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Form 990



Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No 1545-0047

2010

Open to Public Inspection

A For the 2010 calendar year, or tax year beginning 07-01-2010 and ending 06-30-2011

B Check if applicable

☐ Address change

☐ Name change

☐ Initial return

☐ Terminated

☐ Amended return

☐ Application pending

C Name of organization

UNIVERSITY PHYSICIANS HEALTHCARE

Doing Business As

THE UNIVERSITY OF ARIZONA PHYSICIANS

Number and street (or P O box if mail is not delivered to street address)

2701 EAST ELVIRA ROAD

Room/suite

City or town, state or country, and ZIP + 4

TUCSON, AZ 85756

F Name and address of principal officer

JODI MANSFIELD
1501 N CAMPBELL AVENUE
TUCSON, AZ 85724

H(a) Is this a group return for affiliates?

☐ Yes ☒ No

H(b) Are all affiliates included?

☐ Yes ☐ No

If "No," attach a list (see instructions)

H(c) Group exemption number

I Tax-exempt status

☒ 501(c)(3) ☐ 501(c) () ☐ (Insert no) ☐ 4947(a)(1) or ☐ 527

J Website:

WWW.UAHEALTH.COM

K Form of organization

☒ Corporation ☐ Trust ☐ Association ☐ Other

L Year of formation

1983

M State of legal domicile

AZ

Part I Summary			
Activities & Governance	1	Briefly describe the organization's mission or most significant activities ADVANCING HEALTH AND WELLNESS THROUGH EDUCATION, RESEARCH AND PATIENT CARE	
	2	Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets	
	3	Number of voting members of the governing body (Part VI, line 1a)	13
	4	Number of independent voting members of the governing body (Part VI, line 1b)	4
	5	Total number of individuals employed in calendar year 2010 (Part V, line 2a)	2,937
Revenue	6	Total number of volunteers (estimate if necessary)	69
	7a	Total unrelated business revenue from Part VIII, column (C), line 12	1,258,505
	7b	Net unrelated business taxable income from Form 990-T, line 34	-196,104
	8	Contributions and grants (Part VIII, line 1h)	0
	9	Program service revenue (Part VIII, line 2g)	597,981,026
Expenses	10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	-289,794
	11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	4,636,659
	12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	602,327,891
	13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)	2,890,237
	14	Benefits paid to or for members (Part IX, column (A), line 4)	0
Net Assets or Fund Balances	15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	217,149,807
	16a	Professional fundraising fees (Part IX, column (A), line 11e)	0
	b	Total fundraising expenses (Part IX, column (D), line 25) <input type="checkbox"/> 0	
	17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24f)	366,735,607
	18	Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	586,775,651
	19	Revenue less expenses Subtract line 18 from line 12	15,552,240
	20	Total assets (Part X, line 16)	210,816,927
	21	Total liabilities (Part X, line 26)	121,902,939
	22	Net assets or fund balances Subtract line 21 from line 20	88,913,988
		Beginning of Current Year	End of Year

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

Signature of officer

2012-05-10

Date

MISTY D HANSEN CHIEF FINANCIAL OFFICER

Type or print name and title

Paid Preparer Use Only

Print/Type preparer's name

KAREN K MCCLOSKEY CPA

Preparer's signature

KAREN K MCCLOSKEY CPA

Date

Check if self-employed

☐

PTIN

Firm's name

BEACHFLEISCHMAN PC

Firm's EIN

Firm's address

PO BOX 64130
TUCSON, AZ 857284130

Phone no

(520) 321-4600

May the IRS discuss this return with the preparer shown above? (see instructions)

☒ Yes ☐ No

For Paperwork Reduction Act Notice, see the separate instructions.

Cat No 11282Y

Form 990 (2010)

Part III

Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III

1

Briefly describe the organization's mission

ADVANCING HEALTH AND WELLNESS THROUGH EDUCATION, RESEARCH, AND PATIENT CARE

2

Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ?

Yes

No

If "Yes," describe these new services on Schedule O

3

Did the organization cease conducting, or make significant changes in how it conducts, any program services?

Yes

No

If "Yes," describe these changes on Schedule O

4

Describe the exempt purpose achievements for each of the organization's three largest program services by expenses

Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported

4a

(Code) (Expenses \$ 270,755,857 including grants of \$ 6,042) (Revenue \$ 324,589,503)

UNIVERSITY OF ARIZONA HEALTH PLANS COORDINATES THE DELIVERY OF HEALTH CARE TO ENROLLEES OF THE ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM (ARIZONA'S MEDICAID PROGRAM), THE MEDICARE ADVANTAGE SPECIAL NEEDS PROGRAM (CENTERS FOR MEDICARE AND MEDICAID DUAL ELIGIBLE MEDICARE PROGRAM) AND HEALTH CARE GROUP (ARIZONA'S SMALL BUSINESS HEALTH CARE PROGRAM)

4b

(Code) (Expenses \$ 123,104,592 including grants of \$ 1,822,314) (Revenue \$ 123,966,708)

UNIVERSITY OF ARIZONA MEDICAL CENTER-SOUTH CAMPUS IS A 197 BED, FULL SERVICE HOSPITAL THAT PROVIDES VITAL MEDICAL SERVICES TO THE CITIZENS OF SOUTHERN ARIZONA THE HOSPITAL PROVIDES PATIENTS WITH DIRECT ACCESS TO THE EXPERTISE, GROUNDBREAKING RESEARCH, AND THE LATEST TREATMENTS OF THE UNIVERSITY OF ARIZONA COLLEGE OF MEDICINE THE HOSPITAL IS LOCATED IN A PRIMARILY UNDERSERVED AREA AND GIVES CITIZENS EASY ACCESS TO EMERGENCY AND SPECIALTY CARE

4c

(Code) (Expenses \$ 154,482,163 including grants of \$ 10,103,746) (Revenue \$ 133,108,767)

UNIVERSITY OF ARIZONA PHYSICIANS CLINICAL PRACTICE PROVIDES INPATIENT AND AMBULATORY CARE TO PATIENTS REGARDLESS OF THEIR ABILITY TO PAY

4d

Other program services (Describe in Schedule O)



















(Expenses \$ including grants of \$) (Revenue \$)

4e

Total program service expenses

\$ 548,342,612

Part IV Checklist of Required Schedules

	Yes	No
1 Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? If "Yes," complete Schedule A 	1 Yes	
2 Is the organization required to complete Schedule B, Schedule of Contributors (see instruction)? 	2 Yes	
3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? If "Yes," complete Schedule C, Part I 	3	No
4 Section 501(c)(3) organizations. Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? If "Yes," complete Schedule C, Part II 	4 Yes	
5 Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? If "Yes," complete Schedule C, Part III	5	
6 Did the organization maintain any donor advised funds or any similar funds or accounts where donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? If "Yes," complete Schedule D, Part I 	6	No
7 Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? If "Yes," complete Schedule D, Part II 	7	No
8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III 	8	No
9 Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? If "Yes," complete Schedule D, Part IV 	9	No
10 Did the organization, directly or through a related organization, hold assets in term, permanent, or quasi-endowments? If "Yes," complete Schedule D, Part V 	10	No
11 If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable		
a Did the organization report an amount for land, buildings, and equipment in Part X, line 10? If "Yes," complete Schedule D, Part VI. 	11a Yes	
b Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VII. 	11b	No
c Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VIII. 	11c	No
d Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part IX. 	11d Yes	
e Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X. 	11e Yes	
f Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? If "Yes," complete Schedule D, Part X. 	11f	No
12a Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI, XII, and XIII 	12a	No
b Was the organization included in consolidated, independent audited financial statements for the tax year? If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional 	12b Yes	
13 Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E	13	No
14a Did the organization maintain an office, employees, or agents outside of the United States?	14a	No
b Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, and program service activities outside the United States? If "Yes," complete Schedule F, Parts I and IV	14b	No
15 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the U S ? If "Yes," complete Schedule F, Parts II and IV	15	No
16 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the U S ? If "Yes," complete Schedule F, Parts III and IV	16	No
17 Did the organization report a total of more than \$15,000, of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? If "Yes," complete Schedule G, Part I (see instructions)	17	No
18 Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? If "Yes," complete Schedule G, Part II	18	No
19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If "Yes," complete Schedule G, Part III	19	No
20a Did the organization operate one or more hospitals? If "Yes," complete Schedule H 	20a Yes	
b If "Yes" to line 20a, did the organization attach its audited financial statement to this return? Note. Some Form 990 filers that operate one or more hospitals must attach audited financial statements (see instructions)	20b Yes	

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i>	21	Yes	
22	Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i>	22		No
23	Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i>	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b–24d and complete Schedule K. If "No," go to line 25</i>	24a	Yes	
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b		No
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	24c		No
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	24d		No
25a	Section 501(c)(3) and 501(c)(4) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i>	25a		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i>	25b		No
26	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i>	26		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? <i>If "Yes," complete Schedule L, Part III</i>	27		No
28	Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28a		No
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28b		No
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i>	28c		No
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i>	29		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i>	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i>	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i>	32		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i>	33	Yes	
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1</i>	34	Yes	
35	Is any related organization a controlled entity within the meaning of section 512(b)(13)?	35	Yes	
a	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i>			
36	Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i>	36		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i>	37		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? Note. All Form 990 filers are required to complete Schedule O	38	Yes	

Part V Statements Regarding Other IRS Filings and Tax Compliance			
Check if Schedule O contains a response to any question in this Part V <input type="checkbox"/>			
		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.	1a	708
b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	1b	0
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c	Yes
2a	Enter the number of employees reported on Form W-3, <i>Transmittal of Wage and Tax Statements</i> filed for the calendar year ending with or within the year covered by this return.	2a	2,937
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).	2b	Yes
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	3a	Yes
b	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O.	3b	Yes
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?	4a	No
b	If "Yes," enter the name of the foreign country: _____ See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.		
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?	5a	No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b	No
c	If "Yes" to line 5a or 5b, did the organization file Form 8886-T?	5c	
6a	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible?	6a	No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6b	
7	Organizations that may receive deductible contributions under section 170(c).		
a	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?	7a	No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b	
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c	No
d	If "Yes," indicate the number of Forms 8282 filed during the year.	7d	
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e	No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	7f	No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g	
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h	
8	Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations. Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?	8	
9	Sponsoring organizations maintaining donor advised funds.		
a	Did the organization make any taxable distributions under section 4966?	9a	
b	Did the organization make a distribution to a donor, donor advisor, or related person?	9b	
10	Section 501(c)(7) organizations. Enter		
a	Initiation fees and capital contributions included on Part VIII, line 12.	10a	
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities.	10b	
11	Section 501(c)(12) organizations. Enter		
a	Gross income from members or shareholders.	11a	
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them).	11b	
12a	Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?	12a	
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year.	12b	
13	Section 501(c)(29) qualified nonprofit health insurance issuers.		
a	Is the organization licensed to issue qualified health plans in more than one state? Note. See the instructions for additional information the organization must report on Schedule O.	13a	
b	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans.	13b	
c	Enter the amount of reserves on hand.	13c	
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a	No
b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O.	14b	

