



University of Connecticut Health Center

Financial Report
For the Year Ended June 30, 2008

Message from the Vice President and the Chief Financial Officer

Founded in 1881, the University of Connecticut (University) serves as the state's flagship for higher education, meeting the educational needs of undergraduate, graduate, professional, and continuing education students through the integration of teaching, research and service. The University of Connecticut is a comprehensive institution of higher education which includes the University of Connecticut Health Center (Health Center). Although governed by a single Board of Trustees, the University and its Health Center maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and state appropriations. The Health Center also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority. The financial statements contained herein represent the transactions and balances of the Health Center only.

The University's Board of Trustees is vested by law with fiscal oversight of the University. The operational authority granted to the University builds upon the successful implementation of several pieces of legislation known as the Flexibility Acts, enacted in the early 1990's. These statutory changes enabled the University to become responsible and accountable for its operational decisions independent of many of the previously imposed regulatory requirements. The University is now responsible for the budgetary allocation of its State appropriation, check-writing authority, human resource control, purchasing authority and, with the advent of UCONN 2000 in 1995, management of capital activities, including projects for the Health Center starting in 2005.

While the University's operational flexibility and capacity has grown, all of these activities also take place within a context of continuing vigilance. The financial statements contained in this report reflect budget execution results consistent with spending plans, operating and capital budgets approved by the University Board of Trustees. The Board of Trustees, through its Joint Audit and Compliance Committee, exercises oversight of all University financial reporting and processes and internal control systems, as well as direct engagement in the approval of independent auditing services to augment the University's internal audit capacity and the work performed by state auditors. An important component of external oversight, the Auditors of Public Accounts issue an Independent Auditors' Report on the financial statements of the University. They are responsible for auditing its financial operations and their opinion appears in this report.

The University of Connecticut Health Center is an academic medical center composed of the School of Medicine, School of Dental Medicine, John Dempsey Hospital, the UConn Medical Group, UConn Health Partners and University Dentists. Established in 1961, the Health Center pursues its mission of providing outstanding health care education in an environment of exemplary patient care, research and public service. With approximately 4,600 full-time equivalent employees, the Health Center is one of Connecticut's largest employers and an important contributor to the local and regional economy. The Health Center's campus in Farmington is situated on 206 acres of wooded hilltop from which the skyline of Hartford, the capital of Connecticut, can be seen about eight miles to the east. (The University's main campus is in Storrs, about 30 miles east of Hartford.) The Health Center campus includes 39 buildings totaling over 2 million square feet.

Educational Programs

Dedicated to providing broad educational opportunities in the biomedical sciences, the Health Center offers degree programs in medicine (M.D.), dental medicine (D.M.D.), and biomedical science (Ph.D.); master's degree programs in public health and dental science; postdoctoral fellowships; residency programs providing specialty training for newly graduated physicians and dentists; and continuing education programs for practicing health care professionals. Combined degree programs, such as the M.D./Ph.D., D.M.D./Ph.D., Dental Clinical Specialty/Ph.D. and M.D./M.P.H. are also offered.

The UConn Health Center is the only academic health center in the nation where a medical school was founded concurrently with a dental school, a circumstance which led to strong links. Medical and dental students share an essentially common curriculum during the first two years of their four-year degree programs and study the basic medical sciences together. This experience provides UConn's dental students with an especially strong foundation in the biomedical sciences, reflected in the dental school's decision to award its graduates the D.M.D. (Doctor of Medical Dentistry).

Each year at UConn, about 320 students work toward the medical doctor's degree and 160 toward the doctor of medical dentistry degree. Admission to each school is highly competitive; both schools offer preferential consideration to qualified Connecticut residents in their admissions policies. School of Dental Medicine students have a long history of outstanding performance on the National Boards, ranking first among the country's 55 dental schools on these examinations in 2001 and again in 2003. In the years since the Health Center graduated its first students in 1972, 1,289 men and women have received the D.M.D. degree; 2,744 the M.D. degree.

Through a variety of residency programs, the School of Medicine provides postgraduate training for more than 550 newly graduated M.D.s each year. These physicians come from all over the country to acquire advanced skills in fields such as the surgical specialties, internal medicine, and primary care. Some of the residency training occurs on the Health Center's main campus, but much of it takes place in community hospitals in Greater Hartford, thereby extending the Health Center's positive impact on the region.

Research Programs

Since the Health Center's inception, high-quality research programs have been part of the institution's fabric. This history has enabled the Health Center to recruit distinguished researchers with expertise in neuroscience, molecular biology, molecular pharmacology, biochemistry, cell physiology, toxicology, and endocrinology, among other fields. The Alcohol Research Center is one of only 14 such federally supported centers in the nation; the Connecticut Clinical Chemosensory Research Center, one of five. In recent years, the University has also become a leader in stem cell research. Clinical research is facilitated by the Lowell Weicker General Clinical Research Center and the Clinical Trials Unit. Research awards have grown from \$44.8 million in FY 97 to over \$92.6 million in FY 08.

Connecticut Health

UConn Health Center faculty, staff, residents, and students participate in a variety of joint efforts to address public health and community health needs of citizens throughout our state. Under the umbrella of Connecticut Health, hundreds of projects have been developed in collaboration with other state agencies, city and town governments, community-based organizations and the public to serve the poor and uninsured by providing better medical care and health education.

Health Care Services

Through John Dempsey Hospital (224 licensed beds), the Health Center provides specialized and routine inpatient and outpatient services, including comprehensive cardiovascular, cancer and musculoskeletal services, as well as high risk maternity and neonatal intensive care. John Dempsey Hospital is home to the only Emergency Department in Connecticut's fast-growing Farmington Valley and contributes to the region's health in other ways. Health Center physicians make up the UConn Medical Group, the largest medical practice in Greater Hartford, offering primary care and services in more than 50 specialties.

While the hospital, the faculty practice and the dental clinics continue to achieve record volume, the challenges of the health care marketplace (recruitment, malpractice reserves and low reimbursement) continue to take their toll. John Dempsey Hospital's financial health is also directly affected by its small size, bed distribution (only half are medical/surgical), and cost factors resulting from its status as a state entity. As a result the Health Center issued a Solicitation of Interest for Establishment of Clinical Affiliations in September 2008. In seeking collaborations, the Health Center has been adhering to the process set out in legislation enacted during the 2008 legislative session and signed by Governor M. Jodi Rell. The 2-step process was originally recommended by the Connecticut Academy of Science and Engineering (CASE) in a report to the General Assembly last March. In the first phase, the Health Center and the regional hospitals developed a mutual vision for establishing affiliation agreements. In the second phase, one or more hospitals would propose an affiliation agreement that would improve clinical care in the region and support excellence in education at UConn's medical school. The Health Center received four proposals from five area hospitals to form affiliations and discussions are ongoing. The process is being monitored by CASE with progress reports made to the General Assembly on June 30, 2008 for phase 1 and by January 30, 2009 for phase 2.

Respectfully Submitted,



Richard D. Gray
Vice President and Chief Financial Officer
University of Connecticut



John M. Biancamano
Chief Financial Officer
University of Connecticut Health Center

TABLE OF CONTENTS

| | |
|---|-------|
| Independent Auditors' Report | 1 |
| Management's Discussion & Analysis | 2 – 8 |
| Statements of Net Assets | 11 |
| Statements of Revenues, Expenses, and Changes in Net Assets | 12 |
| Statements of Cash Flows | 13,14 |
| Notes to Financial Statements | 16-27 |
| Supplemental Information | 28-32 |
| Directors, Trustees and Financial Officers | 34,35 |

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON

STATE CAPITOL

210 CAPITOL AVENUE

ROBERT G. JAEKLE

HARTFORD, CONNECTICUT 06106-1559

INDEPENDENT AUDITORS' REPORT

Board of Directors of the
University of Connecticut Health Center

We have audited the accompanying statements of net assets of the University of Connecticut Health Center (Health Center) as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended. The Health Center is a component unit of the University of Connecticut system, which includes the University of Connecticut, the Health Center and the University of Connecticut Foundation, Inc. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the John Dempsey Hospital, which represented 25 and 28 percent of the assets of the Health Center as of June 30, 2008 and 2007, respectively and 30 and 30 percent of the revenues of the Health Center for the years then ended. Those financial statements were audited by other auditors whose reports thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the John Dempsey Hospital, is based on the reports of the other auditors. The audits of the John Dempsey Hospital were conducted in accordance with auditing standards generally accepted in the United States of America.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Health Center, as of June 30, 2008 and 2007, and the results of its operations and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 2 through 8 is not a required part of the basic financial statements of the Health Center, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Health Center's basic financial statements. The introductory section and the consolidating statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The consolidating statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

A handwritten signature in blue ink that reads "Kevin P. Johnston".

Kevin P. Johnston
Auditor of Public Accounts

A handwritten signature in blue ink that reads "R. G. Jaekle".

Robert G. Jaekle
Auditor of Public Accounts

February 10, 2009
State Capitol
Hartford, Connecticut

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion and Analysis

INTRODUCTION

The following discussion and analysis provide an overview of the financial position and activities of the University of Connecticut Health Center (the "Health Center") for the year ended June 30, 2008. 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.

Founded in 1881, the University of Connecticut (University) serves as the state's flagship for higher education, meeting the educational needs of undergraduate, graduate, professional, and continuing education students through the integration of teaching, research and service. The University of Connecticut is a comprehensive institution of higher education, which includes the University of Connecticut Health Center. Although governed by a single Board of Trustees, the University of Connecticut and its Health Center maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and state appropriations. The Health Center also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority.

The financial statements presented here represent the transactions and balances of the Health Center only. The Health Center offers medical and dentistry degrees and operates a physician/dentist practice and a teaching and research hospital. The Health Center's component parts are the School of Medicine, School of Dental Medicine, UConn Medical Group, the University of Connecticut Finance Corporation, Correctional Managed Health Care (CMHC) and University Dentists ("Primary Institution") and John Dempsey Hospital (the "Hospital"). The Health Center's enrollment in fiscal year 2008 was 323 in the School of Medicine, 164 in the School of Dental Medicine, and 368 Graduate students, taught by over 470 full time equivalent (FTE) faculty members. The Health Center employs approximately 5,000 people. John Dempsey Hospital (JDH) has 204 acute care beds and 20 nursery beds and in fiscal year 2008 provided care to over 391,000 inpatient and outpatient visits. UConn Medical Group (UMG) in fiscal year 2008 provided care to over 545,000 unique patient visits.

