Financial Plaza
755 Main Street
Hartford, CT 06103

Independent Auditors' Report

Joint Audit and Compliance Committee
University of Connecticut Health Center:

We have audited the accompanying statements of net assets of University of Connecticut Health Center, UConn Medical Group (UConn Medical Group or Company), a component unit of the State of Connecticut, as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Company'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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Connecticut Health Center, UConn Medical Group as of June 30, 2011 and 2010, and the results of its operations and changes in net assets, and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis (MD&A) on pages 1 to 6 is not a required part of the basic financial statements of University of Connecticut Health Center, UConn Medical Group but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

November 29, 2011

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Statements of Net Assets
June 30, 2011 and 2010

Assets	<u>2011</u>	<u>2010</u>
Current assets:		
Cash	\$ —	\$ 3,437,934
Patient accounts receivable (net of estimated uncollectibles of \$3,701,000 and \$3,691,000 at June 30, 2011 and 2010, respectively)	10,853,735	11,373,924
Inventory	241,676	297,039
Prepaid expenses	277,831	74,685
Due from Finance Corporation (note 6)	1,881,187	—
Contract and other receivables	3,234,826	3,189,745
Total current assets	<u>16,489,255</u>	<u>18,373,327</u>
Capital assets, net (note 4)	<u>13,477,476</u>	<u>10,302,957</u>
Total assets	<u><u>\$ 29,966,731</u></u>	<u><u>\$ 28,676,284</u></u>
Liabilities and Net Assets		
Current liabilities:		
Cash overdraft	\$ 1,417,881	\$ —
Accounts payable	697,940	1,134,950
Due to Finance Corporation (note 6)	—	1,715,051
Accrued payroll	5,548,680	4,978,563
Accrued compensated absences, current portion (note 5)	2,129,075	1,985,405
Other accrued liabilities	935,523	987,284
Total current liabilities	<u>10,729,099</u>	<u>10,801,253</u>
Noncurrent liabilities:		
Accrued compensated absences, noncurrent portion (note 5)	<u>3,063,791</u>	<u>2,857,047</u>
Total noncurrent liabilities	<u>3,063,791</u>	<u>2,857,047</u>
Total liabilities	<u>13,792,890</u>	<u>13,658,300</u>
Net assets:		
Unrestricted	2,696,365	4,715,027
Invested in capital assets	<u>13,477,476</u>	<u>10,302,957</u>
Total net assets	<u>16,173,841</u>	<u>15,017,984</u>
Total liabilities and net assets	<u><u>\$ 29,966,731</u></u>	<u><u>\$ 28,676,284</u></u>

See accompanying notes to financial statements.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2011 and 2010

	2011	2010
Operating revenues:		
Patient care revenues:	\$ 195,263,167	\$ 196,469,678
Less contractual allowances	117,702,352	117,452,600
Bad debt expense	1,433,329	1,550,541
Net patient service revenues	76,127,486	77,466,537
Other revenues	15,419,827	13,592,670
Total operating revenues	91,547,313	91,059,207
Operating expenses:		
Direct expenses:		
Clinical support staff – salary	20,373,333	19,243,342
Fringe benefits	9,134,805	8,752,474
Other expenses – supplies	7,010,267	7,601,909
Transcription/medical records	4,266,062	4,363,874
Total direct expenses	40,784,467	39,961,599
Indirect expenses:		
Billing and collections/information technology	8,145,030	7,847,377
Administrative/finance	3,564,029	3,634,984
Rental expenses	3,660,850	3,700,295
Depreciation	1,183,155	990,760
Loss on disposal of equipment	775	—
Malpractice and other insurance	647,524	506,383
Total indirect expenses	17,201,363	16,679,799
Physician expenses:		
Contract physician	7,890,620	7,294,590
Faculty salary	31,300,289	29,229,409
Fringe benefits	7,245,483	6,321,463
Physician dues	112,863	118,369
Total physician expenses	46,549,255	42,963,831
Total operating expenses	104,535,085	99,605,229
Loss from operations	(12,987,772)	(8,546,022)
Other changes in net assets:		
Net transfers from (to) the Health Center – unrestricted	14,143,629	(13,752,614)
Increase (decrease) in net assets	1,155,857	(22,298,636)
Net assets, beginning of year	15,017,984	37,316,620
Net assets, end of year	\$ 16,173,841	\$ 15,017,984