Part VI

Governance, Management, and Disclosure For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.
Check if Schedule O contains a response to any question in this Part VI ☒

Section A. Governing Body and Management

			Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year	1a	13	
b	Enter the number of voting members included in line 1a, above, who are independent	1b	4	
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?	2		No
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person?	3		No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	4		No
5	Did the organization become aware during the year of a significant diversion of the organization's assets?	5		No
6	Does the organization have members or stockholders?	6	Yes	
7a	Does the organization have members, stockholders, or other persons who may elect one or more members of the governing body?	7a	Yes	
b	Are any decisions of the governing body subject to approval by members, stockholders, or other persons?	7b	Yes	
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following			
a	The governing body?	8a	Yes	
b	Each committee with authority to act on behalf of the governing body?	8b	Yes	
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O	9		No

Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)

			Yes	No
10a	Does the organization have local chapters, branches, or affiliates?	10a		No
b	If "Yes," does the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with those of the organization?	10b		
11a	Has the organization provided a copy of this Form 990 to all members of its governing body before filing the form?	11a	Yes	
b	Describe in Schedule O the process, if any, used by the organization to review this Form 990			
12a	Does the organization have a written conflict of interest policy? If "No," go to line 13	12a	Yes	
b	Are officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	Yes	
c	Does the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this is done	12c	Yes	
13	Does the organization have a written whistleblower policy?	13	Yes	
14	Does the organization have a written document retention and destruction policy?	14	Yes	
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?			
a	The organization's CEO, Executive Director, or top management official	15a	Yes	
b	Other officers or key employees of the organization	15b	Yes	
	If "Yes" to line 15a or 15b, describe the process in Schedule O (See instructions)			
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	16a		No
b	If "Yes," has the organization adopted a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and taken steps to safeguard the organization's exempt status with respect to such arrangements?	16b		

Section C. Disclosure

17	List the States with which a copy of this Form 990 is required to be filed AZ
18	Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c) (3)s only) available for public inspection. Indicate how you make these available. Check all that apply. <input type="checkbox"/> Own website <input checked="" type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request
19	Describe in Schedule O whether (and if so, how), the organization makes its governing documents, conflict of interest policy, and financial statements available to the public. See Additional Data Table.
20	State the name, physical address, and telephone number of the person who possesses the books and records of the organization. DONELLA FONES 1501 N CAMPBELL AVENUE TUCSON, AZ 85724 (520) 694-2700

Part VII

Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Check if Schedule O contains a response to any question in this Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

1a Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees. Enter -0- in columns (D), (E), and (F) if no compensation was paid.
- List all of the organization's **current** key employees, if any. See instructions for definition of "key employee."
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations.
- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations.

List persons in the following order: individual trustees or directors; institutional trustees; officers; key employees; highest compensated employees; and former such persons.

☐ Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(1) HENRY WELLS INTERIM PRESIDENT & CEO	40.00	X		X				112,000	0	0
(2) STEVE GOLDSCHMID MD CHAIRPERSON	5.00	X		X				2,322	508,644	38,559
(3) BARBARA PECK VICE CHAIRPERSON	2.00	X		X				0	0	0
(4) EDMUND L JENKINS TREASURER	2.00	X		X				0	0	0
(5) KATHRYN REED MD SECRETARY	2.00	X		X				2,322	359,208	42,647
(6) LARRY ALDRICH PRESIDENT & CEO	40.00	X		X				1,453,025	0	47,178
(7) KEVIN J BURNS INTERIM PRESIDENT & CEO	5.00	X		X				0	924,768	29,020
(8) MARC BERG MD DIRECTOR	1.00	X						540	246,862	34,034
(9) THOMAS BOYER MD DIRECTOR	1.00	X						6,858	403,448	38,689
(10) WILLIAM M CRIST MD DIRECTOR	1.00	X						6,858	647,509	39,283
(11) LAURA EBERLY DIRECTOR	1.00	X						0	0	0
(12) FAYEZ GHISHAN MD DIRECTOR	1.00	X						6,858	619,281	46,221
(13) JUDY GIGNAC DIRECTOR	1.00	X						0	0	0
(14) RAINER GRUESSNER MD DIRECTOR	1.00	X						1,242	587,267	42,472
(15) DAVID LABINER MD DIRECTOR	1.00	X						1,242	304,350	39,020
(16) STEVE LYNN DIRECTOR	1.00	X						0	0	0

Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees (continued)

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(17) EDMUND PARKER DIRECTOR	1 00	X						0	0	0
(18) GRANGER VINALL DIRECTOR	1 00	X						0	0	0
(19) MISTY D HANSEN CHIEF FINANCIAL OFFICER	5 00			X				0	393,322	63,123
(20) KATHLEEN A OESTREICH CHIEF ADMINISTRATIVE OFFICER	40 00				X			489,861	0	32,786
(21) DIANE RAFFERTY THRU ALVAREZ MARSAL INTERIM HOSPITAL CEO	40 00				X			0	0	0
(22) JAMES V STOVER CHIEF ADMINISTRATIVE OFFICER	40 00				X			196,192	0	18,083
(23) JODY L BUTERA CHIEF FINANCIAL OFFICER-HEALTH PLANS	40 00					X		235,190	0	21,495
(24) CHRISTEN A CASTELLANO DEPARTMENT ADMINISTRATOR	40 00					X		224,340	0	18,833
(25) THERESA G LEBARRON VP PLANNING AND INTEGRATION	40 00					X		307,874	0	29,808
(26) GERALD T MIRON CHIEF OPERATIONS OFFICER	40 00					X		250,702	0	33,132
(27) SUSAN WONG-BEAN ASSOCIATE GENERAL COUNSEL	40 00					X		210,564	0	21,283
1b Sub-Total										
c Total from continuation sheets to Part VII, Section A										
d Total (add lines 1b and 1c)								3,507,990	4,994,659	635,666

2 Total number of individuals (including but not limited to those listed above) who received more than \$100,000 in reportable compensation from the organization▶30

		Yes	No
3	Did the organization list any former officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i>		No
4	For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? <i>If "Yes," complete Schedule J for such individual</i>	Yes	
5	Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? <i>If "Yes," complete Schedule J for such person</i>		No

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization

(A) Name and business address	(B) Description of services	(C) Compensation
INGENIX PO BOX 27116 SALT LAKE CITY, UT 84127	EDP, CONSULTING	2,614,326
ALVAREZ & MARSAL HEALTHCARE 600 LEXINGTON AVENUE NEW YORK, NY 10022	CONSULTING	2,220,273
JANET JENNER & SUGGS LLC 1777 REISTERTOWN ROAD SUITE 165 BALTIMORE, MD 21208	ATTORNEYS	1,650,000
NVISION NETWORKING PO BOX 91050 TUCSON, AZ 85752	EDP	1,414,986
INSIGHT DIRECT USA 6820 S HARL AVENUE TUCSON, AZ 85283	EDP	1,288,873
2 Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 in compensation from the organization ▶59		

Part VIII

Statement of Revenue

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
Contributions, gifts, grants and other similar amounts	1a Federated campaigns 1a						
	b Membership dues 1b						
	c Fundraising events 1c						
	d Related organizations 1d			12,163,133			
	e Government grants (contributions) 1e						
	f All other contributions, gifts, grants, and similar amounts not included above 1f						
	g Noncash contributions included in lines 1a-1f \$						
	h Total. Add lines 1a-1f			12,163,133			
	Program Service Revenue			Business Code			
2a CAPITATION & CONTRACT		621111	387,277,338	387,277,338			
b NET PATIENT SERVICE		621111	194,387,640	193,129,135	1,258,505		
c							
d							
e							
f All other program service revenue							
g Total. Add lines 2a-2f			581,664,978				
Other Revenue		3 Investment income (including dividends, interest and other similar amounts)					
				21,894			21,894
	4 Income from investment of tax-exempt bond proceeds . .						
	5 Royalties						
	6a Gross Rents	(i) Real	(ii) Personal				
		387,495					
		b Less rental expenses					
		c Rental income or (loss)	387,495				
	d Net rental income or (loss)			387,495			387,495
	7a Gross amount from sales of assets other than inventory	(i) Securities	(ii) Other				
		b Less cost or other basis and sales expenses					
		c Gain or (loss)					
	d Net gain or (loss)						
	8a Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18		a				
	b Less direct expenses b						
	c Net income or (loss) from fundraising events . .						
	9a Gross income from gaming activities See Part IV, line 19 . . a						
	b Less direct expenses b						
	c Net income or (loss) from gaming activities . .						
	10a Gross sales of inventory, less returns and allowances . .		a				
	b Less cost of goods sold b						
	c Net income or (loss) from sales of inventory . .						
Miscellaneous Revenue			Business Code				
11a							
b							
c							
d All other revenue							
e Total. Add lines 11a-11d							
12 Total revenue. See Instructions				594,237,500	580,406,473	1,258,505	409,389

Part IX

Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns.

All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D).

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to governments and organizations in the U S See Part IV, line 21	11,932,102	11,932,102		
2	Grants and other assistance to individuals in the U S See Part IV, line 22				
3	Grants and other assistance to governments, organizations, and individuals outside the U S See Part IV, lines 15 and 16				
4	Benefits paid to or for members				
5	Compensation of current officers, directors, trustees, and key employees	3,863,855	3,863,855		
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)				
7	Other salaries and wages	177,412,255	158,991,818	18,420,437	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	1,899,598	1,796,619	102,979	
9	Other employee benefits	35,108,714	33,205,442	1,903,272	
10	Payroll taxes	2,815,547	2,662,914	152,633	
a	Fees for services (non-employees)				
	Management	8,373,510	6,342,966	2,030,544	
b	Legal	797,007	404,668	392,339	
c	Accounting	867,151	649,261	217,890	
d	Lobbying				
e	Professional fundraising services See Part IV, line 17				
f	Investment management fees				
g	Other	24,234,376	18,032,479	6,201,897	
12	Advertising and promotion	887,707	574,332	313,375	
13	Office expenses	2,481,541	585,535	1,896,006	
14	Information technology	3,825,813	1,313,623	2,512,190	
15	Royalties				
16	Occupancy	10,492,283	6,106,168	4,386,115	
17	Travel	1,959,842	1,790,131	169,711	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials				
19	Conferences, conventions, and meetings	198,882	169,765	29,117	
20	Interest	1,629,420	849,777	779,643	
21	Payments to affiliates	8,606,651	3,885,518	4,721,133	
22	Depreciation, depletion, and amortization	8,264,425	5,324,491	2,939,934	
23	Insurance	8,913,654	8,642,220	271,434	
24	Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O)				
a	MEDICAL CLAIMS FOR HEAL	255,850,873	255,850,873		
b	MEDICAL SUPPLIES	23,575,996	22,477,068	1,098,928	
c	PROFESSIONAL DEVELOPMEN	1,981,567	1,761,217	220,350	
d	RECRUITMENT	1,338,321	1,129,770	208,551	
e					
f	All other expenses				
25	Total functional expenses. Add lines 1 through 24f	597,311,090	548,342,612	48,968,478	0
26	Joint costs. Check here <input checked="" type="checkbox"/> if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