The following Management's Discussion and Analysis (MD&A) is required supplemental information. Its purpose is to provide users of the basic financial statements with a narrative introduction, overview and analysis of those statements. It is designed to assist readers in understanding the accompanying financial statements required by new standards of the GASB. This discussion, which is unaudited, includes an analysis of the financial condition and results of activities of the Health Center for the fiscal year ended June 30, 2008, based on currently known facts, decisions, or conditions. As the MD&A presentation includes highly summarized information, it should be read in conjunction with the accompanying financial statements and related notes to the financial statements. The financial statements, notes to the financial statements, and this MD&A are the responsibility of management.

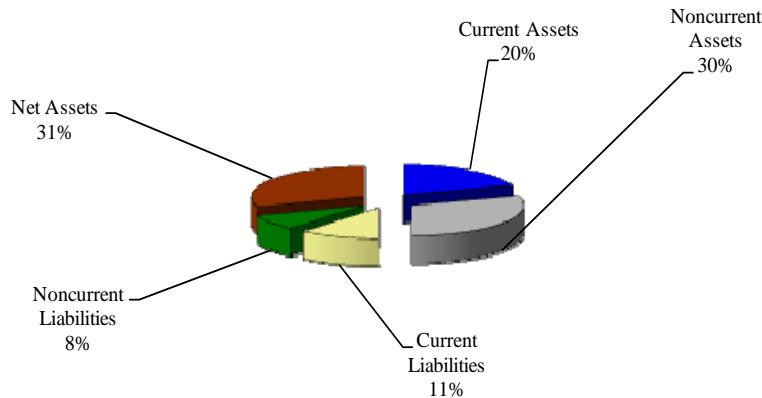
OVERVIEW OF THE FINANCIAL STATEMENTS

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 Health Center at June 30, 2008, and the results of operations and financial activities for the year then ended. These statements report information about the Health Center using accounting methods similar to those used by private-sector companies. In addition a prior year column is presented for comparison purposes. The statement of net assets includes all of the Health Center's assets and liabilities. The statement 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 when cash is received or paid. These statements report the Health Center's net assets and how they have changed. Net assets (the difference between assets and liabilities) are one way to measure financial health or position. The statements of cash flows provides relevant information about each year's cash receipts and cash payments and classifies them as to operating, investing, noncapital financing and capital and related financing activities. The financial statements include notes that explain information in the financial statements and provide more detailed data.

FINANCIAL HIGHLIGHTS

The Health Center's financial position at June 30, 2008, consisted of assets of \$444.9 million and liabilities of \$173.9 million. Net assets, which represent the residual interest in the Health Center's assets after liabilities are deducted, decreased \$1.5 million in fiscal year 2008 to \$271 million at June 30, 2008.

Statement of Net Assets



Changes in net assets represent the operating activity of the Health Center, which results from revenues, expenses, gains and losses, and are summarized for the years ended June 30, 2008, 2007 and 2006 as follows:

| | (in millions) | | |
|-------------------------------------|-----------------|----------------|----------------|
| | 2008 | 2007 | 2006 |
| Total operating revenue | \$ 547.5 | \$ 526.5 | \$ 512.1 |
| Total operating expenses | 746.1 | 692.9 | 654.6 |
| Operating (loss) | <u>(198.6)</u> | <u>(166.4)</u> | <u>(142.5)</u> |
| | | | |
| Other changes in net assets | 197.1 | 184.3 | 149.0 |
| (Decrease) / Increase in net assets | <u>\$ (1.5)</u> | <u>\$ 17.9</u> | <u>\$ 6.5</u> |

The financial statements contained herein show an operating loss of \$198.6 million for the year ending June 30, 2008 (fiscal year 2008). The measure more indicative of normal and recurring activities is net income before capital appropriations, which includes revenue from state appropriations. Additions to capital assets are, in a large part, funded by capital appropriations from the state and issuance of UCONN 2000 bond funds, which are not included as revenues in this measurement. However, depreciation expense on those assets is included as an expense in calculating operating income, so a loss under this measurement is expected. The Health Center experienced a loss before capital appropriations of \$1.3 million in fiscal year 2008.

Most sources of recurring operating revenues increased in 2008 and most are expected to have slight increases in 2009. The sources include tuition and fees revenue, patient service revenues and contract revenues. Nonoperating revenue increased in 2008 mainly due to state support. State support, not including state funded capital appropriations, increased 21.3% from the prior year mainly due to a \$21.9 million deficit appropriation for FY 2008.

STATEMENTS OF NET ASSETS

The statements of net assets presents the financial position of the Health Center at the end of the fiscal years and includes all assets and liabilities of the Health Center. The difference between total assets and total liabilities—net assets—is one indicator of the current financial condition of the Health Center, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summary of the Health Center's assets, liabilities and net assets at June 30, 2008, 2007 and 2006, is as follows:

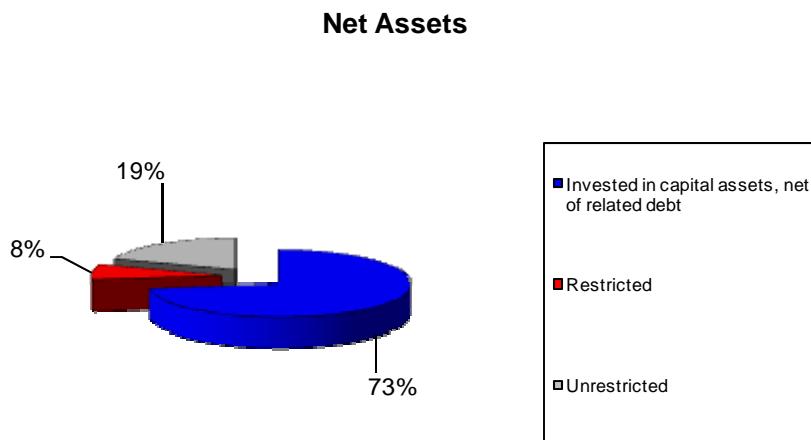
| | (in millions) | | |
|------------------------|-----------------|-----------------|-----------------|
| | 2008 | 2007 | 2006 |
| Current assets | \$ 177.4 | \$ 180.0 | \$ 169.9 |
| Noncurrent assets: | | | |
| Capital assets, net | 239.9 | 235.4 | 226.3 |
| Other | 27.6 | 22.2 | 22.1 |
| Total assets | <u>\$ 444.9</u> | <u>\$ 437.6</u> | <u>\$ 418.3</u> |
| Current liabilities | \$ 100.3 | \$ 90.1 | \$ 81.7 |
| Noncurrent liabilities | 73.6 | 75.0 | 82.0 |
| Total liabilities | <u>\$ 173.9</u> | <u>\$ 165.1</u> | <u>\$ 163.7</u> |
| Net assets | <u>\$ 271.0</u> | <u>\$ 272.5</u> | <u>\$ 254.6</u> |

The total assets of the Health Center increased by \$7.3 million, or 1.7% over the prior year. The increase was primarily due to an increase in cash and cash equivalents of \$22 million due to increases in patient based services and state appropriations. Additionally, there was an increase in plant of \$4.5 million. These increases were offset by a \$13.8 million decrease in amounts due from affiliates which represent UCONN 2000 bond funds held by the University for the Health Center.

The total liabilities for the year increased by \$8.8 million or 5.3% primarily due to a \$6 million increase in accounts payable and accrued liabilities at year end and \$3.3 million increase in accrued salaries. These increases were offset by a \$1.5 million decrease in long-term debt. Decreases in long-term debt resulted from the principal payments made during FY 2008. See footnote number 7 for more details.

Net Assets

Net assets represent the residual interest in the Health Center's assets after liabilities are deducted. The Health Center had net assets of \$271 million at June 30, 2008, which were made up of the following:



STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The statement of revenues, expenses and changes in net assets presents the Health Center's results of operating and nonoperating activities. A summary of the Health Center's revenues, expenses and changes in net assets for the years ended June 30, 2008, 2007 and 2006 is as follows:

| | (in millions) | | |
|---------------------------|-----------------|----------------|---------------|
| | 2008 | 2007 | 2006 |
| Operating revenues | | | |
| Patient Services | \$ 399.3 | \$ 375.9 | \$ 363.1 |
| Grants and Contracts | 87.0 | 90.9 | 91.3 |
| Other | 61.2 | 59.7 | 57.7 |
| Total operating revenue | <u>547.5</u> | <u>526.5</u> | <u>512.1</u> |
| Operating expenses | | | |
| Patient services | 445.7 | 398.3 | 379.8 |
| Instruction | 109.5 | 104.1 | 100.1 |
| Other | 190.9 | 190.5 | 174.7 |
| Total operating expenses | <u>746.1</u> | <u>692.9</u> | <u>654.6</u> |
| Operating (loss) | (198.6) | (166.4) | (142.5) |
| Net nonoperating revenues | 197.3 | 161.3 | 134.1 |
| Total other revenues | (0.2) | 23.0 | 14.9 |
| (Dec) / Inc in net assets | <u>\$ (1.5)</u> | <u>\$ 17.9</u> | <u>\$ 6.5</u> |

Revenue highlights for the year ending June 30, 2008, including operating and nonoperating revenues and capital additions, presented on the Statements of Revenues, Expenses, and Changes in Net Assets are as follows:

- The largest source of revenue was patient service revenue. Net Patient service revenue increased \$23.3 million or 6.2% over the prior year. Prior to eliminations the increase for the UConn Medical Group of \$8.4 million or 12.1% was mainly due to increased volume. In addition the Correctional Managed Health Care program increased \$6.8 million or 7.1% due to increased costs related to the agreement with the State of Connecticut Department of Correction. More detailed information about the Health Center's patient revenue is presented in note 4 of the financial statements.
- The state appropriation (including in-kind fringe benefits), which is included in nonoperating revenues, totaled \$190.7 million. This represents a 21.3% increase over the prior year mainly due to the deficiency appropriation of \$21.9 million and increased in-kind fringe benefits associated with salary expense of general funded employees.

Highlights of expenses including operating and nonoperating expenses presented on the Statements of Revenues, Expenses and Changes in Net Assets are as follows:

- Patient service expense is the largest expense category for the Health Center; it accounts for 59.7% of total operating expenses. It increased to \$445.7 million or 11.9% over the prior year. The increase is mainly attributable to the increase in patient volume for the John Dempsey Hospital and UConn Medical Group.
- Instruction, the Health Center's second largest operating expense, increased \$5.4 million or 5.2%. The increase reflects a slight increase in average faculty salaries and increase in fringe benefit expense some of which is included in the in-kind fringe benefit recovery reported as income in the state appropriation line in the nonoperating revenues (expenses) section.