See accompanying notes to financial statements.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 90,982,043	\$ 93,607,421
Cash paid to employees for personal services and fringe benefits	(76,865,061)	(70,149,125)
Cash paid for other than personal services	(28,757,977)	(26,411,762)
Net cash used in operating activities	<u>(14,640,995)</u>	<u>(2,953,466)</u>
Cash flows from noncapital financing activities:		
Net transfers from the Health Center unrestricted net assets to support operations	14,143,629	(13,752,614)
Net cash provided by (used in) noncapital financing activities	<u>14,143,629</u>	<u>(13,752,614)</u>
Cash flows used in capital and related financing activities:		
Proceeds from cash overdraft	1,417,881	—
Purchases of capital assets	(4,358,449)	(1,819,636)
Net cash used in capital and related financing activities	<u>(2,940,568)</u>	<u>(1,819,636)</u>
Net decrease in cash	(3,437,934)	(18,525,716)
Cash, beginning of year	<u>3,437,934</u>	<u>21,963,650</u>
Cash, end of year	<u>\$ —</u>	<u>\$ 3,437,934</u>
Reconciliation of loss from operations to net cash used in operating activities:		
Loss from operations	\$ (12,987,772)	\$ (8,546,022)
Adjustments to reconcile loss from operations to net cash used in operating activities:		
Provision for depreciation	1,183,155	990,760
Loss on disposal	775	—
Changes in operating activities:		
Patient accounts receivable	520,189	2,306,893
Inventory	55,363	(40,943)
Prepaid expenses	(203,146)	74,685
Contract and other receivables	(45,081)	241,321
Accounts payable and other accrued liabilities	(488,771)	(910,890)
Due to Finance Corporation, net	(3,596,238)	3,622,883
Accrued payroll	570,117	(347,491)
Accrued compensated absences	350,414	(344,662)
Net cash used in operating activities	<u>\$ (14,640,995)</u>	<u>\$ (2,953,466)</u>

See accompanying notes to financial statements.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Notes to Financial Statements

June 30, 2011 and 2010

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

(a) Reporting Entity

The University of Connecticut Health Center UConn Medical Group (UConn Medical Group or UMG) clinical operations are modeled, in part, on private group practices and include approximately 350 providers practicing in a wide variety of specialties.

The financial statements include those asset, liability, revenue, and expense accounts reflected in the accounting records of UConn Medical Group, which is operated as a separate, identifiable unit (included in the 12018 fund) of The University of Connecticut Health Center (the Health Center). The 12018 fund represents the operating fund for all the entities that comprise the University of Connecticut Health Center. UConn Medical Group has unlimited access to the funds available in the 12018 fund to fund their operations. The Governor of the State of Connecticut (the State) appoints the Board of Trustees of the University of Connecticut whose chairman then appoints the Board of Directors, which oversees the University of Connecticut Health Center, including UConn Medical Group. Reference is made to note 6 for related party transactions.

UConn Medical Group is a component unit of the State of Connecticut and is therefore generally exempt from federal income taxes under Section 115 of the Internal Revenue Code of 1986.

(b) Basis of Presentation

UConn Medical Group'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.

UConn Medical Group has adopted Governmental Accounting Standards Board (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*, as of July 1, 2001. UConn Medical Group 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.

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Notes to Financial Statements

June 30, 2011 and 2010

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 consists primarily of the allowance for uncollectible accounts.

(d) Proprietary Fund Accounting

UConn Medical Group utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. All revenue and expenses are subject to accrual.

(e) Accounts Receivable and Net Patient Service Revenue

Patient accounts receivable and net patient service revenue is recorded at the estimated net realizable amounts from patients when patient services are performed.

(f) 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. Leasehold improvements are depreciated no longer than the lease term

(g) 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.

(h) Cash

Cash balances are included in a pooled cash account with the cash balances of the other entities included in the 12018 fund.

(i) Retirement Plan

Eligible employees of the University of Connecticut Health Center may participate in the following State of Connecticut 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 of Connecticut defined contribution deferred compensation plan, which is funded by payroll deductions from employees.

In 2008, the State of Connecticut has 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 UConn Medical Group, in accordance with

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Notes to Financial Statements

June 30, 2011 and 2010

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 of Connecticut. Therefore, the liability is reported by the State of Connecticut and not included in these financial statements of UConn Medical Group. 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 of Connecticut specifically allocating pension benefits plan assets, obligations, and expenses applicable to employees of UConn Medical Group (refer to note 6 for more information).

(j) *Medical Malpractice*

The physicians and all of the health care providers and support staff of UConn Medical Group 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 paid against the Health Center's malpractice self-insurance fund. The Health Center allocates an annual malpractice premium to UConn Medical Group, designed to reflect an estimate for the current year's cash claims to be processed. For the years ended June 30, 2011 and 2010, such premiums were approximately \$558,000 and \$418,000, respectively, and are included in the statements of revenues, expenses, and changes in net assets.