Part X

Balance Sheet

					(A)		(B)
					Beginning of year		End of year
Assets	1	Cash—non-interest-bearing			30,037,609	1	13,257,065
	2	Savings and temporary cash investments				2	40,487,472
	3	Pledges and grants receivable, net				3	
	4	Accounts receivable, net			86,906,749	4	54,887,216
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L				5	
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers, and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions) Schedule L				6	
	7	Notes and loans receivable, net				7	
	8	Inventories for sale or use			2,994,298	8	3,021,296
	9	Prepaid expenses and deferred charges			1,591,551	9	7,085,112
	10a	Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D.	10a	102,245,681			
	b	Less: accumulated depreciation	10b	52,175,153	49,065,098	10c	50,070,528
	11	Investments—publicly traded securities			0	11	
	12	Investments—other securities. See Part IV, line 11			31,828,949	12	1,792,886
	13	Investments—program-related. See Part IV, line 11				13	
	14	Intangible assets				14	
	15	Other assets. See Part IV, line 11			8,392,673	15	11,974,599
16	Total assets. Add lines 1 through 15 (must equal line 34)			210,816,927	16	182,576,174	
Liabilities	17	Accounts payable and accrued expenses			59,256,050	17	62,289,429
	18	Grants payable				18	
	19	Deferred revenue				19	
	20	Tax-exempt bond liabilities			20,253,078	20	14,530,329
	21	Escrow or custodial account liability. Complete Part IV of Schedule D				21	
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L				22	
	23	Secured mortgages and notes payable to unrelated third parties			11,396,194	23	12,282,879
	24	Unsecured notes and loans payable to unrelated third parties				24	
	25	Other liabilities. Complete Part X of Schedule D			30,997,617	25	37,263,720
	26	Total liabilities. Add lines 17 through 25			121,902,939	26	126,366,357
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.						
	27	Unrestricted net assets				27	
	28	Temporarily restricted net assets				28	
	29	Permanently restricted net assets				29	
	Organizations that do not follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 30 through 34.						
	30	Capital stock or trust principal, or current funds			0	30	0
	31	Paid-in or capital surplus, or land, building or equipment fund			0	31	0
	32	Retained earnings, endowment, accumulated income, or other funds			88,913,988	32	56,209,817
	33	Total net assets or fund balances			88,913,988	33	56,209,817
34	Total liabilities and net assets/fund balances			210,816,927	34	182,576,174	

Part XI Reconciliation of Net Assets

Check if Schedule O contains a response to any question in this Part XI

1	Total revenue (must equal Part VIII, column (A), line 12)	1	594,237,500
2	Total expenses (must equal Part IX, column (A), line 25)	2	597,311,090
3	Revenue less expenses Subtract line 2 from line 1	3	-3,073,590
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	88,913,988
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-29,630,581
6	Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	6	56,209,817

Part XII Financial Statements and Reporting

Check if Schedule O contains a response to any question in this Part XII

		Yes	No
1	Accounting method used to prepare the Form 990 <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Other If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O		
2a	Were the organization's financial statements compiled or reviewed by an independent accountant?		No
b	Were the organization's financial statements audited by an independent accountant?	Yes	
c	If "Yes," to 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	Yes	
d	If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input checked="" type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separated basis		
3a	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?		No
b	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits		

SCHEDULE A
(Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization
UNIVERSITY PHYSICIANS HEALTHCARE

Employer identification number
94-2958258

Part I Reason for Public Charity Status (All organizations must complete this part.) See instructions

The organization is not a private foundation because it is (For lines 1 through 11, check only one box)

1

☐

A church, convention of churches, or association of churches described in **section 170(b)(1)(A)(i).**

2

☐

A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E)

3

☒

A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**

4

☐

A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state

5

☐

An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II)

6

☐

A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**

7

☐

An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)** (Complete Part II)

8

☐

A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II)

9

☐

An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III)

10

☐

An organization organized and operated exclusively to test for public safety See**section 509(a)(4).**

11

☐

An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Other

e

☐

By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)

f

☐

If the organization received a written determination from the IRS that it is a Type I, Type II or Type III supporting organization, check this box

g

☐

Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?

(i)

a person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the the supported organization?

(ii)

a family member of a person described in (i) above?

(iii)

a 35% controlled entity of a person described in (i) or (ii) above?

h

☐

Provide the following information about the supported organization(s)

	Yes	No
11g(i)		
11g(ii)		
11g(iii)		

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1- 9 above or IRC section (see instructions))	(iv) Is the organization in col (i) listed in your governing document?		(v) Did you notify the organization in col (i) of your support?		(vi) Is the organization in col (i) organized in the U S ?		(vii) Amount of support
			Yes	No	Yes	No	Yes	No	
Total									

Part II

Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)

(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 Total. Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 Public Support. Subtract line 5 from line 4						

Section B. Total Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
11 Total support (Add lines 7 through 10)						
12 Gross receipts from related activities, etc (See instructions)					12	
13 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here ▶						

Section C. Computation of Public Support Percentage						
14 Public Support Percentage for 2010 (line 6 column (f) divided by line 11 column (f))					14	
15 Public Support Percentage for 2009 Schedule A, Part II, line 14					15	
16a 33 1/3% support test—2010. If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ▶						
b 33 1/3% support test—2009. If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ▶						
17a 10%-facts-and-circumstances test—2010. If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization ▶						
b 10%-facts-and-circumstances test—2009. If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization ▶						
18 Private Foundation If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions ▶						

Part III

Support Schedule for Organizations Described in Section 509(a)(2)
(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support						
Calendar year (or fiscal year beginning in) 	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 Total. Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 Public Support (Subtract line 7c from line 6)						

Section B. Total Support						
Calendar year (or fiscal year beginning in) 	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
13 Total support (Add lines 9, 10c, 11 and 12)						
14 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and stop here 						

Section C. Computation of Public Support Percentage		
15 Public Support Percentage for 2010 (line 8 column (f) divided by line 13 column (f))	15	
16 Public support percentage from 2009 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2010 (line 10c column (f) divided by line 13 column (f))	17	
18 Investment income percentage from 2009 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2010. If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and stop here . The organization qualifies as a publicly supported organization 		
b 33 1/3% support tests—2009. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and stop here . The organization qualifies as a publicly supported organization 		
20 Private Foundation If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions 		

Part IV

Supplemental Information. Supplemental Information. Complete this part to provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Also complete this part for any additional information. (See instructions).

SCHEDULE C (Form 990 or 990-EZ) Department of the Treasury Internal Revenue Service	Political Campaign and Lobbying Activities	OMB No 1545-0047
	For Organizations Exempt From Income Tax Under section 501(c) and section 527 ▶ Complete if the organization is described below. ▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.	2010
		Open to Public Inspection

If the organization answered “Yes,” to Form 990, Part IV, Line 3, or Form 990-EZ, Part V, line 46 (Political Campaign Activities), then

- Section 501(c)(3) organizations Complete Parts I-A and B Do not complete Part I-C
- Section 501(c) (other than section 501(c)(3)) organizations Complete Parts I-A and C below Do not complete Part I-B
- Section 527 organizations Complete Part I-A only

If the organization answered “Yes,” to Form 990, Part IV, Line 4, or Form 990-EZ, Part VI, line 47 (Lobbying Activities), then

- Section 501(c)(3) organizations that have filed Form 5768 (election under section 501(h)) Complete Part II-A Do not complete Part II-B
- Section 501(c)(3) organizations that have NOT filed Form 5768 (election under section 501(h)) Complete Part II-B Do not complete Part II-A

If the organization answered “Yes,” to Form 990, Part IV, Line 5 (Proxy Tax) or Form 990-EZ, Part V, line 35a (Proxy Tax), then

- Section 501(c)(4), (5), or (6) organizations Complete Part III

Name of the organization UNIVERSITY PHYSICIANS HEALTHCARE	Employer identification number 94-2958258
--	--

Part I-A Complete if the organization is exempt under section 501(c) or is a section 527 organization.

1	Provide a description of the organization’s direct and indirect political campaign activities in Part IV	
2	Political expenditures	▶ \$
3	Volunteer hours	

Part I-B Complete if the organization is exempt under section 501(c)(3).

1	Enter the amount of any excise tax incurred by the organization under section 4955	▶ \$
2	Enter the amount of any excise tax incurred by organization managers under section 4955	▶ \$
3	If the organization incurred a section 4955 tax, did it file Form 4720 for this year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
4a	Was a correction made?	<input type="checkbox"/> Yes <input type="checkbox"/> No
b	If “Yes,” describe in Part IV	

Part I-C Complete if the organization is exempt under section 501(c) except section 501(c)(3).

1	Enter the amount directly expended by the filing organization for section 527 exempt function activities	▶ \$
2	Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt funtion activities	▶ \$
3	Total exempt function expenditures Add lines 1 and 2 Enter here and on Form 1120-POL, line 17b	▶ \$
4	Did the filing organization file Form 1120-POL for this year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
5	Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments For each organization listed, enter the amount paid from the filing organization’s funds Also enter the amount of political contributions received that were promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC) If additional space is needed, provide information in Part IV	

(a) Name	(b) Address	(c) EIN	(d) Amount paid from filing organization's funds If none, enter -0-	(e) Amount of political contributions received and promptly and directly delivered to a separate political organization If none, enter -0-

Part II-A

Complete if the organization is exempt under section 501(c)(3) and filed Form 5768 (election under section 501(h)).

A

Check

☐

if the filing organization belongs to an affiliated group

B

Check

☐

if the filing organization checked box A and "limited control" provisions apply

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)		(a) Filing Organization's Totals	(b) Affiliated Group Totals												
1a Total lobbying expenditures to influence public opinion (grass roots lobbying)															
b Total lobbying expenditures to influence a legislative body (direct lobbying)															
c Total lobbying expenditures (add lines 1a and 1b)															
d Other exempt purpose expenditures															
e Total exempt purpose expenditures (add lines 1c and 1d)															
f Lobbying nontaxable amount Enter the amount from the following table in both columns															
<table><thead><tr><th>If the amount on line 1e, column (a) or (b) is:</th><th>The lobbying nontaxable amount is:</th></tr></thead><tbody><tr><td>Not over \$500,000</td><td>20% of the amount on line 1e</td></tr><tr><td>Over \$500,000 but not over \$1,000,000</td><td>\$100,000 plus 15% of the excess over \$500,000</td></tr><tr><td>Over \$1,000,000 but not over \$1,500,000</td><td>\$175,000 plus 10% of the excess over \$1,000,000</td></tr><tr><td>Over \$1,500,000 but not over \$17,000,000</td><td>\$225,000 plus 5% of the excess over \$1,500,000</td></tr><tr><td>Over \$17,000,000</td><td>\$1,000,000</td></tr></tbody></table>		If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:	Not over \$500,000	20% of the amount on line 1e	Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000	Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000	Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000	Over \$17,000,000	\$1,000,000		
If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:														
Not over \$500,000	20% of the amount on line 1e														
Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000														
Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000														
Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000														
Over \$17,000,000	\$1,000,000														
g Grassroots nontaxable amount (enter 25% of line 1f)															
h Subtract line 1g from line 1a If zero or less, enter -0-															
i Subtract line 1f from line 1c If zero or less, enter -0-															
j If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year?		<input type="checkbox"/> Yes	<input type="checkbox"/> No												

4-Year Averaging Period Under Section 501(h)
(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 2a through 2f on page 4.)