STATEMENTS OF CASH FLOWS

The statements of cash flows provides additional information about the Health Center'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, 2008, 2007 and 2006 is as follows:

| | (in millions) | | |
|--|----------------|----------------|----------------|
| | 2008 | 2007 | 2006 |
| Cash received from operations | \$ 563.5 | \$ 507.0 | \$ 500.2 |
| Cash expended for operations | <u>(634.1)</u> | <u>(601.2)</u> | <u>(573.1)</u> |
| Net cash used in operating activities | <u>(70.6)</u> | <u>(94.2)</u> | <u>(72.9)</u> |
| Net cash used in investing activities | <u>(31.6)</u> | <u>(30.6)</u> | <u>(25.4)</u> |
| Net cash provided by noncapital financing activities | <u>117.4</u> | <u>98.1</u> | <u>77.1</u> |
| Net cash provided by capital and related financing activities | <u>6.8</u> | <u>11.9</u> | <u>10.3</u> |
| Net increase (decrease) in cash and cash equivalents | <u>22.0</u> | <u>(14.8)</u> | <u>(10.9)</u> |
| Cash and cash equivalents, beginning of the year | <u>45.1</u> | <u>59.9</u> | <u>70.8</u> |
| Cash and cash equivalents, end of the year | <u>\$ 67.1</u> | <u>\$ 45.1</u> | <u>\$ 59.9</u> |

CAPITAL AND DEBT ACTIVITIES

During fiscal year 2008 the Health Center participated in the UCONN 2000 program. This is the third phase of the program also known as 21st Century UConn, which provides \$1.3 billion for improvements to facilities at the University and the Health Center. The Health Center is scheduled to receive \$305 million over the 10 year life of this program. During fiscal 2008 there was no bond issuance therefore no associated revenue was recorded.

At June 30, 2008, the Health Center had plant and equipment, net of accumulated depreciation, of \$239.9 million. The Health Center's fiscal 2009 capital budget projects spending of approximately \$94.8 million, which includes \$50.9 million from issuance of UCONN 2000 Bond Funds, \$1.2 million from allocated State bond funds, and \$42.7 million from other Health Center sources.

Debt activity during fiscal year 2008 was the annual payments for the bonds and loans outstanding and lease payments on capital leases entered into by the Hospital and one new capital lease entered into by the Hospital for approximately \$3 million.

More detailed information about the Health Center's capital assets and debt activities are presented in notes 5 and 7 of the financial statements.

FISCAL YEAR 2009 OUTLOOK

Results of operations for the early months of Fiscal Year 2009 indicate that the clinical operations of the Health Center are expected to have operating losses in FY 2009. Management reported to the Board of Directors that the Health Center experienced a \$5 million deficit for the first quarter (July through September) of Fiscal Year 2009. At publication time the Health Center reserves are being exhausted and clinical receivables are approaching the hypothecation limit. A request for a FY 2009 deficiency appropriation is likely.

Management has retained the services of an outside consultant to review and identify areas of fiscal improvement for the Hospital and the Health Center as a whole. This review is led by senior management in close coordination with the Health Center's Board of Directors. Improvement recommendations will be thoroughly reviewed, with an action plan developed and implemented during Fiscal Year 2009. Additionally the Health Center issued a Solicitation of Interest for Establishment of Clinical Affiliations in September 2008. In seeking collaborations, the Health Center has been adhering to the process set out in legislation enacted during the 2008 legislative session and signed by Governor M. Jodi Rell. The 2-step process was originally recommended by the Connecticut Academy of Science and Engineering (CASE) in a report to the General Assembly last March. In the first phase, the Health Center and the regional hospitals developed a mutual vision for establishing affiliation agreements. In the second phase, one or more hospitals would propose an affiliation agreement that would improve clinical care in the region and support excellence in education at UConn's medical school. The Health Center received four proposals from five area hospitals to form affiliations and discussions are ongoing. The process is being monitored by CASE with progress reports made to the General Assembly on June 30, 2008, for phase 1 and by January 30, 2009, for phase 2.

CONTACTING THE HEALTH CENTER'S FINANCIAL MANAGEMENT

This financial report provides the reader with a general overview of the Health Center'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.

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FINANCIAL STATEMENTS

UNIVERSITY OF CONNECTICUT HEALTH CENTER
STATEMENTS OF NET ASSETS
As of June 30, 2008 and 2007

| | 2008 | 2007 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 50,163,361 | \$ 25,652,441 |
| Assets limited as to use | 123,447 | 129,362 |
| Patient receivables, net | 47,834,207 | 52,290,673 |
| Contract and other receivables | 33,404,551 | 38,668,606 |
| Due from Affiliates | 13,871,321 | 27,671,053 |
| Due from State of Connecticut | 6,961,955 | 4,774,697 |
| Due from Department of Correction | 9,423,851 | 15,412,738 |
| Inventories | 7,638,663 | 6,877,027 |
| Due from third party payors | 2,398,463 | 3,426,454 |
| Prepaid expenses | <u>5,608,982</u> | <u>5,124,597</u> |
| Total current assets | <u>177,428,801</u> | <u>180,027,648</u> |
| Noncurrent Assets | | |
| Restricted cash and cash equivalents | 16,979,813 | 19,432,692 |
| Other assets | 691,609 | 554,056 |
| Assets limited as to use | 8,300,000 | 117,971 |
| Due from State of Connecticut | 1,653,782 | 2,111,643 |
| Capital assets, net | <u>239,902,389</u> | <u>235,411,255</u> |
| Total noncurrent assets | <u>267,527,593</u> | <u>257,627,617</u> |
| Total assets | <u>\$ 444,956,394</u> | <u>\$ 437,655,265</u> |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | \$ 33,831,908 | \$ 27,813,288 |
| Due to State of Connecticut | 4,725,008 | 4,459,110 |
| Accrued salaries | 25,302,618 | 21,954,663 |
| Compensated absences | 16,513,422 | 15,644,351 |
| Deferred revenue | 10,668,635 | 12,424,257 |
| Malpractice reserve | 4,958,000 | 3,461,000 |
| Long-term debt - current portion | 4,287,753 | 4,352,942 |
| Total current liabilities | <u>100,287,344</u> | <u>90,109,611</u> |
| Noncurrent Liabilities | | |
| Malpractice reserve | 16,332,000 | 16,539,000 |
| Compensated absences | 19,385,322 | 19,120,873 |
| Long-term debt | <u>37,920,292</u> | <u>39,371,428</u> |
| Total noncurrent liabilities | <u>73,637,614</u> | <u>75,031,301</u> |
| Total liabilities | <u>173,924,958</u> | <u>165,140,912</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 197,694,344 | 191,686,885 |
| Restricted for | | |
| Nonexpendable | | |
| Scholarships | 61,451 | 60,451 |
| Expendable | | |
| Research | 4,030,868 | 3,671,928 |
| Loans | 2,512,492 | 2,467,815 |
| Capital projects | 14,361,529 | 28,666,563 |
| Unrestricted | <u>52,370,752</u> | <u>45,960,711</u> |
| Total net assets | <u>\$ 271,031,436</u> | <u>\$ 272,514,353</u> |

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

UNIVERSITY OF CONNECTICUT HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2008 and 2007

| | 2008 | 2007 |
|---|-----------------------|-----------------------|
| OPERATING REVENUES | | |
| Student tuition and fees (net of scholarship allowances of \$3,779,696 and \$4,004,087, respectively) | \$ 10,857,096 | \$ 10,038,089 |
| Patient services (net of charity care of \$967,138 and \$625,855, respectively) | 399,252,009 | 375,948,065 |
| Federal grants and contracts | 61,214,230 | 67,728,461 |
| Nongovernmental grants and contracts | 25,787,409 | 23,204,664 |
| Contract and other operating revenues | 50,418,339 | 49,572,571 |
| Total operating revenues | <u>547,529,083</u> | <u>526,491,850</u> |
| OPERATING EXPENSES | | |
| Educational and General | | |
| Instruction | 109,503,140 | 104,108,143 |
| Research | 60,274,554 | 60,855,860 |
| Patient services | 445,745,818 | 398,266,901 |
| Academic support | 15,686,832 | 15,117,594 |
| Institutional support | 62,514,306 | 63,643,242 |
| Operations and maintenance of plant | 23,549,107 | 22,881,307 |
| Depreciation | 28,225,548 | 27,359,818 |
| Loss on disposal | 228,173 | 240,695 |
| Student aid | 417,306 | 414,697 |
| Total operating expenses | <u>746,144,784</u> | <u>692,888,257</u> |
| Operating loss | <u>(198,615,701)</u> | <u>(166,396,407)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| State appropriations | 190,742,826 | 157,279,599 |
| Gifts | 2,698,560 | 1,181,589 |
| Investment income (net of investment expense of \$79,941 and \$64,496, respectively) | 6,624,737 | 5,831,577 |
| Interest on capital asset - related debt | <u>(2,767,549)</u> | <u>(2,972,544)</u> |
| Net nonoperating revenues | <u>197,298,574</u> | <u>161,320,221</u> |
| Loss before other revenues, expenses, gains or losses | <u>(1,317,127)</u> | <u>(5,076,186)</u> |
| Capital appropriations | <u>(165,790)</u> | <u>22,961,941</u> |
| Total other revenues | <u>(165,790)</u> | <u>22,961,941</u> |
| (Decrease) increase in net assets | <u>(1,482,917)</u> | <u>17,885,755</u> |
| NET ASSETS | | |
| Net assets-beginning of year | <u>272,514,353</u> | <u>254,628,598</u> |
| Net assets-end of year | <u>\$ 271,031,436</u> | <u>\$ 272,514,353</u> |