(k) *Reclassifications*

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

(2) *Patient Service Revenue*

UConn Medical Group provides health care services primarily to residents of the region. Revenues from the Medicare program accounted for approximately 30% of UConn Medical Group gross patient service revenues for the years ended June 30, 2011 and 2010. Revenues from the Medicaid program accounted for approximately 16% and 15% of UConn Medical Group gross patient service revenues for the years ended June 30, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. UConn Medical Group believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on UConn Medical Group.

Patient accounts receivable included approximately 16% and 23% due from Medicaid and approximately 24% and 22% due from Medicare at June 30, 2011 and 2010, respectively.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Notes to Financial Statements

June 30, 2011 and 2010

UConn Medical Group has agreements with certain third-party payors that provide for payments to UConn Medical Group at amounts different from established billing rates. A summary of these agreements are as follows:

(a) Medicare

All services provided to traditional Medicare participants are reimbursed based on the resource-based relative value system (RBRVS). Various third-party payors, with the approval of the Center for Medicare and Medicaid Services, provide Medicare Managed Care programs to its members, which reimburse UConn Medical Group based on their own fee schedules.

(b) Medicaid

Services are reimbursed based on Medicaid fee schedules except for various third-party payors who provide Medicaid managed care programs under the supervision of the State of Connecticut Department of Social Services. These third-parties reimburse based upon their own individual fee schedules.

(c) Blue Cross Hospital-Based Providers

Hospital-based practices, including radiology, are reimbursed based on the Blue Cross Hospital Based Providers (HBP) fee schedule.

(d) Blue Shield

Physicians are reimbursed according to Blue Shield's published fee schedule.

(e) Managed Care

UConn Medical Group has entered into contracts with managed care companies. The basis for payment under these arrangements is primarily agreed-upon fee schedules with limited capitated contracts for primary care services.

(3) Contract and Other Revenue

UConn Medical Group enters into contracts with external entities including hospitals, retirement homes and schools to provide physician services. UConn Medical Group also provides physician services to entities within the Health Center, including the School of Medicine, John Dempsey Hospital and Correctional Managed Health Care. Revenue related to these services is included in patient care revenues when relating to patient visits. Other miscellaneous revenues including revenues related to the performance of administrative duties at the Health Center are included in other revenues in the statements of revenues, expenses, and changes in net assets.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Notes to Financial Statements

June 30, 2011 and 2010

(4) Capital Assets, Net

Property and equipment at June 30, consist of the following:

	2011	2010
Land	\$ 89,132	\$ 89,132
Construction in progress (estimated cost to complete \$1.1 million)	6,451,856	3,995,358
Buildings and leasehold improvements	10,016,064	9,961,877
Equipment	11,825,436	10,249,475
	28,382,488	24,295,842
Less: accumulated depreciation	14,905,012	13,992,885
Property and equipment, net	\$ 13,477,476	\$ 10,302,957

Property and equipment activity for the years ended June 30, 2011 and 2010 was as follows:

	2010	Additions	Deletions	2011
Land	\$ 89,132	—	—	\$ 89,132
Construction in progress	3,995,358	2,486,481	(29,983)	6,451,856
Buildings and leasehold improvements	9,961,877	54,187	—	10,016,064
Equipment	10,249,475	1,847,764	(271,803)	11,825,436
Total	\$ 24,295,842	4,388,432	(301,786)	\$ 28,382,488

	2009	Additions	Deletions	2010
Land	\$ 89,132	—	—	\$ 89,132
Construction in progress	3,697,408	830,080	(532,130)	3,995,358
Buildings and leasehold improvements	9,593,254	368,623	—	9,961,877
Equipment	9,187,666	1,153,063	(91,254)	10,249,475
Total	\$ 22,567,460	2,351,766	(623,384)	\$ 24,295,842

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Notes to Financial Statements

June 30, 2011 and 2010

Related information on accumulated depreciation for the years ended June 30, 2011 and 2010 was as follows:

	<u>2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>2011</u>
Buildings and leasehold improvements	\$ 6,516,825	406,750	—	\$ 6,923,575
Equipment	<u>7,476,060</u>	<u>776,405</u>	<u>(271,028)</u>	<u>7,981,437</u>
Total	<u>\$ 13,992,885</u>	<u>1,183,155</u>	<u>(271,028)</u>	<u>\$ 14,905,012</u>

	<u>2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>2010</u>
Buildings and leasehold improvements	\$ 6,138,866	377,959	—	\$ 6,516,825
Equipment	<u>6,954,513</u>	<u>612,801</u>	<u>(91,254)</u>	<u>7,476,060</u>
Total	<u>\$ 13,093,379</u>	<u>990,760</u>	<u>(91,254)</u>	<u>\$ 13,992,885</u>

(5) Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2011 and 2010 was as follows:

	<u>June 30, 2010 balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011 balance</u>	<u>Amounts due within 1 year</u>
Accrued compensated absences	\$ 4,842,452	4,146,242	(3,795,828)	\$ 5,192,866	\$ 2,129,075
Total long term obligations	<u>\$ 4,842,452</u>	<u>4,146,242</u>	<u>(3,795,828)</u>	<u>\$ 5,192,866</u>	<u>\$ 2,129,075</u>

	<u>June 30, 2009 balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2010 balance</u>	<u>Amounts due within 1 year</u>
Accrued compensated absences	\$ 5,187,114	3,263,367	(3,608,029)	\$ 4,842,452	\$ 1,985,405
Total long term obligations	<u>\$ 5,187,114</u>	<u>3,263,367</u>	<u>(3,608,029)</u>	<u>\$ 4,842,452</u>	<u>\$ 1,985,405</u>

UConn Medical Group leases certain office space under operating leases. Total rental expense for the years ended June 30, 2011 and 2010 was \$3,860,152 and \$3,700,095, respectively. Rental expense paid to the University of Connecticut Health Center for the years ended June 30, 2011 and 2010 was \$2,050,842 and \$1,875,230, respectively.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UCONN MEDICAL GROUP**

Notes to Financial Statements

June 30, 2011 and 2010

The following is a schedule by year of future minimum lease payments under noncancelable operating leases as of June 30, 2011:

2012	\$ 2,226,538
2013	1,996,571
2014	2,025,388
2015	1,886,456
2016	1,915,733
Thereafter	<u>10,019,991</u>
	<u>\$ 20,070,677</u>

(6) Related Party Transactions

The operations reported in the accompanying 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 University of Connecticut Health Center and other state agencies, other than certain School of Medicine faculty-related personnel expenses which have been allocated to UConn Medical Group based upon State of Connecticut funding and an estimated amount for Health Center administrative services. Reference is made to note 1 related to medical malpractice costs paid by the Health Center.

UConn Medical Group is party to an agreement with the Health Center whereby the salaries of certain employees are reimbursed by Health Center operations. The reimbursed expenses are accounted for as a Transfer from the Health Center under the heading "Transfers (to) from the Health Center". Unrestricted net assets of \$26,019,078 and \$24,961,382 were transferred from the Health Center in 2011 and 2010, respectively. This agreement is expected to continue indefinitely into the future. The Health Center also allocates working capital based on organizational need throughout the year on an as needed basis. In 2011 and 2010, the Health Center transferred \$11,875,449 and \$38,713,996 from UConn Medical Group. As a result the total net transfers from the Health Center were \$14,143,629 for 2011. In 2010, transfers resulted in funds flowing from UConn Medical Group to the Health Center in the amount of \$13,752,614.

As described in note 1, UConn Medical Group participates in certain State of Connecticut retirement and fringe benefit plans. During the years ended June 30, 2011 and 2010, UConn Medical Group expensed \$20,261,843 and \$18,885,312, respectively, for employee fringe benefits including contributions to the State employee retirement funds. Related salary costs were \$58,495,320 and \$55,483,850, respectively.

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

Patient care revenue and other revenue include approximately \$9,254,000 and \$8,964,000 in 2011 and 2010, respectively, of professional service revenues arising under contracts with The University of Connecticut Health Center, John Dempsey Hospital, and other State agencies.

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
UConn MEDICAL GROUP**

Notes to Financial Statements

June 30, 2011 and 2010

Effective July 1, 1987, 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 UConn Medical Group and other Health Center units 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 patient accounts receivable as well as negotiate joint ventures, shared service, and other agreements for the benefit of UConn Medical Group. During 2011, UConn Medical Group's payable from the Finance Corporation became a receivable of \$1,881,187. The Finance Corporation enters into certain transactions on behalf of the UConn Medical Group and funds these transactions by drawing cash from the UMG. The balance due/receivable between these entities will fluctuate based on timing of expenditures and funding transactions.

UConn Medical Group provided faculty to the Health Center in the form of administrative and other support. As a result of these efforts, the Health Center reimbursed UMG for physician salaries during the years 2011 and 2010. The amounts received totaled approximately \$4.6 million for each year and were recorded as other revenue in the statements of revenues, expenses, and changes in net assets.

UConn Medical Group has an arrangement with the State of Connecticut whereby it can borrow up to 70% of its net patient and contract and other receivables, if the 12018 fund has an overall negative balance, to continue to fund operations. As of June 30, 2011 and 2010, UMG had not drawn down any funds. Management believes internal and external sources of cash will be sufficient to fund activities.

(7) Subsequent Events

UConn Medical Group has evaluated subsequent events through November 29, 2011, which represents the date the financial statements were available to be issued and noted no subsequent events that would have impacted the UConn Medical Group financial statements.