Lobbying Expenditures During 4-Year Averaging Period					
Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) Total
2a Lobbying non-taxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots non-taxable amount					
e Grassroots ceiling amount (150% of line 2d, column (e))					
f Grassroots lobbying expenditures					

Part II-B

Complete if the organization is exempt under section 501(c)(3) and has NOT filed Form 5768 (election under section 501(h)).

		(a)		(b)
		Yes	No	Amount
1	During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of			
	a Volunteers?		No	
	b Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?	Yes		
	c Media advertisements?		No	
	d Mailings to members, legislators, or the public?		No	
	e Publications, or published or broadcast statements?		No	
	f Grants to other organizations for lobbying purposes?		No	
	g Direct contact with legislators, their staffs, government officials, or a legislative body?		No	
	h Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?		No	
	i Other activities? If "Yes," describe in Part IV	Yes		165,203
	j Total lines 1c through 1i			165,203
2a	Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?		No	
b	If "Yes," enter the amount of any tax incurred under section 4912			
c	If "Yes," enter the amount of any tax incurred by organization managers under section 4912			
d	If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?			

Part III-A

Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6).

			Yes	No
1	Were substantially all (90% or more) dues received nondeductible by members?	1		
2	Did the organization make only in-house lobbying expenditures of \$2,000 or less?	2		
3	Did the organization agree to carryover lobbying and political expenditures from the prior year?	3		

Part III-B

Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6) if BOTH Part III-A, lines 1 and 2 are answered "No" OR if Part III-A, line 3 is answered "Yes".

1	Dues, assessments and similar amounts from members	1	
2	Section 162(e) non-deductible lobbying and political expenditures (do not include amounts of political expenses for which the section 527(f) tax was paid).		
a	Current year	2a	
b	Carryover from last year	2b	
c	Total	2c	
3	Aggregate amount reported in section 6033(e)(1)(A) notices of nondeductible section 162(e) dues	3	
4	If notices were sent and the amount on line 2c exceeds the amount on line 3, what portion of the excess does the organization agree to carryover to the reasonable estimate of nondeductible lobbying and political expenditure next year?	4	
5	Taxable amount of lobbying and political expenditures (see instructions)	5	

Part IV

Supplemental Information

Complete this part to provide the descriptions required for Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, and Part II-B, line 1i. Also, complete this part for any additional information.

Identifier	Return Reference	Explanation
EXPLANATION OF OTHER LOBBYING ACTIVITIES	PART II-B, LINE 1I	THE UNIVERSITY OF ARIZONA PHYSICIANS EMPLOYS A DIRECTOR OF LEGISLATIVE AFFAIRS. THIS POSITION PROVIDES LEADERSHIP IN THE AREAS OF LEGISLATIVE INITIATIVES, HEALTH POLICY AND CONSUMER ADVOCACY. THIS POSITION ALSO CREATES LINKS TO STATE AND FEDERAL LEGISLATIVE REPRESENTATIVES AND STAFF, RESEARCHES AND PROVIDES GUIDANCE ON THE EFFECTS OF LEGISLATIVE AND HEALTH POLICY CHANGES AND CREATES STRONG LINKS TO THE VARIOUS CONSUMER ADVOCACY ORGANIZATIONS.

SCHEDULE D

(Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

▶ **Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 8, 9, 10, 11, or 12.**
▶ **Attach to Form 990. ▶ See separate instructions.**

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization
UNIVERSITY PHYSICIANS HEALTHCARE

Employer identification number
94-2958258

Part I

Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

	(a) Donor advised funds	(b) Funds and other accounts
1	Total number at end of year	
2	Aggregate contributions to (during year)	
3	Aggregate grants from (during year)	
4	Aggregate value at end of year	
5	Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control? <div><input type="checkbox"/> Yes <input type="checkbox"/> No</div>	
6	Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit? <div><input type="checkbox"/> Yes <input type="checkbox"/> No</div>	

Part II

Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

1

Purpose(s) of conservation easements held by the organization (check all that apply)

☐ Preservation of land for public use (e g , recreation or pleasure)

☐ Preservation of an historically importantly land area

☐ Protection of natural habitat

☐ Preservation of a certified historic structure

☐ Preservation of open space

2

Complete lines 2a–2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

	Held at the End of the Year
a	Total number of conservation easements
b	Total acreage restricted by conservation easements
c	Number of conservation easements on a certified historic structure included in (a)
d	Number of conservation easements included in (c) acquired after 8/17/06

3

Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the taxable year ▶ _____

4

Number of states where property subject to conservation easement is located ▶ _____

5

Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds?

☐ Yes ☐ No

6

Staff and volunteer hours devoted to monitoring, inspecting and enforcing conservation easements during the year ▶ _____

7

Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year ▶ \$ _____

8

Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)?

☐ Yes ☐ No

9

In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements

Part III

Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a

If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

b

If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

(i) Revenues included in Form 990, Part VIII, line 1

▶ \$ _____

(ii) Assets included in Form 990, Part X

▶ \$ _____

2

If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items

a

Revenues included in Form 990, Part VIII, line 1

▶ \$ _____

b

Assets included in Form 990, Part X

▶ \$ _____

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets *(continued)*

3 Using the organization’s accession and other records, check any of the following that are a significant use of its collection items (check all that apply)

- a** ☐ Public exhibition
- d** ☐ Loan or exchange programs
- b** ☐ Scholarly research
- e** ☐ Other
- c** ☐ Preservation for future generations

4 Provide a description of the organization’s collections and explain how they further the organization’s exempt purpose in Part XIV

5 During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization’s collection? ☐ **Yes** ☐ **No**

Part IV Escrow and Custodial Arrangements. Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X? ☐ **Yes** ☐ **No**

b If "Yes," explain the arrangement in Part XIV and complete the following table

	Amount
1c	
1d	
1e	
1f	




2a Did the organization include an amount on Form 990, Part X, line 21? ☐ **Yes** ☐ **No**

b If "Yes," explain the arrangement in Part XIV

Part V Endowment Funds. Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

	(a)Current Year	(b)Prior Year	(c)Two Years Back	(d)Three Years Back	(e)Four Years Back
1a Beginning of year balance					
b Contributions					
c Investment earnings or losses					
d Grants or scholarships					
e Other expenditures for facilities and programs					
f Administrative expenses					
g End of year balance					

2 Provide the estimated percentage of the year end balance held as


- a** Board designated or quasi-endowment 
- b** Permanent endowment 
- c** Term endowment 

3a Are there endowment funds not in the possession of the organization that are held and administered for the organization by

	Yes	No
(i) unrelated organizations	3a(i)	
(ii) related organizations	3a(ii)	
b If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?	3b	

4 Describe in Part XIV the intended uses of the organization's endowment funds

Part VI Investments—Land, Buildings, and Equipment. See Form 990, Part X, line 10.

Description of investment	(a) Cost or other basis (investment)	(b)Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land		2,705,040		2,705,040
b Buildings		21,605,640	7,667,678	13,937,962
c Leasehold improvements		8,978,019	3,131,983	5,846,036
d Equipment		66,926,422	41,277,249	25,649,173
e Other		2,030,560	98,243	1,932,317
Total. Add lines 1a-1e <i>(Column (d) should equal Form 990, Part X, column (B), line 10(c).)</i> 				50,070,528

Part XI

Reconciliation of Change in Net Assets from Form 990 to Financial Statements

1	Total revenue (Form 990, Part VIII, column (A), line 12)	1	
2	Total expenses (Form 990, Part IX, column (A), line 25)	2	
3	Excess or (deficit) for the year Subtract line 2 from line 1	3	
4	Net unrealized gains (losses) on investments	4	
5	Donated services and use of facilities	5	
6	Investment expenses	6	
7	Prior period adjustments	7	
8	Other (Describe in Part XIV)	8	
9	Total adjustments (net) Add lines 4 - 8	9	
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	10	

Part XII

Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

1	Total revenue, gains, and other support per audited financial statements	1	
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12		
a	Net unrealized gains on investments	2a	
b	Donated services and use of facilities	2b	
c	Recoveries of prior year grants	2c	
d	Other (Describe in Part XIV)	2d	
e	Add lines 2a through 2d	2e	
3	Subtract line 2e from line 1	3	
4	Amounts included on Form 990, Part VIII, line 12, but not on line 1		
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a	
b	Other (Describe in Part XIV)	4b	
c	Add lines 4a and 4b	4c	
5	Total Revenue Add lines 3 and 4c. (This should equal Form 990, Part I, line 12)	5	

Part XIII

Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

1	Total expenses and losses per audited financial statements	1	
2	Amounts included on line 1 but not on Form 990, Part IX, line 25		
a	Donated services and use of facilities	2a	
b	Prior year adjustments	2b	
c	Other losses	2c	
d	Other (Describe in Part XIV)	2d	
e	Add lines 2a through 2d	2e	
3	Subtract line 2e from line 1	3	
4	Amounts included on Form 990, Part IX, line 25, but not on line 1:		
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a	
b	Other (Describe in Part XIV)	4b	
c	Add lines 4a and 4b	4c	
5	Total expenses Add lines 3 and 4c. (This should equal Form 990, Part I, line 18)	5	

Part XIV

Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b. Also complete this part to provide any additional information.