UNIVERSITY OF CONNECTICUT HEALTH CENTER
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2008 and 2007

| | 2008 | 2007 |
|--|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Cash received from patients and third-party payors | \$ 410,145,730 | \$ 356,756,688 |
| Cash received from tuition and fees | 10,857,096 | 10,038,089 |
| Cash received from grants, contracts and other revenue | 142,468,034 | 140,239,016 |
| Cash paid to employees for personal services and fringe benefits | (420,926,139) | (401,097,848) |
| Cash paid for other than personal services | <u>(213,102,333)</u> | <u>(200,121,738)</u> |
| Net cash used in operating activities | <u>(70,557,612)</u> | <u>(94,185,793)</u> |
| Cash flows from investing activities: | | |
| Net change in malpractice, advances and bond trust funds | (8,176,114) | 121,992 |
| Interest received | 6,532,960 | 5,977,567 |
| Additions to property and equipment | <u>(29,965,749)</u> | <u>(36,723,647)</u> |
| Net cash used in investing activities | <u>(31,608,903)</u> | <u>(30,624,088)</u> |
| Cash flows from noncapital financing activities: | | |
| State appropriations | 114,697,173 | 96,914,491 |
| Gifts | <u>2,698,560</u> | <u>1,181,589</u> |
| Net cash provided by noncapital financing activities | <u>117,395,733</u> | <u>98,096,080</u> |
| Cash flows from capital and related financing activities: | | |
| Capital appropriations | 14,091,803 | 18,914,115 |
| Interest paid | (2,767,549) | (2,972,544) |
| Net repayment, proceeds of long-term debt | <u>(4,495,431)</u> | <u>(4,076,577)</u> |
| Net cash provided by capital and related financing activities | <u>6,828,823</u> | <u>11,864,994</u> |
| Net increase (decrease) in cash and cash equivalents | 22,058,041 | (14,848,807) |
| Cash and cash equivalents at beginning of year | <u>45,085,133</u> | <u>59,933,940</u> |
| Cash and cash equivalents at end of year | <u>\$ 67,143,174</u> | <u>\$ 45,085,133</u> |
| Accompanying schedule of non-cash transactions | | |
| Proceeds from capital leases | <u>\$ 2,979,106</u> | <u>\$ —</u> |

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

**UNIVERSITY OF CONNECTICUT HEALTH CENTER
STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended June 30, 2008 and 2007**

Reconciliation of operating loss to net cash used in operating activities:

| | 2008 | 2007 |
|--|------------------------|------------------------|
| Operating loss | \$ (198,615,701) | \$ (166,396,407) |
| Adjustments to reconcile operating income to net cash | | |
| Used in operating activities: | | |
| Depreciation and loss on disposal | 28,453,721 | 27,600,513 |
| Personal services and fringe benefits in-kind from State | 73,815,240 | 60,321,827 |
| Changes in assets and liabilities: | | |
| Patients receivables, net | 3,876,843 | (13,079,668) |
| Contract and other receivables | 5,978,610 | (3,370,971) |
| Due from DOC | 5,988,887 | (4,204,126) |
| Inventories | (761,636) | (521,954) |
| Third party payors | 1,027,991 | (1,907,583) |
| Prepaid expenses | (1,444,385) | 1,849,619 |
| Other assets | (137,553) | (44,401) |
| Accounts payable and accrued liabilities | 6,018,620 | 4,099,940 |
| Due to State of Connecticut | 265,898 | (1,367,377) |
| Accrued salaries | 3,347,955 | 161,004 |
| Compensated absences | 1,133,520 | 1,919,013 |
| Deferred revenue | (795,622) | 3,410,682 |
| Minority financing interests - Farmington Surgery Center | — | (1,019,904) |
| Malpractice reserve | <u>1,290,000</u> | <u>(1,636,000)</u> |
| Net cash used in operating activities | <u>\$ (70,557,612)</u> | <u>\$ (94,185,793)</u> |

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NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements For the Years Ended June 30, 2008 and 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related Entities

The University of Connecticut Health Center (the “Health Center”) is a part of a comprehensive institution of higher education, the University of Connecticut (the “University”). Although governed by a single Board of Trustees, the Health Center and the University maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and state appropriations. The Health Center also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority. These financial statements represent transactions and balances of the Health Center for the years ended June 30, 2008 and 2007, which includes the School of Medicine, School of Dental Medicine, UConn Medical Group, University of Connecticut Health Center Finance Corporation, Correctional Managed Health Care (CMHC) and University Dentists (the “Primary Institution”) and John Dempsey Hospital (the “Hospital”). The Health Center offers medical and dentistry degrees and operates physician/dentist practices and a teaching and research hospital. There is also an affiliated entity that supports the mission of the Health Center: The University of Connecticut Foundation Inc. (the “Foundation”). The Foundation raises funds to promote, encourage, and assist education and research at the University, including its Health Center.

Basis of Presentation

The Health Center’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 elected this option.

For reporting periods beginning after June 15, 2005, GASB Statement No. 47, *Accounting for Termination Benefits*, was required for universities. This statement requires employers to recognize a liability and expense for voluntary termination benefits when the termination offer is accepted and the amount of the benefits can be estimated. Any pension liability related to early retirement is the State’s responsibility and therefore none is recorded by the Health Center (see Note 10). Related to an early retirement plan in fiscal year 2003, an accrual for Compensated Absences was recorded as of June 30, 2007. The Final payment was made in fiscal year 2008 and as such there is no liability as of June 30, 2008.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities 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.

Proprietary Fund Accounting

The Health Center 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.

Intercompany Eliminations

All significant intra-agency transactions have been eliminated in the presentation of the Consolidated Financial Statements. Additional information about eliminations may be found in the supplemental schedules.

Operating and Non-operating revenues:

The Health Center breaks out revenues between operating and non-operating based on the nature of the transaction being either an exchange or non-exchange transaction. Exchange transactions principally include services provided by the Health Center to the community. Non-exchange transactions include State Appropriations, Gifts, and Investment returns.

Cash and Cash Equivalents:

For the purposes of the Statements of Cash Flows, the Health Center considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested in the State of Connecticut Treasurer's Short Term Investment fund are considered cash equivalents.

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 were rendered and adjusted in future periods as final settlements are determined.

Investments and Investment Income

The State of Connecticut has established various funds to account for the operations of the Health Center. These funds include the University Health Center Operating Fund (Fund 12018), the University Health Center Research Foundation Fund (Fund 12023), the University Health Center Hospital Fund (Fund 21002) and the John Dempsey Hospital Malpractice Trust Fund (Fund 35015). Grants and contracts for research and related retained overhead recoveries are accounted for in the Research Foundation Fund. The Malpractice Trust Fund accounts for assets set aside based on actuarial funding recommendations. The Operating Fund acts as a "General Fund" for the Health Center, accounting for all operations not accounted for elsewhere.

Unrestricted Research Foundation Fund and Malpractice Trust Fund assets in excess of immediate cash needs are invested in the State of Connecticut Short-Term Investment Fund (STIF). Most restricted Research Foundation Fund assets are not invested, though there are certain exceptions including gift accounts and funds invested at the request of sponsoring organizations. Local student activity funds controlled by the Health Center are also invested in the STIF; these funds are minimal in amount.

The STIF, which was established by and is operated under Sections 3-27a through 3-27i of the General Statutes, provides State agencies, funds, political subdivisions and others with a mechanism for investing at a daily-earned rate with interest from day of deposit to day of withdrawal. STIF participants have daily access to their account balances. Underlying investments of the STIF are mainly in money market instruments.

Though Operating Fund participation in STIF is not significant, the Health Center earns interest on Operating Fund cash balances through the State Treasurer's interest credit program. Under this program, the Treasurer pays the Health Center STIF equivalent interest on the average daily cash balance held in the Operating Fund each quarter. Additionally, interest is paid on monies transferred from the Health Center's civil list funds into the direct disbursement account used to process checks issued directly to vendors by the Health Center. Though the balance in this account may include assets of the Operating, Research Foundation and Hospital Funds, all interest earned is credited to the Operating Fund.

The Hospital Fund does not participate in STIF or, other than described above, the Treasurer's interest credit program. However, certain funds held in the Hospital Fund and segregated as a sinking fund to meet future debt service requirements are invested in marketable securities.

Inventories

Consumable supplies are expensed when received with the exception of certain central inventories. Cost of the inventory is determined on a moving average basis for the Central Warehouse, and on a first-in, first-out basis for the others.

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.

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. Effective July 1, 1999, the Health Center developed a methodology by which it could allocate malpractice costs between the Hospital and UMG. For the year ended June 30, 2008, and 2007, these costs are included in the statements of Revenues, Expenses and Changes in Net Assets.

Reclassification

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

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. CASH DEPOSITS AND INVESTMENTS

Statement No. 40 of the GASB requires governmental entities to disclose credit risk associated with cash deposits and investment balances, and investment policies applied to mitigate such risks, especially as it relates to uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Health Center's name.

The Health Center's cash and cash equivalents, current and noncurrent, balance was \$67,143,174 and \$45,085,133, as of June 30, 2008 and 2007, respectively and included the following:

| | 2008 | 2007 |
|---|---------------|-----------------|
| Cash maintained by State of Connecticut Treasurer | \$ 12,247,206 | \$ (13,543,047) |
| Invested in State of Connecticut Short-Term Investment Fund | 54,410,502 | 58,080,913 |
| Deposits with Financial Institutions and Other | 483,966 | 545,767 |
| Currency (Change Funds) | 1,500 | 1,500 |
| <hr/> | | |
| Total cash and cash equivalents | 67,143,174 | 45,085,133 |
| Less: current balance | 50,163,361 | 25,652,441 |
| <hr/> | | |
| Total noncurrent balance | \$ 16,979,813 | \$ 19,432,692 |
| <hr/> | | |

Collateralized deposits are protected by Connecticut statute. Under this statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal to at least a certain percentage of its public deposits. The applicable percentage is determined based on the bank's risk-based capital ratio – a measure of the bank's financial condition. The collateral is kept in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank. Portions of the bank balance of the State of Connecticut were insured by the Federal Deposit Insurance Corporation or collateralized. As a State agency, the Health Center benefits from this protection, though the extent to which the deposits of an individual State agency such as the Health Center are protected cannot be readily determined.

Short-Term Investment Fund (STIF)

STIF is a money market investment pool in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer is authorized to invest monies of STIF in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans. For financial reporting purposes, STIF is considered to be "cash equivalents" in the statement of net assets.

The \$54,410,502 invested in the Short-term Investment Fund had a Standard and Poor's rating of AAA during fiscal year 2008. The Health Center's investments of \$123,447 were invested in U.S. Treasury notes which were uninsured, unregistered and held by the Health Center's agent in the Health Center's name.

Certain funds are held by outside fiscal agents and are not under the direct control of the Health Center. Accordingly, the assets of these funds are not included in the financial statements. The fair value amount of these funds was \$2,534,032 and \$2,614,537 as of June 30, 2008 and 2007, respectively. Investment income earned on these assets is transferred to the Health Center in accordance with the applicable trust agreement. Income received from those sources for the years ended June 30, 2008 and 2007 was \$104,047 and \$103,238, respectively.