Identifier	Return Reference	Explanation
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SCHEDULE H
(Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, question 20.**
▶ **Attach to Form 990.** ▶ **See separate instructions.**

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization
UNIVERSITY PHYSICIANS HEALTHCARE

Employer identification number
94-2958258

Part I

Financial Assistance and Certain Other Community Benefits at Cost

		Yes	No
1a	Did the organization have a financial assistance policy during the tax year? If "No," skip to question 6a	Yes	
1b	If "Yes," is it a written policy?	Yes	
2	If the organization has multiple hospitals, indicate which of the following best describes application of the financial assistance policy to its various hospital facilities during the tax year <input checked="" type="checkbox"/> Applied uniformly to all hospitals <input type="checkbox"/> Applied uniformly to most hospitals <input type="checkbox"/> Generally tailored to individual hospitals		
3	Answer the following based on the the financial assistance eligibility criteria that applied to the largest number of the organization's patients during the tax year a Does the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing <i>free</i> care to low income individuals? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care <input type="checkbox"/> 100% <input type="checkbox"/> 150% <input type="checkbox"/> 200% <input checked="" type="checkbox"/> Other <u>125.000000000000 %</u> b Does the organization use FPG to determine eligibility for providing <i>discounted</i> care to low income individuals? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care <input checked="" type="checkbox"/> 200% <input type="checkbox"/> 250% <input type="checkbox"/> 300% <input type="checkbox"/> 350% <input type="checkbox"/> 400% <input type="checkbox"/> Other _____ % c If the organization does not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care Include in the description whether the organization uses an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care 4 Did the organization's financial assistance policy that applied to the largest number of its patients during the tax year provide for free or discounted care to the "medically indigent"?	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?		No
5b	If "Yes," did the organization's financial assistance expenses exceed the budgeted amount?		
5c	If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care?		
6a	Does the organization prepare a community benefit report during the tax year?		No
6b	If "Yes," did the organization make it available to the public?		
	Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H		

7

Financial Assistance and Certain Other Community Benefits at Cost

Financial Assistance and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Financial Assistance at cost (from Worksheets 1 and 2)			2,445,300	113,000	2,332,300	0 390 %
b Unreimbursed Medicaid (from Worksheet 3, column a)			37,595,711	27,859,996	9,735,715	1 630 %
c Unreimbursed costs—other means-tested government programs (from Worksheet 3, column b)						
d Total Financial Assistance and Means-Tested Government Programs			40,041,011	27,972,996	12,068,015	2 020 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)						
f Health professions education (from Worksheet 5)			11,499,334	3,082,990	8,416,344	1 410 %
g Subsidized health services (from Worksheet 6)			7,647,949	6,576,816	1,071,133	0 180 %
h Research (from Worksheet 7)						
i Cash and in-kind contributions to community groups (from Worksheet 8)			11,932,101		11,932,101	2 000 %
j Total Other Benefits			31,079,384	9,659,806	21,419,578	3 590 %
k Total. Add lines 7d and 7j			71,120,395	37,632,802	33,487,593	5 610 %

Part II

Community Building Activities during the tax year, and describe in Part VI how its community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1	Physical improvements and housing					
2	Economic development					
3	Community support					
4	Environmental improvements					
5	Leadership development and training for community members					
6	Coalition building		97,498		97,498	0.020 %
7	Community health improvement advocacy					
8	Workforce development					
9	Other					
10	Total		97,498		97,498	0.020 %

Part III

Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

		Yes	No
1	Did the organization report bad debt expense in accordance with Healthcare Financial Management Association Statement No. 15?	1	No
2	Enter the amount of the organization's bad debt expense (at cost)	2	9,951,153
3	Enter the estimated amount of the organization's bad debt expense (at cost) attributable to patients eligible under the organization's financial assistance policy	3	
4	Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense. In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit.		

Section B. Medicare

5	Enter total revenue received from Medicare (including DSH and IME)	5	16,870,608
6	Enter Medicare allowable costs of care relating to payments on line 5	6	21,355,436
7	Subtract line 6 from line 5. This is the surplus or (shortfall)	7	-4,484,828
8	Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used: <input type="checkbox"/> Cost accounting system <input checked="" type="checkbox"/> Cost to charge ratio <input type="checkbox"/> Other		

Section C. Collection Practices

9a	Does the organization have a written debt collection policy?	9a	Yes
9b	If "Yes," does the organization's collection policy contain provisions on the collection practices to be followed for patients who are known to qualify for charity care or financial assistance? Describe in Part VI	9b	Yes

Part IV

Management Companies and Joint Ventures

(a) Name of entity	(b) Description of primary activity of entity	(c) Organization's profit % or stock ownership %	(d) Officers, directors, trustees, or key employees' profit % or stock ownership %	(e) Physicians' profit % or stock ownership %
1 1 UNIVERSITY OF ARIZONA MEDICAL CENTER - IMAGING CENTER	LEASING	50.000 %	0 %	0 %
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

Section A. Hospital Facilities

How many hospital facilities did the organization operate during the tax year? 6

Schedule H (Form 990) 2010

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility

(list in order of size, measured by total revenue per facility, from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year? _____

Name and address	Type of Facility (Describe)
1	
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	

Part VI Supplemental Information

Complete this part to provide the following information

- 1
- Required descriptions.** Provide the description required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2
- Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3
- Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4
- Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5
- Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc)
- 6
- Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7
- State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Identifier	ReturnReference	Explanation
	PART II, COMMUNITY BUILDING ACTIVITIES	THE UNIVERSITY OF ARIZONA MEDICAL CENTER IS COMMITTED TO THE COMMUNITY IT SERVES AS WELL AS THE PROMOTION OF PUBLIC HEALTH THE UNIVERSITY OF ARIZONA MEDICAL CENTER SUPPORTS MANY LOCAL CHARITABLE ORGANIZATIONS, INCLUDING TUCSON FESTIVAL OF BOOKS, AMERICAN HEART ASSOCIATION, AMERICAN CANCER SOCIETY, JUVENILE DIABETES RESEARCH FOUNDATION AND OTHERS NOT ONLY WITH FINANCIAL CONTRIBUTIONS BUT WITH HOSPITAL VOLUNTEERS AS WELL IN NOVEMBER OF 2011 THE ORGANIZATION SPONSORED THE 29TH ANNUAL EL TOUR DE TUCSON, A 109 MILE BIKE RIDE AND IMPORTANT TUCSON COMMUNITY EVENT PROMOTING HEALTH AND WELLNESS IN ADDITION, THE UNIVERSITY OF ARIZONA MEDICAL CENTER PARTICIPATES IN A VARIETY OF HEALTH FAIRS, PROVIDING FREE SCREENINGS, SUCH AS BLOOD PRESSURE CHECKS, AS WELL AS CPR INSTRUCTION

Identifier	ReturnReference	Explanation
		PART III, LINE 4 FINANCIAL STATEMENT FOOTNOTE FOR PATIENT ACCOUNTS RECEIVABLE "PATIENT ACCOUNTS RECEIVABLE ARE REPORTED NET OF ESTIMATED ALLOWANCES FOR CONTRACTUAL ADJUSTMENTS AND ALLOWANCES FOR UNCOLLECTIBLE ACCOUNTS ESTIMATED ALLOWANCES FOR CONTRACTUAL ADJUSTMENTS AND UNCOLLECTIBLE ACCOUNTS ARE APPROXIMATELY \$211,907,000 AS OF JUNE 30, 2011 " BAD DEBT EXPENSE IS NOT INCLUDED AS PART OF COMMUNITY BENEFIT FINANCIAL COUNSELORS ASSIST PATIENTS WITH CHARITY CARE APPLICATIONS AND UNINSURED DISCOUNT PROGRAM

Identifier	ReturnReference	Explanation
		PART III, LINE 8 UNIVERSITY OF ARIZONA MEDICAL CENTER-SOUTH CAMPUS HOSPITAL, AS A MEDICARE CERTIFIED HOSPITAL, IS OBLIGATED TO PROVIDE CARE TO MEDICARE PATIENTS AND AS SUCH PROVIDES A BENEFIT TO THE COMMUNITY THE MEDICARE ALLOWABLE COSTS OF CARE IS REPORTED FROM THE UNIVERSITY OF ARIZONA MEDICAL CENTER-SOUTH CAMPUS MEDICARE COST REPORT

Identifier	ReturnReference	Explanation
		PART III, LINE 9B IF SUBSEQUENT EVENTS REVEAL FINANCIAL HARDSHIP, PATIENTS MAY APPLY FOR CHARITY CARE AND RECEIVE DISCOUNTS BASED ON THEIR FINANCIAL CIRCUMSTANCES

Identifier	ReturnReference	Explanation
	PART VI, LINE 2, NEEDS ASSESSMENTS	THE UNIVERSITY OF ARIZONA MEDICAL CENTER-SOUTH CAMPUS'S COMMUNITY NEEDS ASSESSMENT IS PREPARED THROUGH ITS INTERNAL CONSULTING DEPARTMENT WHICH SERVES AS A BASIS FOR ITS STRATEGIC PLANS AND SUBSEQUENT BUSINESS PLANS TO ALLOCATE RESOURCES, IMPROVE AND DEVELOP EXISTING SERVICES, IMPLEMENT NEW PROGRAMS, AND COLLABORATE WITH OTHER COMMUNITY HEALTHCARE PROVIDERS

Identifier	ReturnReference	Explanation
	PART VI, LINE 3, PATIENT EDUCATION OF ELIGIBILITY	THE UNIVERSITY OF ARIZONA MEDICAL CENTER-SOUTH CAMPUS PROVIDES HEALTH CARE SERVICES FREE OR AT A REDUCED CHARGE TO INDIVIDUALS WHO MEET CERTAIN FINANCIAL CRITERIA ALL PATIENTS IN NEED OF EMERGENCY SERVICES ARE ACCEPTED REGARDLESS OF THEIR ABILITY TO PAY FINANCIAL COUNSELORS ASSIST PATIENTS WITH THE ORGANIZATION'S CHARITY CARE APPLICATION AS WELL AS APPLYING FOR OTHER FEDERAL, STATE, AND LOCAL MEDICAL ASSISTANCE PROGRAMS FOR WHICH THEY MAY BE ELIGIBLE

Identifier	ReturnReference	Explanation
	PART VI, LINE 4, COMMUNITY INFORMATION	THE UNIVERSITY OF ARIZONA MEDICAL CENTER-SOUTH CAMPUS PROVIDES TERTIARY HEALTHCARE AND IS A MAJOR REFERRAL CENTER FOR THE STATE AND OTHER SOUTHWESTERN STATES THE CITY OF TUCSON IS THE SECOND LARGEST CITY IN ARIZONA AND THE ONLY METROPOLITAN AREA IN PIMA COUNTY, ARIZONA PIMA COUNTY COVERS 9,184 SQUARE MILES, INCLUDING DIVERSE CHANGES IN ELEVATION, TOPOGRAPHY, AND CLIMATE SEVERAL NATIVE AMERICAN TRIBAL NATIONS HAVE RESERVATION LANDS IN THE COUNTY WHICH TOGETHER TOTAL 42 1% OF PIMA COUNTY LAND ACCORDING TO 2007 POPULATION PROJECTIONS BY THE CITY OF TUCSON DEPARTMENT OF URBAN PLANNING & DESIGN, IT IS ESTIMATED THAT THE PIMA COUNTY AREA HAS APPROXIMATELY 1,000,000 RESIDENTS IN 2008 AND WILL EXCEED 1,100,100 BY 2012 TUCSON IS LOCATED APPROXIMATELY 60 MILES NORTH OF THE U S -MEXICO BORDER PIMA COUNTY, WHICH ACCOUNTS FOR APPROXIMATELY 15% OF THE STATE'S POPULATION HAS A CROSS SECTION OF EMPLOYERS WITH HEAVY EMPHASIS IN SERVICES, TRADE, GOVERNMENT, MILITARY, MINING, AND MANUFACTURING METROPOLITAN TUCSON ACCOUNTS FOR APPROXIMATELY 54% OF THE POPULATION IN PIMA COUNTY