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 2008 and 2007, the Hospital provided charity care services of \$967,138 and \$625,855, respectively. The cost basis of these services was \$468,055 and \$334,447 respectively. All related expenses are included in operating expenses.

4. NET PATIENT SERVICE REVENUE

The Health Center provides health care services primarily to residents of the region. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Health Center 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 the Health Center.

The Health Center has agreements with third-party payors that provide for payments at amounts different from its established rates. These third party payors include Medicare, Medicaid and certain commercial insurance carriers and Health Maintenance Organizations. Additionally, under the Correctional Managed Health Care Program, the Health Center provides medical, dental and psychiatric care to the inmates incarcerated at the State's correctional facilities. This program is funded from the State's General Fund through the Department of Correction.

Patient service revenue for the Health Center is as follows:

| | 2008 | 2007 |
|---|-----------------------|-----------------------|
| John Dempsey Hospital | | |
| Gross patient services revenue | \$ 406,763,316 | \$ 388,962,741 |
| Less allowances | 170,678,351 | 161,624,912 |
| Less bad debts | <u>5,570,353</u> | <u>6,099,715</u> |
| Net patient service revenue | 230,514,612 | 221,238,114 |
| UConn Medical Group | | |
| Gross patient services revenue | 181,168,489 | 152,517,298 |
| Less allowances | 102,207,030 | 81,417,968 |
| Less bad debts | <u>557,702</u> | <u>1,166,852</u> |
| Net patient service revenue | 78,403,757 | 69,932,478 |
| Correctional Managed Health Care | | |
| | 101,660,324 | 94,881,163 |
| All other | | |
| Total net patient service revenue per business unit | <u>3,119,556</u> | <u>3,129,514</u> |
| Eliminations | | |
| Total net patient service revenue | <u>\$ 399,252,009</u> | <u>\$ 375,948,065</u> |

(Amounts above include internal transactions eliminated on face of statements. See Supplemental Information for greater details)

5. CAPITAL ASSETS

Capital assets at June 30, 2008 and 2007 consisted of the following:

| | 2008 | 2007 |
|-------------------------------|-----------------------|--------------------|
| Land | \$ 8,423,594 | 8,423,594 |
| Construction in Progress | 40,262,025 | 32,031,865 |
| Buildings | 334,750,500 | 328,130,080 |
| Equipment | 199,821,569 | 187,550,388 |
| Capital leases | <u>13,776,275</u> | <u>10,797,169</u> |
| | 597,033,963 | 566,933,096 |
| Less accumulated depreciation | <u>357,131,574</u> | <u>331,521,841</u> |
| Capital assets, net | <u>\$ 239,902,389</u> | <u>235,411,255</u> |

The Health Center's fine art collection is capitalized on the statements of net assets. This collection is included in equipment in the Primary Institution and totaled \$645,736 at June 30, 2008 and 2007. Plant and equipment activity and related information on accumulated depreciation for the Health Center for the years ended June 30, 2008 and 2007 was as follows:

| | <u>2007</u> | <u>Additions</u> | <u>Deletions</u> | <u>2008</u> |
|---------------------------------------|-----------------------|----------------------|------------------------|-----------------------|
| <u>Property and equipment:</u> | | | | |
| Land | \$ 8,423,594 | \$ - | \$ - | \$ 8,423,594 |
| Construction in Progress | 32,031,865 | 15,355,090 | (7,124,930) | 40,262,025 |
| Buildings | 319,319,968 | 4,928,479 | - | 324,248,447 |
| Improvements other than buildings | 8,810,112 | 1,691,941 | - | 10,502,053 |
| Equipment | 187,550,388 | 15,115,169 | (2,843,988) | 199,821,569 |
| Capital leases | 10,797,169 | 2,979,106 | - | 13,776,275 |
| Total property and equipment | <u>566,933,096</u> | <u>40,069,785</u> | <u>(9,968,918)</u> | <u>597,033,963</u> |
| <u>Less accumulated depreciation:</u> | | | | |
| Buildings | 180,132,794 | 10,346,535 | - | 190,479,329 |
| Improvements other than buildings | 6,547,854 | 246,480 | - | 6,794,334 |
| Equipment | 139,942,649 | 15,156,628 | (2,615,815) | 152,483,462 |
| Capital Leases | 4,898,544 | 2,475,905 | - | 7,374,449 |
| Total accumulated depreciation | <u>331,521,841</u> | <u>28,225,548</u> | <u>(2,615,815)</u> | <u>357,131,574</u> |
| <u>Net property and equipment:</u> | | | | |
| Land | 8,423,594 | - | - | 8,423,594 |
| Construction in Progress | 32,031,865 | 15,355,090 | (7,124,930) | 40,262,025 |
| Buildings | 139,187,174 | (5,418,056) | - | 133,769,118 |
| Improvements other than buildings | 2,262,258 | 1,445,461 | - | 3,707,719 |
| Equipment | 47,607,739 | (41,459) | (228,173) | 47,338,107 |
| Capital leases | 5,898,625 | 503,201 | - | 6,401,826 |
| Total capital assets, net | <u>\$ 235,411,255</u> | <u>\$ 11,844,237</u> | <u>\$ (7,353,103)</u> | <u>\$ 239,902,389</u> |
| | | | | |
| | <u>2006</u> | <u>Additions</u> | <u>Deletions</u> | <u>2007</u> |
| <u>Property and equipment:</u> | | | | |
| Land | \$ 8,423,594 | \$ - | \$ - | \$ 8,423,594 |
| Construction in Progress | 26,125,745 | 23,154,778 | (17,248,658) | 32,031,865 |
| Buildings | 308,351,948 | 10,968,020 | - | 319,319,968 |
| Improvements other than buildings | 8,422,945 | 387,167 | - | 8,810,112 |
| Equipment | 170,020,373 | 19,461,005 | (1,930,990) | 187,550,388 |
| Capital leases | 10,795,834 | 1,335 | - | 10,797,169 |
| Total property and equipment | <u>532,140,439</u> | <u>53,972,305</u> | <u>(19,179,648)</u> | <u>566,933,096</u> |
| <u>Less accumulated depreciation:</u> | | | | |
| Buildings | 170,286,256 | 9,846,538 | - | 180,132,794 |
| Improvements other than buildings | 6,388,026 | 159,828 | - | 6,547,854 |
| Equipment | 126,414,423 | 15,218,521 | (1,690,295) | 139,942,649 |
| Capital leases | 2,763,613 | 2,134,931 | - | 4,898,544 |
| Total accumulated depreciation | <u>305,852,318</u> | <u>27,359,818</u> | <u>(1,690,295)</u> | <u>331,521,841</u> |
| <u>Net property and equipment:</u> | | | | |
| Land | 8,423,594 | - | - | 8,423,594 |
| Construction in Progress | 26,125,745 | 23,154,778 | (17,248,658) | 32,031,865 |
| Buildings | 138,065,692 | 1,121,482 | - | 139,187,174 |
| Improvements other than buildings | 2,034,919 | 227,339 | - | 2,262,258 |
| Equipment | 43,605,950 | 4,242,484 | (240,695) | 47,607,739 |
| Capital leases | 8,032,221 | (2,133,596) | - | 5,898,625 |
| Total capital assets, net | <u>\$ 226,288,121</u> | <u>\$ 26,612,487</u> | <u>\$ (17,489,353)</u> | <u>\$ 235,411,255</u> |

Construction in progress at June 30, 2008 and 2007, represents accumulated costs for various Health Center construction projects. The Health Center has entered into various contractual arrangements related to these projects. Upon completion, the cost of the project is transferred to the appropriate investment in plant category and depreciation will commence.

6. ENDOWMENTS

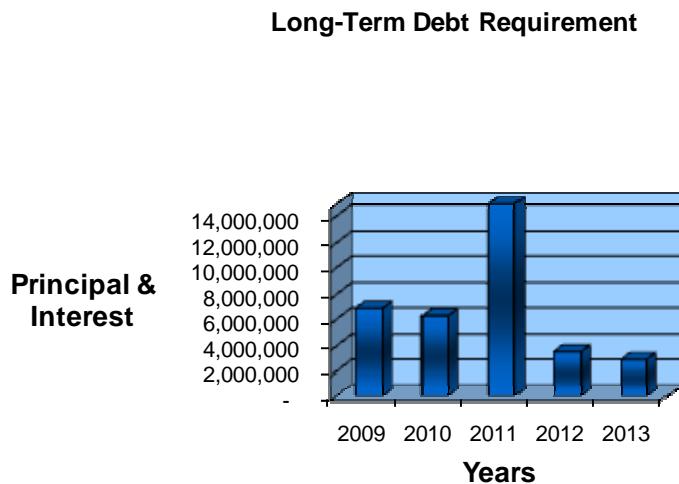
The Health Center designated the Foundation as manager of the Health Center's endowment funds. The Foundation makes spending allocation distributions to the Health Center for each participating endowment. The distribution is spent by the Health Center in accordance with the respective purposes of the endowments and with the policies and procedures of the Health Center.

7. LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2008 and 2007 was as follows:

| | June 30, 2007 Balance | Additions | Reductions | June 30, 2008 Balance | Amounts due within 1 year |
|---|--------------------------|-------------------|-------------------|--------------------------|------------------------------|
| Long-Term debt: | | | | | |
| Bonds Payable John Dempsey Hospital | \$ 162,967 | - | 143,784 | 19,183 | 19,183 |
| Bonds Payable Primary Institution | 294,473 | - | 247,679 | 46,794 | 46,794 |
| Loans payable John Dempsey Hospital | 4,567,179 | - | 830,396 | 3,736,783 | 830,396 |
| Lease Agreements John Dempsey Hospital | 6,027,173 | 2,979,106 | 2,326,918 | 6,679,361 | 2,377,882 |
| Mortgage Agreements Primary Institution | 32,672,578 | - | 946,654 | 31,725,924 | 1,013,498 |
| Total Long-Term Debt | <u>43,724,370</u> | <u>2,979,106</u> | <u>4,495,431</u> | <u>42,208,045</u> | <u>4,287,753</u> |
| Malpractice reserve | 20,000,000 | 3,291,309 | 2,001,309 | 21,290,000 | 4,958,000 |
| Compensated absences | <u>34,765,224</u> | <u>22,366,323</u> | <u>21,232,803</u> | <u>35,898,744</u> | <u>16,513,422</u> |
| Total Long - Term Liabilities | <u>\$ 98,489,594</u> | <u>28,636,738</u> | <u>27,729,543</u> | <u>99,396,789</u> | <u>25,759,175</u> |
| | June 30, 2006 Balance | Additions | Reductions | June 30, 2007 Balance | Amounts due within 1 year |
| Long-Term debt: | | | | | |
| Bonds Payable John Dempsey Hospital | \$ 276,741 | - | 113,774 | 162,967 | 142,159 |
| Bonds Payable Primary Institution | 490,457 | - | 195,984 | 294,473 | 250,116 |
| Loans payable John Dempsey Hospital | 5,355,300 | - | 788,121 | 4,567,179 | 830,396 |
| Lease Agreements John Dempsey Hospital | 8,117,261 | - | 2,090,088 | 6,027,173 | 2,183,617 |
| Mortgage Agreements Primary Institution | 33,561,188 | - | 888,610 | 32,672,578 | 946,654 |
| Total Long-Term Debt | <u>47,800,947</u> | <u>-</u> | <u>4,076,577</u> | <u>43,724,370</u> | <u>4,352,942</u> |
| Malpractice reserve | 21,636,000 | 3,011,664 | 4,647,664 | 20,000,000 | 3,461,000 |
| Compensated absences | <u>\$ 32,846,211</u> | <u>21,710,338</u> | <u>19,791,325</u> | <u>34,765,224</u> | <u>15,644,351</u> |
| Total Long - Term Liabilities | <u>102,283,158</u> | <u>24,722,002</u> | <u>28,515,566</u> | <u>98,489,594</u> | <u>23,458,293</u> |

Estimated cash basis interest and principal requirements for the long-term debt for the next five years are as follows:



| Year | Long-Term Debt |
|------------|-----------------------------|
| 2009 | \$ 6,879,091 |
| 2010 | 6,275,346 |
| 2011 | 15,358,316 |
| 2012 | 3,537,091 |
| 2013 | 2,915,261 |
| Thereafter | <u>22,995,306</u> |
| Totals | <u><u>\$ 57,960,411</u></u> |

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

The scope of the Hospital's assessment for establishing reserves for malpractice costs encompasses physicians, dentists and all other University of Connecticut Health Center health care providers and support staff that are part of the primary institution.

The Health Center is involved in litigation claiming damages arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Health Center and are currently in various stages of litigation. It is the opinion of management, however, that the amounts accrued for estimated malpractice costs at June 30, 2008, are adequate to provide for potential losses resulting from pending or threatened litigation and an actuarially determined estimate for incurred but not reported claims.

The Hospital has established a trust fund for the payment of medical malpractice claim settlements. The trust is funded based on actuarially determined amounts and is funded by the Hospital and the Primary Institution.

8. RESIDENCY TRAINING PROGRAM

The Health Center's School of Medicine Residency Training Program provides area hospitals with the services of interns and residents. Participating hospitals remit payments to the Health Center, in accordance with an established rate schedule, for services provided. The Health Center, in turn, funds the Capital Area Health Consortium, Inc., which coordinates the payment of payroll and the provision of related fringe benefits to the interns and residents, under a contractual arrangement. Amounts remitted or owed by participating hospitals for payments made to interns and residents, and amounts paid or due under contract to the Capital Area Health Consortium, Inc., are reflected in the accompanying financial statements as current unrestricted revenues and expenditures, respectively.

9. BOND FINANCED ALLOTMENTS

The Health Center recognizes an asset when an allotment is processed for State general obligation bonds or when bonds are funded from Health Center resources or issued under the UCONN 2000 program are sold.

In fiscal year 2002, the General Assembly of the State of Connecticut enacted and the Governor signed into law Public Act No. 02-3, An Act Concerning 21st Century UConn (Act). This Act amended Public Act No. 95-230 that enabled the University to borrow money in its own name for a special ten year capital improvement program (UCONN 2000) designed to modernize, rehabilitate, and expand the physical plant of the University. The Act extended the UCONN 2000 financing program that was scheduled to end in 2005, for an additional 10 years to June 30, 2015. The new Act authorized additional projects for the University and the Health Center for what is to be called Phase III of UCONN 2000 at an estimated cost of \$1,348,400,000. Project costs include \$305,400,000 authorized for the Health Center.

The University recorded total revenue of \$89,355,000 as State debt service commitment for principal for the 2007 Series A bonds which includes \$23,510,425 to finance projects for the Health Center. There were no bonds issued during fiscal year 2008. These bonds are general obligations of the University including the Health Center, for which its full faith and credit are pledged, and are payable from all assured revenues, as defined in Connecticut General Statute 10a-109c. The bonds are additionally secured by the pledge of and a lien upon the State Debt Service Commitment. The State Debt Service Commitment is the commitment by the State to pay an annual amount of debt service on securities issued as general obligations of the University. The University and the Health Center, consistent with the Act, are relying upon the receipt of the annual amount of the pledged State Debt Service Commitment for the payment of the bonds and, accordingly, are not planning to budget any of the other revenues for the payment of the bonds.

For fiscal year 2007, the principal amount of \$89,355,000 was recorded as state debt service commitment for principal, together with part of the respective original issue premium resulted in total proceeds of \$89,000,000. The proceeds include \$23,510,425 to finance projects for the Health Center. As bonds are issued, the amount of the commitment for the Health Center is reflected as revenue in the capital appropriations section of the Statements of Changes in Net Assets of these financial statements. A corresponding receivable is recorded for the unspent portion of the bonds due from the University (\$13,871,321 and \$27,671,053 at June 30, 2008 and 2007, respectively) in the Statement of Net Assets.

10. RETIREMENT PLAN

All regular full-time employees participate in one of two retirement plans. The State Employees' Retirement System, a single employer defined benefit public employee retirement system, is administered by the State and covers most full-time employees. The State of Connecticut is statutorily responsible for the pension benefits of the Health Center employees who participate in this plan. The Health Center makes contributions on behalf of the employees through a fringe benefit charge assessed by the State.

Alternatively, employees may choose to participate in the Connecticut Alternate Retirement Program (CARP). CARP is a State-administered, portable pension plan offered to eligible employees of the State's constituent units of higher education as an alternate to the State Employees' Retirement System. This plan's third party administrator is ING. Under this defined contribution plan, plan members are required to contribute 5 percent of their annual salaries; the State is required to contribute 8 percent of covered salary.

11. POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 10, the State provides post retirement health care and life insurance benefits to eligible Health Center employees, in accordance with Sections 5-257(d) and 5-259(a) of the Connecticut General

Statutes. When employees retire, the State pays up to 100% of their health care insurance premium cost (including the cost of dependent coverage). This benefit is available to retirees of the State Employees' Retirement System and participants in the Connecticut Alternate Retirement Program who meet certain age and service criteria.

The State also pays 100% of the premium cost for a portion of the employee's life insurance continued after retirement. The amount of life insurance continued at no cost to the retiree is determined in a formula based on the number of years of State service that the retiree had at time of retirement. 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.

12. COMMITMENTS

On June 30, 2008, the Health Center had individual outstanding commitments exceeding \$300,000 in amount, totaling \$28,743,375. A portion of this amount was included in the June 30, 2008 accounts payable. Commitments above do not include any commitments arising from the administration of UCONN 2000 funds by the University on the Health Center's behalf. Such obligations would be paid directly from proceeds of current and future bond issuances.

The Health Center agreed to pay \$37,625,536 during the 2008-2009 fiscal year to the Capitol Area Health Consortium to cover the payment of payroll and related fringe benefits to the interns and residents participating in the School of Medicine Residency Training Program. These costs are to be funded by participating hospitals, which will remit payments to the Health Center, in accordance with an established rate schedule, for services provided.

The Health Center leases various building space under operating lease commitments, which expire at various dates through fiscal year 2017. Expenses related to these leases were approximately \$2,405,000 and \$2,347,000 for the years ended June 30, 2008 and 2007, respectively. Future minimum rental payments at June 30, 2008 under non-cancelable operating leases are approximately as follows:

| Year | Payments |
|-------------|----------------------|
| 2009 | \$ 2,829,920 |
| 2010 | 2,842,208 |
| 2011 | 2,402,071 |
| 2012 | 1,997,418 |
| 2013 | 1,629,928 |
| Thereafter | <u>9,639,604</u> |
| Total | <u>\$ 21,341,149</u> |

13. RELATED PARTY TRANSACTIONS

The University of Connecticut Foundation, Inc. (the "Foundation") is a tax-exempt organization whose objective is the betterment of the University, including its Health Center. The Foundation is a consolidated part of the University and therefore an affiliated party. As is the case with the University's Storrs based program, the Health Center has entered into a written agreement with the Foundation whereby the Health Center agrees to reimburse the Foundation for certain administrative services and the Foundation agreed to reimburse the Health Center for certain personal services performed and for operating expenses for the benefit of the Foundation. The following transactions occurred between the Health Center and the Foundation during the year ended June 30, 2008:

| | |
|---|---------------------|
| Amount paid to the Foundation | \$ <u>1,520,000</u> |
| Amount received from the Foundation for personal services and operating expenses | \$ <u>88,096</u> |
| Amount received from the Foundation from endowments and gifts | \$ <u>5,750,588</u> |

In addition, The Health Center engages in transactions with the University. Listed below are the material transactions with the University. Not included in this list are certain cost share arrangements for shared services and transactions related to UCONN 2000 for which notation has been made in note 9.

| | |
|---|-------------------|
| Funds received in support of Office of Technology Commercialization | \$ 1,029,445 |
| Funds paid to University of Connecticut | \$ <u>329,836</u> |

The State of Connecticut supports the Health Center's mission primarily via two mechanisms: State Appropriations and the provision of In Kind benefits. State Appropriations represent amounts appropriated to the Health Center from the State's general fund. In Kind benefits take the form of fringe benefit expense reimbursements related to salaries expensed on the General Fund, salaries expensed on certain research accounts and salaries expensed for the CMHC program. For the year ended June 30, 2008, the amount of these benefits were as follows:

| | |
|---|-----------------------|
| Amount of General Fund Appropriations | |
| Received from State of Connecticut | \$ <u>116,927,585</u> |
| In Kind Fringe Benefits: | |
| Received through CMHC | 36,804,314 |
| Received elsewhere in Primary Institution | <u>37,010,927</u> |
| Total In Kind Fringe Benefits received from State of Connecticut: | \$ <u>73,815,241</u> |
| Total Appropriations and In Kind benefits received from State of Connecticut | \$ <u>190,742,826</u> |

14. CONTINGENCIES

The Health Center is a party to various legal actions arising in the ordinary course of its operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material effect on the Health Center's financial statements.