Identifier	ReturnReference	Explanation
	PART VI, LINE 5, PROMOTION OF COMMUNITY HEALTH	THE UNIVERSITY OF ARIZONA MEDICAL CENTER-SOUTH CAMPUS PROMOTES HEALTH IN MANY WAYS, INCLUDING ATTENDING AND HOSTING HEALTH FAIRS AND SCREENING EVENTS THESE EVENTS ALLOW OUR CONSTITUENTS TO ACCESS MUCH NEEDED HEALTHCARE AS WELL AS PROVIDE THEM WITH INFORMATION ON OTHER HEALTHCARE RESOURCES FOR WHICH THEY MAY BE ELIGIBLE CONSISTENT WITH ITS NONPROFIT STATUS, THE UNIVERSITY OF ARIZONA MEDICAL CENTER-SOUTH CAMPUS USES SURPLUS REVENUES TO REINVEST IN FACILITIES, TECHNOLOGY, AND MEDICAL SERVICES FOR THE COMMUNITY

Schedule I
(Form 990)

Department of the Treasury
Internal Revenue Service

Name of the organization
UNIVERSITY PHYSICIANS HEALTHCARE

Grants and Other Assistance to Organizations,
Governments and Individuals in the United States

Complete if the organization answered "Yes," to Form 990, Part IV, line 21 or 22.
▶ Attach to Form 990

OMB No 1545-0047

2010

Open to Public
Inspection

Employer identification number
94-2958258

Part I General Information on Grants and Assistance

1

Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance?

☒ Yes ☐ No

2

Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States

Part II Grants and Other Assistance to Governments and Organizations in the United States.

Complete if the organization answered "Yes" to Form 990, Part IV, line 21 for any recipient that received more than \$5,000. Check this box if no one recipient received more than \$5,000. Part II can be duplicated if additional space is needed.

☐

1 (a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
(1) MARICOPA HEALTH FOUNDATION2601 E ROOSEVELT PHOENIX,AZ 85007	86-0777567	501(C)(3)	10,000				MEDICAL EDUCATION, RESEARCH, AND PATIENT SERVICE
(2) UNIVERSITY OF ARIZONA888 N EUCLID TUCSON,AZ 85719	74-2652689		11,596,152				MEDICAL EDUCATION, RESEARCH
(3) UNIVERSITY PHYSICIANS HEALTHCARE FOUNDATION2701 E ELVIRA TUCSON,AZ 85756	20-2826747	501(C)(3)	161,001				SUPPORT

2

Enter total number of section 501(c)(3) and government organizations

2

3

Enter total number of other organizations

1

Part III

Grants and Other Assistance to Individuals in the United States. Complete if the organization answered "Yes" to Form 990, Part IV, line 22.
Use Schedule I-1 (Form 990) if additional space is needed.

(a)Type of grant or assistance	(b)Number of recipients	(c)Amount of cash grant	(d)Amount of non-cash assistance	(e)Method of valuation (book, FMV, appraisal, other)	(f)Description of non-cash assistance

Part IV

Supplemental Information. Complete this part to provide the information required in Part I, line 2, and any other additional information.

Identifier	Return Reference	Explanation
PROCEDURE FOR MONITORING GRANTS IN THE U S	PART I, LINE 2	SCHEDULE I, PART I, LINE 2 GRANTS ARE GIVEN ONLY TO ORGANIZATIONS EXEMPT UNDER INTERNAL REVENUE CODE SECTION 501(C)(3) AND GOVERNMENT ORGANIZATIONS NO FURTHER MONITORING OF GRANTS IS CONSIDERED NECESSARY

Schedule J
(Form 990)

Compensation Information

OMB No 1545-0047

2010

Open to Public Inspection

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.

▶ Attach to Form 990. ▶ See separate instructions.

Name of the organization
UNIVERSITY PHYSICIANS HEALTHCARE

Employer identification number
94-2958258

Part I

Questions Regarding Compensation

		Yes	No
1a	Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items		
	<div><div><input type="checkbox"/> First-class or charter travel</div><div><input type="checkbox"/> Housing allowance or residence for personal use</div><div><input type="checkbox"/> Travel for companions</div><div><input type="checkbox"/> Payments for business use of personal residence</div><div><input type="checkbox"/> Tax idemnification and gross-up payments</div><div><input type="checkbox"/> Health or social club dues or initiation fees</div><div><input type="checkbox"/> Discretionary spending account</div><div><input type="checkbox"/> Personal services (e g , maid, chauffeur, chef)</div></div>		
b	If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all the expenses described above? If "No," complete Part III to explain	1b	
2	Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?	2	
3	Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director Check all that apply		
	<div><div><input type="checkbox"/> Compensation committee</div><div><input type="checkbox"/> Written employment contract</div><div><input type="checkbox"/> Independent compensation consultant</div><div><input type="checkbox"/> Compensation survey or study</div><div><input type="checkbox"/> Form 990 of other organizations</div><div><input type="checkbox"/> Approval by the board or compensation committee</div></div>		
4	During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization		
a	Receive a severance payment or change-of-control payment from the organization or a related organization?	4a	Yes
b	Participate in, or receive payment from, a supplemental nonqualified retirement plan?	4b	Yes
c	Participate in, or receive payment from, an equity-based compensation arrangement?	4c	No
	If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III		
	Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.		
5	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of		
a	The organization?	5a	No
b	Any related organization?	5b	No
	If "Yes," to line 5a or 5b, describe in Part III		
6	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of		
a	The organization?	6a	Yes
b	Any related organization?	6b	No
	If "Yes," to line 6a or 6b, describe in Part III		
7	For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III	7	No
8	Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regs section 53 4958-4(a)(3)? If "Yes," describe in Part III	8	No
9	If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?	9	

Part II **Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees.** Use duplicate copies if additional space is needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii) Do not list any individuals that are not listed on Form 990, Part VII

Note. The sum of columns (B)(i)-(iii) must equal the applicable column (D) or column (E) amounts on Form 990, Part VII, line 1a

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
See Additional Data Table								
(2)								
(3)								
(4)								
(5)								
(6)								
(7)								
(8)								
(9)								
(10)								
(11)								
(12)								
(13)								
(14)								
(15)								
(16)								

Part III

Supplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8. Also complete this part for any additional information.

Identifier	Return Reference	Explanation
	PART I, LINES 4A-B	LARRY ALDRICH RECEIVED \$479,200 IN SEVERANCE PAYMENTS IN ACCORDANCE WITH THE EMPLOYMENT CONTRACT. THE FOLLOWING PEOPLE PARTICIPATED AND RECEIVED PAYMENTS FROM A NON-QUALIFIED RETIREMENT PLAN: KEVIN J. BURNS \$105,653; MISTY D. HANSEN \$34,375.
	PART I, LINE 6	THE UNIVERSITY OF ARIZONA PHYSICIANS HAS AN INCENTIVE PLAN FOR PHYSICIANS THAT PROVIDES FOR BONUSES CALCULATED AS A PERCENTAGE OF NET INCOME FROM THE VARIOUS PRACTICE AREAS. EACH PHYSICIAN'S BONUS IS CAPPED AT A PREDETERMINED MAXIMUM PERCENTAGE OF HIS OR HER SALARY.
SUPPLEMENTAL INFORMATION	PART III	PART I, LINE 3: THE ORGANIZATION RELIES ON ITS RELATED ORGANIZATION, THE UNIVERSITY OF ARIZONA HEALTH NETWORK, WHICH USED THE FOLLOWING TO ESTABLISH COMPENSATION: COMPENSATION COMMITTEE, INDEPENDENT COMPENSATION CONSULTANT, FORM 990 OF OTHER ORGANIZATIONS, COMPENSATION SURVEY OR STUDY, APPROVAL BY THE BOARD OF DIRECTORS OR COMPENSATION COMMITTEE. PART II, LINE 13: DIANE RAFFERTY SERVED DURING THE YEAR AS INTERIM CEO OF THE HOSPITAL. THESE SERVICES WERE PROVIDED THROUGH A CONTRACT WITH ALVAREZ & MARSAL. THIS CONTRACT PROVIDED FOR THE INTERIM CEO AS WELL AS SEVERAL OTHER POSITIONS. PAYMENTS IN THE AMOUNT OF \$2,220,273 WERE MADE BY UNIVERSITY OF ARIZONA PHYSICIANS DURING THE YEAR TO ALVAREZ & MARSAL.

Software ID:

Software Version:

EIN: 94-2958258

Name: UNIVERSITY PHYSICIANS HEALTHCARE

Form 990, Schedule J, Part II - Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base Compensation	(ii) Bonus & incentive compensation	(iii) Other compensation				
STEVE GOLDSCHMID MD	(i)	0	0	2,322	0	20,283	22,605	0
	(ii)	508,644	0	0	17,803	473	526,920	0
KATHRYN REED MD	(i)	0	0	2,322	0	10,120	12,442	0
	(ii)	268,204	0	91,004	31,389	1,138	391,735	0
LARRY ALDRICH	(i)	714,204	256,659	482,162	33,686	13,492	1,500,203	0
	(ii)	0	0	0	0	0	0	0
KEVIN J BURNS	(i)	0	0	0	0	0	0	0
	(ii)	545,041	373,960	5,767	19,487	9,533	953,788	0
MARC BERG MD	(i)	0	0	540	0	18,025	18,565	0
	(ii)	179,255	0	67,607	15,538	471	262,871	0
THOMAS BOYER MD	(i)	0	0	6,858	0	20,283	27,141	0
	(ii)	403,448	0	0	17,932	474	421,854	0
WILLIAM M CRIST MD	(i)	0	0	6,858	0	21,659	28,517	0
	(ii)	647,509	0	0	17,150	474	665,133	0
FAYEZ GHISHAN MD	(i)	0	0	6,858	0	21,324	28,182	0
	(ii)	468,305	0	150,976	24,424	473	644,178	0
RAINER GRUESSNER MD	(i)	0	0	1,242	0	24,848	26,090	0
	(ii)	587,267	0	0	17,150	474	604,891	0
DAVID LABINER MD	(i)	0	0	1,242	0	18,374	19,616	0
	(ii)	224,138	0	80,212	20,151	495	324,996	0
MISTY D HANSEN	(i)	0	0	0	0	0	0	0
	(ii)	281,311	109,746	2,265	53,763	9,360	456,445	0
KATHLEEN A OESTREICH	(i)	273,503	215,200	1,158	22,155	10,631	522,647	0
	(ii)	0	0	0	0	0	0	0
DIANE RAFFERTY THRU ALVAREZ MARSAL	(i)	0	0	0	0	0		0
	(ii)	0	0	0	0	0		0
JAMES V STOVER	(i)	149,154	46,930	108	11,864	6,219	214,275	0
	(ii)	0	0	0	0	0	0	0
JODY L BUTERA	(i)	187,083	47,869	238	14,833	6,662	256,685	0
	(ii)	0	0	0	0	0	0	0
CHRISTEN A CASTELLANO	(i)	169,308	54,832	200	12,843	5,990	243,173	0
	(ii)	0	0	0	0	0	0	0
THERESA G LEBARRON	(i)	213,526	93,900	448	16,915	12,893	337,682	0
	(ii)	0	0	0	0	0	0	0
GERALD T MIRON	(i)	247,294	2,354	1,054	20,415	12,717	283,834	0
	(ii)	0	0	0	0	0	0	0
SUSAN WONG-BEAN	(i)	175,217	35,000	347	14,117	7,166	231,847	0
	(ii)	0	0	0	0	0	0	0

Schedule K (Form 990)	Supplemental Information on Tax Exempt Bonds ▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Schedule O (Form 990). ▶ Attach to Form 990. ▶ See separate instructions.										OMB No 1545-0047		
											2010		
	Department of the Treasury Internal Revenue Service											Open to Public Inspection	
Name of the organization UNIVERSITY PHYSICIANS HEALTHCARE										Employer identification number 94-2958258			

Part I

Bond Issues

	(a) Issuer Name	(b) Issuer EIN	(c) CUSIP #	(d) Date Issued	(e) Issue Price	(f) Description of Purpose	(g) Defeased		(h) On Behalf of Issuer		(i) Pool financing	
							Yes	No	Yes	No	Yes	No
A	THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF SOUTH TUCSON ARIZONA	86-6000267		12-15-2004	9,900,000	FINANCE MEDICAL EQUIPMENT		X		X		X
B	THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF SOUTH TUCSON ARIZONA	86-6000267		12-21-2005	6,750,000	FINANCE MEDICAL EQUIPMENT		X		X		X
C	THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF SOUTH TUCSON ARIZONA	86-6000267		09-20-2006	10,000,000	FINANCE MEDICAL EQUIPMENT		X		X		X
D	THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF SOUTH TUCSON ARIZONA	86-6000267		12-15-2004	3,250,000	FINANCE MEDICAL EQUIPMENT		X		X		X

Part II

Proceeds

		A		B		C		D	
1	Amount of bonds retired								
2	Amount of bonds legally defeased								
3	Total proceeds of issue	9,900,000		6,750,000		10,000,000		3,250,000	
4	Gross proceeds in reserve funds								
5	Capitalized interest from proceeds								
6	Proceeds in refunding escrow								
7	Issuance costs from proceeds	76,745		78,637		62,098		37,863	
8	Credit enhancement from proceeds								
9	Working capital expenditures from proceeds								
10	Capital expenditures from proceeds	9,823,255		6,671,363		9,937,902		3,212,137	
11	Other spent proceeds								
12	Other unspent proceeds								
13	Year of substantial completion	2006		2006		2007		2006	
14	Were the bonds issued as part of a current refunding issue?	Yes	No	Yes	No	Yes	No	Yes	No
			X		X		X		X
15	Were the bonds issued as part of an advance refunding issue?		X		X		X		X
16	Has the final allocation of proceeds been made?	X		X		X		X	
17	Does the organization maintain adequate books and records to support the final allocation of proceeds?	X		X		X		X	

Part III

Private Business Use

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Was the organization a partner in a partnership, or a member of an LLC, which owned property financed by tax-exempt bonds?		X		X		X		X
2	Are there any lease arrangements that may result in private business use of bond-financed property?		X		X		X		X

Part IIIPrivate Business Use (Continued)

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
3a	Are there any management or service contracts that may result in private business use?		X		X		X		X
b	Are there any research agreements that may result in private business use of bond-financed property?		X		X		X		X
c	Does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts or research agreements relating to the financed property?	X		X		X		X	
4	Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government <div>▶</div>								
5	Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government <div>▶</div>								
6	Total of lines 4 and 5								
7	Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?	X		X		X		X	

Part IVArbitrage

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?		X		X		X		X
2	Is the bond issue a variable rate issue?		X	X			X		X
3a	Has the organization or the governmental issuer entered into a hedge with respect to the bond issue?		X		X		X		X
b	Name of provider								
c	Term of hedge								
d	Was the hedge superintegrated?								
e	Was a hedge terminated?								
4a	Were gross proceeds invested in a GIC?		X		X		X		X
b	Name of provider								
c	Term of GIC								
d	Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
5	Were any gross proceeds invested beyond an available temporary period?		X		X		X		X
6	Did the bond issue qualify for an exception to rebate?		X		X		X		X

Part VSupplemental Information

Complete this part to provide additional information for responses to questions on Schedule K (see instructions)

Identifier	Return Reference	Explanation

SCHEDULE O

(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

Complete to provide information for responses to specific questions on
Form 990 or to provide any additional information.
▶ Attach to Form 990 or 990-EZ.

OMB No 1545-0047

2010

Open to Public
Inspection

Name of the organization UNIVERSITY PHYSICIANS HEALTHCARE	Employer identification number 94-2958258
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Identifier	Return Reference	Explanation
FORM 990, PART VI, SECTION A, LINE 6		UNIVERSITY OF ARIZONA PHYSICIANS HAS TWO CLASSES OF MEMBERS (I) CORPORATE MEMBERS AND (II) PHYSICIAN MEMBERS THE UNIVERSITY OF ARIZONA HEALTH NETWORK IS UNIVERSITY OF ARIZONA PHYSICIAN'S SOLE CORPORATE MEMBER

Identifier	Return Reference	Explanation
FORM 990, PART VI, SECTION A, LINE 7A		MEMBERS ELECT AT-LARGE DIRECTORS FROM COMMUNITY DIRECTORS SERVING ON THE BOARD OF DIRECTORS FOR THE UNIVERSITY OF ARIZONA HEALTH NETWORK

Identifier	Return Reference	Explanation
FORM 990, PART VI, SECTION A, LINE 7B		THE UNIVERSITY OF ARIZONA HEALTH NETWORK, AS THE SOLE CORPORATE MEMBER, RESERVES THE POWER TO MAKE OR APPROVE DECISIONS OF THE CORPORATION AS GRANTED IN THE BYLAWS

Identifier	Return Reference	Explanation
FORM 990, PART VI, SECTION B, LINE 11		THE UNIVERSITY OF ARIZONA PHYSICIAN'S FORM 990 IS REVIEWED BY THE CHIEF FINANCIAL OFFICER, CHIEF EXECUTIVE OFFICER, AND BOARD OF DIRECTORS PRIOR TO FILING WITH THE IRS

Identifier	Return Reference	Explanation
	FORM 990, PART VI, SECTION B, LINE 12C	THE UNIVERSITY OF ARIZONA PHYSICIANS REQUIRES BOARD MEMBERS, OFFICERS, AND KEY EMPLOYEES TO COMPLETE A CONFLICT OF INTEREST FORM THESE FORMS ARE REVIEWED BY CORPORATE COMPLIANCE AND GENERAL COUNSEL ANY POTENTIAL CONFLICTS IDENTIFIED ARE SUBJECT TO FURTHER REVIEW BY SENIOR MANAGEMENT AND THE BOARD OF DIRECTORS

Identifier	Return Reference	Explanation
	FORM 990, PART VI, SECTION B, LINE 15	THE UNIVERSITY OF ARIZONA HEALTH NETWORK HIRES A THIRD PARTY CONSULTANT TO REVIEW COMPENSATION AND BENEFITS. IN ADDITION, THE UNIVERSITY OF ARIZONA HEALTH NETWORK COMPLETES A SURVEY COMPARING THE COMPENSATION PACKAGES TO SIMILAR ORGANIZATIONS. THE CEO AND CFO HAVE WRITTEN EMPLOYMENT CONTRACTS THAT ARE REVIEWED AND APPROVED BY THE UNIVERSITY OF ARIZONA HEALTH NETWORK'S COMPENSATION COMMITTEE AND BOARD OF DIRECTORS.

Identifier	Return Reference	Explanation
	FORM 990, PART VI, SECTION C, LINE 19	POLICIES ARE POSTED ON THE UNIVERSITY OF ARIZONA PHYSICIAN'S INTRANET GOVERNING DOCUMENTS AND FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST

Identifier	Return Reference	Explanation
CHANGES IN NET ASSETS OR FUND BALANCES	FORM 990, PART XI, LINE 5	CHANGE FROM CONSOLIDATED METHOD OF ACCOUNTING IN INVESTMENT IN SUBSIDIARY -29,630,581 TOTAL TO FORM 990, PART XI, LINE 5 -29,630,581

SCHEDULE R
(Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization
UNIVERSITY PHYSICIANS HEALTHCARE

Employer identification number
94-2958258

Part I Identification of Disregarded Entities (Complete if the organization answered "Yes" on Form 990, Part IV, line 33.)					
(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity
(1) THE UNIVERSITY OF ARIZONA HEALTH PLANS-UNIVERSITY CARE ADVANTAGE LLC 2701 E ELVIRA RD TUCSON, AZ 85756 20-8406187	HEALTHCARE	AZ	27,158,311	11,412,744	UNIVERSITY PHYSICIANS HEALTHCARE
(2) THE UNIVERSITY OF ARIZONA HEALTH PLANS-UNIVERSITY FAMILY CARE LLC 2701 E ELVIRA RD TUCSON, AZ 85756 26-3153084	HEALTHCARE	AZ	273,163,143	53,987,909	UNIVERSITY PHYSICIANS HEALTHCARE

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)							
(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled organization	
						Yes	No
See Additional Data Table							

Part III

Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512- 514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Disproportionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	
(1) THE UNIVERSITY OF ARIZONA MEDICAL CENTER IMAGING CENTER 4291 N CAMPBELL AVENUE TUCSON, AZ85724 20-3400643	LEASING	AZ	UPH AND UMC	RELATED	173,481	2,034,279		No		Yes		50 000 %

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership
(1) UMCC INSURANCE FUNDING LIMITED PO BOX 1051 GEORGETOWN GRAND CAYMAN KY1-1102, CAYMAN ISLANDS CJ 98-0116943	CAPTIVE INSURANCE	CJ	N/A	C			

Part V

Transactions With Related Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35, 35A, or 36.)