The Health Center's accounts receivable with the Connecticut Children's Medical Center (CCMC), was reclassified to noncurrent by transitioning their current accounts receivable into a note receivable with a face value of \$8,300,000 in the Statement of Net Assets. The Health Center entered into this transaction based on the strategic relationship with CCMC due to the residency program. Although CCMC has made payments on the amount due, collection of the receivable was deferred due to CCMC's financial condition and the current economic environment. The unsecured note, which is a 5 year demand note, bears interest monthly at a rate equal to the State of Connecticut Short Term Investment Fund as reported by the Office of the State Treasurer. During the time of this note, CCMC has agreed to provide for timely payment of all future billings, including interest billings on the note. There is a degree of risk, which cannot be quantified at this time, associated with this asset because of CCMC's financial condition and current economic environment. Health Center's management is confident that this advance will be repaid, based on CCMC's current operational viability, essential service to the greater Hartford area and expectation to be financially stable in the long term.

15. HYPOTHECATION

Individual components of the Health Center are allowed to borrow from the State on the basis of their net patient receivables and contract and other receivables to fund operations. These units include John Dempsey Hospital and the University Medical Group. John Dempsey Hospital is allowed to borrow from the State at up to 90% of its receivables. University Medical Group is allowed to borrow at up to 70% of its accounts receivable. As of June 30, 2008 and 2007, the Hospital had drawn down \$17,945,885 and \$16,709,154, respectively. As of June 30, 2008 and 2007, the Hospital has available \$13,372,322 and \$19,405,251, respectively, under the State statute.

SUPPLEMENTAL INFORMATION

UNIVERSITY OF CONNECTICUT HEALTH CENTER
CONSOLIDATING STATEMENT OF NET ASSETS
As of June 30, 2008

| | 2008 | | | |
|---|------------------------|--------------------------|------------------------|-----------------------|
| | Primary Institution | John Dempsey Hospital | Eliminations | Total |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 63,274,569 | \$ - | \$ (13,111,208) | \$ 50,163,361 |
| Assets limited as to use | - | 123,447 | - | 123,447 |
| Patient receivables, net | 13,822,297 | 34,011,910 | - | 47,834,207 |
| Contract and other receivables | 32,754,705 | 649,846 | - | 33,404,551 |
| Due from Affiliates | 13,871,321 | - | - | 13,871,321 |
| Due from State of Connecticut | 6,961,955 | - | - | 6,961,955 |
| Due from Primary Institution | - | 3,383,768 | (3,383,768) | - |
| Due from Department of Correction | 9,423,851 | - | - | 9,423,851 |
| Inventories | 1,506,820 | 6,131,843 | - | 7,638,663 |
| Due from third party payors | - | 2,398,463 | - | 2,398,463 |
| Prepaid expenses | 2,535,017 | 4,033,965 | (960,000) | 5,608,982 |
| Total current assets | <u>144,150,535</u> | <u>50,733,242</u> | <u>(17,454,976)</u> | <u>177,428,801</u> |
| Noncurrent Assets | | | | |
| Restricted cash and cash equivalents | 899,468 | 16,080,345 | - | 16,979,813 |
| Other assets | - | 691,609 | - | 691,609 |
| Assets limited as to use | 8,300,000 | - | - | 8,300,000 |
| Due from State of Connecticut | 1,653,782 | - | - | 1,653,782 |
| Capital assets, net | 178,732,080 | 61,170,309 | - | 239,902,389 |
| Total noncurrent assets | <u>189,585,330</u> | <u>77,942,263</u> | <u>-</u> | <u>267,527,593</u> |
| Total assets | <u>\$ 333,735,865</u> | <u>\$ 128,675,505</u> | <u>\$ (17,454,976)</u> | <u>\$ 444,956,394</u> |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Cash overdraft | \$ - | \$ 13,111,208 | \$ (13,111,208) | \$ - |
| Accounts payable and accrued liabilities | 24,315,380 | 9,516,528 | - | 33,831,908 |
| Due to State of Connecticut | 1,955,503 | 2,769,505 | - | 4,725,008 |
| Accrued salaries | 18,840,383 | 6,462,235 | - | 25,302,618 |
| Compensated absences | 10,812,097 | 5,701,325 | - | 16,513,422 |
| Due to John Dempsey Hospital | 3,383,768 | - | (3,383,768) | - |
| Deferred revenue | 11,621,475 | 7,160 | (960,000) | 10,668,635 |
| Malpractice reserve | - | 4,958,000 | - | 4,958,000 |
| Long-term debt - current portion | 1,060,292 | 3,227,461 | - | 4,287,753 |
| Total current liabilities | <u>71,988,898</u> | <u>45,753,422</u> | <u>(17,454,976)</u> | <u>100,287,344</u> |
| Noncurrent Liabilities | | | | |
| Malpractice reserve | - | 16,332,000 | - | 16,332,000 |
| Compensated absences | 12,692,462 | 6,692,860 | - | 19,385,322 |
| Long-term debt | 30,712,426 | 7,207,866 | - | 37,920,292 |
| Total noncurrent liabilities | <u>43,404,888</u> | <u>30,232,726</u> | <u>-</u> | <u>73,637,614</u> |
| Total liabilities | <u>115,393,786</u> | <u>75,986,148</u> | <u>(17,454,976)</u> | <u>173,924,958</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 146,959,362 | 50,734,982 | - | 197,694,344 |
| Restricted for | | | | |
| Nonexpendable | | | | |
| Scholarships | 61,451 | - | - | 61,451 |
| Expendable | | | | |
| Research | 3,884,523 | 146,345 | - | 4,030,868 |
| Loans | 2,512,492 | - | - | 2,512,492 |
| Capital projects | 14,361,529 | - | - | 14,361,529 |
| Unrestricted | 50,562,722 | 1,808,030 | - | 52,370,752 |
| Total net assets | <u>\$ 218,342,079</u> | <u>\$ 52,689,357</u> | <u>\$ -</u> | <u>\$ 271,031,436</u> |

UNIVERSITY OF CONNECTICUT HEALTH CENTER
CONSOLIDATING STATEMENT OF NET ASSETS
As of June 30, 2007

| | 2007 | | | |
|---|------------------------|--------------------------|------------------------|-----------------------|
| | Primary Institution | John Dempsey Hospital | Eliminations | Total |
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 39,023,920 | \$ - | \$ (13,371,479) | \$ 25,652,441 |
| Assets limited as to use | - | 129,362 | - | 129,362 |
| Patient receivables, net | 12,730,046 | 39,560,627 | - | 52,290,673 |
| Contract and other receivables | 38,238,368 | 430,238 | - | 38,668,606 |
| Due from Affiliates | 27,671,053 | - | - | 27,671,053 |
| Due from State of Connecticut | 4,774,697 | - | - | 4,774,697 |
| Due from Primary Institution | - | 3,340,606 | (3,340,606) | - |
| Due from Department of Correction | 15,412,738 | - | - | 15,412,738 |
| Inventories | 1,632,546 | 5,244,481 | - | 6,877,027 |
| Due from third party payors | - | 3,426,454 | - | 3,426,454 |
| Prepaid expenses | 2,422,520 | 2,702,077 | - | 5,124,597 |
| Total current assets | <u>141,905,888</u> | <u>54,833,845</u> | <u>(16,712,085)</u> | <u>180,027,648</u> |
| Noncurrent Assets | | | | |
| Restricted cash and cash equivalents | 80,754 | 19,351,938 | - | 19,432,692 |
| Other assets | - | 554,056 | - | 554,056 |
| Assets limited as to use | - | 117,971 | - | 117,971 |
| Due from State of Connecticut | 2,111,643 | - | - | 2,111,643 |
| Capital assets, net | 170,543,488 | 64,867,767 | - | 235,411,255 |
| Total noncurrent assets | <u>172,735,885</u> | <u>84,891,732</u> | <u>-</u> | <u>257,627,617</u> |
| Total assets | <u>\$ 314,641,773</u> | <u>\$ 139,725,577</u> | <u>\$ (16,712,085)</u> | <u>\$ 437,655,265</u> |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Cash overdraft | \$ - | \$ 13,371,479 | \$ (13,371,479) | \$ - |
| Accounts payable and accrued liabilities | 19,023,755 | 8,789,533 | - | 27,813,288 |
| Due to State of Connecticut | 2,230,299 | 2,228,811 | - | 4,459,110 |
| Accrued salaries | 16,498,197 | 5,456,466 | - | 21,954,663 |
| Compensated absences | 10,433,671 | 5,210,680 | - | 15,644,351 |
| Due to John Dempsey Hospital | 3,340,606 | - | (3,340,606) | - |
| Deferred revenue | 12,424,257 | - | - | 12,424,257 |
| Malpractice reserve | - | 3,461,000 | - | 3,461,000 |
| Long-term debt - current portion | 1,196,770 | 3,156,172 | - | 4,352,942 |
| Total current liabilities | <u>65,147,555</u> | <u>41,674,141</u> | <u>(16,712,085)</u> | <u>90,109,611</u> |
| Noncurrent Liabilities | | | | |
| Malpractice reserve | - | 16,539,000 | - | 16,539,000 |
| Compensated absences | 12,752,264 | 6,368,609 | - | 19,120,873 |
| Long-term debt | 31,770,281 | 7,601,147 | - | 39,371,428 |
| Total noncurrent liabilities | <u>44,522,545</u> | <u>30,508,756</u> | <u>-</u> | <u>75,031,301</u> |
| Total liabilities | <u>109,670,100</u> | <u>72,182,897</u> | <u>(16,712,085)</u> | <u>165,140,912</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 137,576,437 | 54,110,448 | - | 191,686,885 |
| Restricted for | | | | |
| Nonexpendable | | | | |
| Scholarships | 60,451 | - | - | 60,451 |
| Expendable | | | | |
| Research | 3,543,480 | 128,448 | - | 3,671,928 |
| Loans | 2,467,815 | - | - | 2,467,815 |
| Capital projects | 28,666,563 | - | - | 28,666,563 |
| Unrestricted | 32,656,927 | 13,303,784 | - | 45,960,711 |
| Total net assets | <u>\$ 204,971,673</u> | <u>\$ 67,542,680</u> | <u>\$ -</u> | <u>\$ 272,514,353</u> |

UNIVERSITY OF CONNECTICUT HEALTH CENTER
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET
ASSETS
For the Year Ended June 30, 2008

| | Primary Institution | John Dempsey Hospital | Total (Memo Only) | Eliminations | Consolidated |
|--|------------------------|--------------------------|-----------------------|---------------------|-----------------------|
| OPERATING REVENUES | | | | | |
| Student tuition and fees, net | \$ 10,857,096 | \$ - | \$ 10,857,096 | \$ - | \$ 10,857,096 |
| Patient services, net | 183,183,637 | 230,514,612 | 413,698,249 | (14,446,240) | 399,252,009 |
| Federal grants and contracts | 61,214,230 | - | 61,214,230 | - | 61,214,230 |
| Nongovernmental grants and contracts | 25,787,409 | - | 25,787,409 | - | 25,787,409 |
| Contract and other operating revenues | 59,747,464 | 1,955,370 | 61,702,834 | (11,284,495) | 50,418,339 |
| Total operating revenues | <u>340,789,836</u> | <u>232,469,982</u> | <u>573,259,818</u> | <u>(25,730,735)</u> | <u>547,529,083</u> |
| OPERATING EXPENSES | | | | | |
| Educational and General | | | | | |
| Instruction | 120,260,590 | - | 120,260,590 | (10,757,450) | 109,503,140 |
| Research | 60,274,554 | - | 60,274,554 | - | 60,274,554 |
| Patient services | 222,987,256 | 237,731,847 | 460,719,103 | (14,973,285) | 445,745,818 |
| Academic support | 15,686,832 | - | 15,686,832 | - | 15,686,832 |
| Institutional support | 62,514,306 | - | 62,514,306 | - | 62,514,306 |
| Operations and maintenance of plant | 23,549,107 | - | 23,549,107 | - | 23,549,107 |
| Depreciation | 17,074,565 | 11,150,983 | 28,225,548 | - | 28,225,548 |
| Loss on disposal | 186,945 | 41,228 | 228,173 | - | 228,173 |
| Student aid | 417,306 | - | 417,306 | - | 417,306 |
| Total operating expenses | <u>522,951,461</u> | <u>248,924,058</u> | <u>771,875,519</u> | <u>(25,730,735)</u> | <u>746,144,784</u> |
| Operating loss | <u>(182,161,625)</u> | <u>(16,454,076)</u> | <u>(198,615,701)</u> | <u>-</u> | <u>(198,615,701)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| State appropriations | 190,742,826 | - | 190,742,826 | - | 190,742,826 |
| Gifts | 1,631,571 | 1,066,989 | 2,698,560 | - | 2,698,560 |
| Investment income, net | 5,551,774 | 1,072,963 | 6,624,737 | - | 6,624,737 |
| Interest on capital asset - related debt | (2,228,350) | (539,199) | (2,767,549) | - | (2,767,549) |
| Net nonoperating revenues | <u>195,697,821</u> | <u>1,600,753</u> | <u>197,298,574</u> | <u>-</u> | <u>197,298,574</u> |
| Loss before other revenues, expenses, gains or losses | <u>13,536,196</u> | <u>(14,853,323)</u> | <u>(1,317,127)</u> | <u>-</u> | <u>(1,317,127)</u> |
| Capital appropriations | (165,790) | - | (165,790) | - | (165,790) |
| Total other revenues | (165,790) | - | (165,790) | - | (165,790) |
| (Decrease) increase in net assets | <u>13,370,406</u> | <u>(14,853,323)</u> | <u>(1,482,917)</u> | <u>-</u> | <u>(1,482,917)</u> |
| NET ASSETS | | | | | |
| Net assets-beginning of year | \$ 204,971,673 | \$ 67,542,680 | \$ 272,514,353 | \$ - | \$ 272,514,353 |
| Net assets-end of year | <u>\$ 218,342,079</u> | <u>\$ 52,689,357</u> | <u>\$ 271,031,436</u> | <u>\$ -</u> | <u>\$ 271,031,436</u> |

UNIVERSITY OF CONNECTICUT HEALTH CENTER
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET
ASSETS
For the Year Ended June 30, 2007

| | 2007 | | | | |
|--|------------------------|--------------------------|-----------------------|---------------------|-----------------------|
| | Primary Institution | John Dempsey Hospital | Total (Memo Only) | Eliminations | Consolidated |
| OPERATING REVENUES | | | | | |
| Student tuition and fees, net | \$ 10,038,089 | - | \$ 10,038,089 | \$ - | \$ 10,038,089 |
| Patient services, net | 167,943,155 | 221,238,114 | 389,181,269 | (13,233,204) | 375,948,065 |
| Federal grants and contracts | 67,728,461 | - | 67,728,461 | - | 67,728,461 |
| Nongovernmental grants and contracts | 23,204,664 | - | 23,204,664 | - | 23,204,664 |
| Contract and other operating revenues | 57,926,271 | 1,590,150 | 59,516,421 | (9,943,850) | 49,572,571 |
| Total operating revenues | <u>326,840,640</u> | <u>222,828,264</u> | <u>549,668,904</u> | <u>(23,177,054)</u> | <u>526,491,850</u> |
| OPERATING EXPENSES | | | | | |
| Educational and General | | | | | |
| Instruction | 113,220,387 | - | 113,220,387 | (9,112,244) | 104,108,143 |
| Research | 60,855,860 | - | 60,855,860 | - | 60,855,860 |
| Patient services | 195,667,248 | 216,664,463 | 412,331,711 | (14,064,810) | 398,266,901 |
| Academic support | 15,117,594 | - | 15,117,594 | - | 15,117,594 |
| Institutional support | 63,643,242 | - | 63,643,242 | - | 63,643,242 |
| Operations and maintenance of plant | 22,881,307 | - | 22,881,307 | - | 22,881,307 |
| Depreciation | 16,926,939 | 10,432,879 | 27,359,818 | - | 27,359,818 |
| Loss on disposal | 127,581 | 113,114 | 240,695 | - | 240,695 |
| Student aid | 414,697 | - | 414,697 | - | 414,697 |
| Total operating expenses | <u>488,854,855</u> | <u>227,210,456</u> | <u>716,065,311</u> | <u>(23,177,054)</u> | <u>692,888,257</u> |
| Operating loss | <u>(162,014,215)</u> | <u>(4,382,192)</u> | <u>(166,396,407)</u> | <u>-</u> | <u>(166,396,407)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| State appropriations | 157,279,599 | - | 157,279,599 | - | 157,279,599 |
| Gifts | 1,181,589 | - | 1,181,589 | - | 1,181,589 |
| Investment income, net | 4,880,002 | 951,575 | 5,831,577 | - | 5,831,577 |
| Interest on capital asset - related debt | (2,446,296) | (526,248) | (2,972,544) | - | (2,972,544) |
| Net nonoperating revenues | <u>160,894,894</u> | <u>425,327</u> | <u>161,320,221</u> | <u>-</u> | <u>161,320,221</u> |
| Loss before other revenues, expenses, gains or losses | <u>(1,119,321)</u> | <u>(3,956,865)</u> | <u>(5,076,186)</u> | <u>-</u> | <u>(5,076,186)</u> |
| Capital appropriations | 22,961,941 | - | 22,961,941 | - | 22,961,941 |
| Total other revenues | <u>22,961,941</u> | <u>-</u> | <u>22,961,941</u> | <u>-</u> | <u>22,961,941</u> |
| Increase (decrease) in net assets | <u>21,842,620</u> | <u>(3,956,865)</u> | <u>17,885,755</u> | <u>-</u> | <u>17,885,755</u> |
| NET ASSETS | | | | | |
| Net assets-beginning of year | \$ 183,129,053 | \$ 71,499,545 | \$ 254,628,598 | \$ - | \$ 254,628,598 |
| Net assets-end of year | <u>\$ 204,971,673</u> | <u>\$ 67,542,680</u> | <u>\$ 272,514,353</u> | <u>\$ -</u> | <u>\$ 272,514,353</u> |

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DIRECTORS AND FINANCIAL OFFICERS

June 30, 2008

BOARD OF DIRECTORS

Members at Large

| | | | |
|-------------------|----------------------------|---|----------------------|
| Mark Bertolini | <i>Avon</i> | David B. Friend, MD | <i>Lincoln, MA</i> |
| Cheryl Chase | <i>Hartford</i> | Jay L. Haberland | <i>Simsbury</i> |
| Sanford Cloud Jr. | <i>Farmington</i> | Vacant | |
| John Droney | <i>Farmington</i> | | |
| A. Jon Goldberg | <i>Farmington</i> | <u>Members Ex Officio</u> Michael Hogan | <i>Storrs</i> |
| Brian Hehir | <i>Port Washington, NY</i> | J. Robert Galvin | <i>Hartford</i> |
| Robert T. Samuels | <i>W. Hartford</i> | Michael J. Cicchetti | <i>West Hartford</i> |
| Ann Slaughter | <i>Philadelphia, PA</i> | | |

Appointed by Chairperson, Board of Trustees

| | |
|-------------------------------|--------------------|
| Gerald N. Burrow, Chairperson | <i>Hamden</i> |
| Lenworth M. Jacobs, MD | <i>W. Hartford</i> |
| Wayne Shepperd | Danbury |

FINANCIAL OFFICERS

Lorraine M. Aronson, Vice President and Chief Financial Officer
Daniel L. Upton, Chief Financial Officer
Jeffrey P. Geoghegan, Controller

TRUSTEES AND FINANCIAL OFFICERS
As of June 30, 2008

BOARD OF TRUSTEES

MEMBERS EX OFFICIO

The Honorable M. Jodi Rell
Governor of the State of Connecticut
President ex officio *Hartford*

The Honorable F. Philip Prelli
Commissioner of Agriculture
Member ex officio Barkhamsted

The Honorable Joan McDonald
Commissioner of Economic
and Community Development
Member ex officio *Hartford*

The Honorable Mark K. McQuillan
Commissioner of Education
Member ex officio *Hartford*

Gerard N. Burrow, M.D.
Chair, Health Center Board of Directors
Member ex officio *Hamden*

APPOINTED BY THE GOVERNOR

John W. Rowe, M.D., Chairman

Louise M. Bailey, *Secretary*

Michael A. Bozzuto

Peter S. Drotch

Linda P. Gatling

Lenworth M. Jacobs, Jr., M.D.

Michael J. Martinez

Denis J. Nayden

Rebecca Lobo

Thomas D. Ritter

Wayne J. Shepperd

Richard Treibick

ELECTED BY THE STUDENTS

Ross Gionfriddo

Michael J. Nichols

ELECTED BY THE ALUMNI