Note. Complete line 1 if any entity is listed in Parts II, III or IV

1 During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?

a Receipt of (i) interest (ii) annuities (iii) royalties (iv) rent from a controlled entity

b Gift, grant, or capital contribution to other organization(s)

c Gift, grant, or capital contribution from other organization(s)

d Loans or loan guarantees to or for other organization(s)

e Loans or loan guarantees by other organization(s)

f Sale of assets to other organization(s)

g Purchase of assets from other organization(s)

h Exchange of assets

i Lease of facilities, equipment, or other assets to other organization(s)

j Lease of facilities, equipment, or other assets from other organization(s)

k Performance of services or membership or fundraising solicitations for other organization(s)

l Performance of services or membership or fundraising solicitations by other organization(s)

m Sharing of facilities, equipment, mailing lists, or other assets

n Sharing of paid employees

o Reimbursement paid to other organization for expenses

p Reimbursement paid by other organization for expenses

q Other transfer of cash or property to other organization(s)

r Other transfer of cash or property from other organization(s)

Yes

No

1a

1b

1c

1d

1e

1f

1g

1h

1i

1j

1k

1l

1m

1n

1o

1p

1q

1r

No

No

No

No

No

No

No

No

No

Yes

No

No

No

Yes

No

Yes

2 If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount involved	(d) Method of determining amount involved
(1) CADUCEUS INDEMNITY INSURANCE	R	2,017,997	ACTUAL TRANSFER
(2) CADUCEUS INDEMNITY INSURANCE	P	7,529,554	ACTUAL TRANSFER
(3) CADUCEUS INDEMNITY INSURANCE	L	5,544,095	ACTUAL TRANSFER
(4) UNIVERSITY PHYSICIANS HEALTHCARE FOUNDATION	B	161,001	ACTUAL TRANSFER
(5) UNIVERSITY PHYSICIANS HEALTHCARE FOUNDATION	C	32,554	ACTUAL TRANSFER
(6)			

Schedule R (Form 990) 2010

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization. See instructions regarding exclusion for certain investment partnerships.

[illegible]

Part VII **Supplemental Information**

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

Identifier	Return Reference	Explanation
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Software ID:
Software Version:
EIN: 94-2958258
Name: UNIVERSITY PHYSICIANS HEALTHCARE

Form 990, Schedule R, Part II - Identification of Related Tax-Exempt Organizations

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501 (c)(3))	(f) Direct controlling entity	(g) Section 512 (b)(13) controlled organization	
						Yes	No
ARIZONA BOARD OF REGENTS 2020 N CENTRAL AVENUE PHOENIX, AZ85004 86-6004791	GOVERNING BOARD OF ARIZONA'S PUBLIC UNIVERSITIES	AZ			N/A		No
THE UNIVERSITY OF ARIZONA COLLEGE OF MEDICINE 888 N EUCLID TUCSON, AZ85719 74-2652689	PUBLIC UNIVERSITY	AZ			ARIZONA BOARD OF REGENTS		No
THE UNIVERSITY OF ARIZONA HEALTH NETWORK INC 1501 N CAMPBELL AVENUE TUCSON, AZ85724 27-2936985	ENHANCE RELATIONSHIP BETWEEN UAMCC AND UAP	AZ	501(C)(3)	LINE 11B, II	ARIZONA BOARD OF REGENTS		No
UNIVERSITY MEDICAL CENTER CORPORATION 1501 N CAMPBELL AVENUE TUCSON, AZ85724 86-0492210	HEALTHCARE	AZ	501(C)(3)	LINE 3	THE UNIVERSITY OF ARIZONA HEALTH NETWORK		No
UNIVERSITY MEDICAL CENTER FOUNDATION 1501 N CAMPBELL AVENUE TUCSON, AZ85724 86-0572438	FUNDRAISING	AZ	501(C)(3)	LINE 11A, I	UNIVERSITY MEDICAL CENTER CORPORATION		No
UNIVERSITY PHYSICIANS HEALTHCARE FOUNDATION 2701 E ELVIRA ROAD TUCSON, AZ85756 20-2826747	FUNDRAISING	AZ	501(C)(3)	LINE 11A, I	UNIVERSITY PHYSICIANS HEALTHCARE	Yes	
DEVICE PRESERVATION INC 1501 N CAMPBELL AVENUE TUCSON, AZ85724 86-0687598	SUPPORT	AZ	501(C)(3)	LINE 11A, I	UNIVERSITY MEDICAL CENTER CORPORATION		No
CADUCEUS INDEMNITY INSURANCE CORPORATION LTD 745 FORT STREET SUITE 1100 HONOLULU, HI96813 99-0343363	CAPTIVE INSURANCE	HI	501(C)(3)	LINE 11A, I	UNIVERSITY PHYSICIANS HEALTHCARE	Yes	

UA Healthcare, Inc.

Consolidated Financial Report
June 30, 2011



McGladrey & Pullen, LLP
Certified Public Accountants

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UA Healthcare, Inc.

Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

UA Healthcare, Inc. (the Corporation), an Arizona not-for-profit corporation, controls University Medical Center Corporation and subsidiaries (UMC) and University Physicians Healthcare and subsidiaries (UPH)

In June 2010, the Corporation was created to bring UMC and UPH together to align the two organizations strategically and operationally. After the creation of the Corporation, UMC's and UPH's bylaws were changed, designating the Corporation as UMC's and UPH's sole members and granting the Corporation certain reserved power and authority. These bylaw changes require that substantially all board members of UMC and UPH be members of the Corporation board and that the Arizona Board of Regents (ABOR) appoint all board members of the Corporation.

In 1984, the Arizona Legislature passed a bill that enabled ABOR to convey University Medical Center Hospital (UMC Hospital) to a private not-for-profit, tax-exempt corporation, and University Medical Center Corporation was formed. Although an autonomous entity was created, the teaching missions and research alliances with the University of Arizona (the University) firmly remained with the UMC Hospital. UMC Hospital completed the transition from a state institution to a separate corporation in 1984. In June 2010, the Arizona Board of Regents approved a change in UMC's bylaws designating the newly formed Corporation as UMC's sole member and granting the Corporation certain reserved power and authority. Appointments of members of UMC's Board of Directors are made by ABOR. The Arizona Legislature has limited the number of regents allowed to serve on UMC's Board of Directors. UMC operates the following:

- UMC Hospital is a 487-bed general acute-care teaching medical facility including the Diamond Children's Medical Center, the Peter and Paula Fasseas Cancer Clinic at UMC North, UMC Orange Grove, and physician offices in Tucson and Green Valley, Arizona. In addition, UMC is southern Arizona's sole Level 1 Trauma Center.
- University Medical Center Foundation (UMC Foundation) is an Arizona not-for-profit corporation whose primary purpose is fundraising for UMC.
- UMCC Insurance Funding Limited (UMC Captive) is an offshore captive insurance company used to fund general and professional liability and malpractice insurance coverage.

UPH is a not-for-profit corporation created by the University in 1985 as the medical practice for physicians at the University of Arizona's College of Medicine. The UPH physicians are employed by both the University and UPH and provide services at the UMC Hospital. UPH is also responsible for the activities of University Physicians Healthcare Hospital (UPHH). Prior to June 30, 2010, members of the UPH Board of Directors were appointed by the physician members and community board members of UPH. Effective June 30, 2010, the Corporation became the sole corporate member of University Physicians Healthcare. With the change in control, a majority of UPH's board members are now appointed by ABOR. UPH operates the following:

- UPHH is a 116-bed acute-care and an 81-bed psychiatric medical facility including physician offices in Tucson and Green Valley, Arizona. UPHH is operated under a lease agreement with Pima County.
- University Physicians Healthcare Practice Plan (Practice Plan) is responsible for patient care activities provided by the faculty members in the clinical departments of the University of Arizona College of Medicine (COM).

UA Healthcare, Inc.

Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

- University Physicians Healthcare Health Plans (Health Plan) has contracted with Arizona Health Care Cost Containment System (AHCCCS) to operate health plans that provide acute-care medical services to AHCCCS enrollees in several counties throughout southern Arizona. UPH formed University Physicians Health Plans-University Family Care, LLC (UFC) to hold the contract for and operate one of the health plans and directly manages the second. UFC is a single-member Arizona limited liability company created in October 2008.
- University Physicians Healthcare Foundation (UPH Foundation) is an Arizona not-for-profit corporation whose primary purpose is fundraising for UPH.
- Caduceus Indemnity Insurance Corporation, Ltd. (UPH Captive) is a captive insurance company, domiciled in Hawaii, used to fund professional liability and malpractice insurance coverage.

During the recent regular session of the State Legislature, which adjourned in April 2011, the State Senate passed a measure that would have reduced the degree of control of ABOR over the Corporation, including changing the method of appointment of members of the Corporation's Board of Directors. The measure did not take effect. The Corporation cannot predict whether future changes to legislation may be proposed or enacted or what form any such changes may take.

UMC Hospital and UPHH are the primary teaching hospitals for the Colleges of Medicine, Nursing, Pharmacy and Public Health, and the School of Health-Related Professions of the University. The State of Arizona includes the Corporation in its financial statements as a discretely presented financial statement.

As management of the Corporation, we offer the readers of our financial statements this narrative analysis of the financial activities of the Corporation as of and for the year ended June 30, 2011. The 2010 information provided herein is provided as comparative information despite the fact the Corporation was not an entity at that time. The 2010 information is management's best estimate of the Corporation's 2010 consolidated financial information. The 2010 information may not include all eliminations and was not audited as a whole. Readers are encouraged to consider the information presented here in conjunction with the accompanying financial statements.

Using This Annual Report

This annual report includes the financial statements of the Corporation, UMC and subsidiaries, and UPH and subsidiaries. These statements are designed to provide readers with an overview of the Corporation's finances. The balance sheet presents information on the Corporation's assets, liabilities and net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. The statement of revenues, expenses and changes in net assets presents information indicating how the Corporation's net assets changed during fiscal years 2011 and 2010. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, which reflects the accrual basis of accounting. The notes to the financial statements provide additional information that is integral to an understanding of the information provided in the financial statements.

UA Healthcare, Inc.

Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

Business Strategy

The Corporation was created with the expectation that we would achieve significant efficiencies through integration. The expected outcomes of the integration included improving the overall patient experience and quality outcomes throughout the system, while placing a renewed focus on the research and education missions of the University of Arizona College of Medicine. Upon completion of the integration, patients will have improved access to care and a consistent patient experience. Our staff will have better opportunities, as it will be easier to move around between UA Healthcare locations and take advantage of available opportunities, which will also minimize internal competition. Overall, we expect improved patient satisfaction, physician satisfaction and staff satisfaction. As we work to develop the strategic plan for UA Healthcare, our integration teams work diligently to align our merging entities. The benefits of the integration come at a critical time and will help offset the health care funding cuts we face. The benefits come from across our organization, and they have a common thread: they are the result of staff working together to say "Yes" to patients who want and need our services, negotiating contracts for our entire organization to take advantage of combined purchasing power, using the knowledge and expertise of our staff in specialty areas to benefit the entire organization, and streamlining processes to eliminate waste.

The Health Care Environment

The health care industry is highly regulated by both federal and state governments. Laws govern such areas as health and safety code issues, licensure, accreditation, participation requirements in governmental programs, fraud and abuse, payor reimbursement, property, plant and equipment acquisition, and antitrust and tax issues. Compliance with laws and regulations is important to health care providers because the beneficiaries of governmental health programs are critical to the providers' revenue base. Although government reimbursement represents over half of U.S. health care dollars, health care providers continue to operate within a market-driven environment. The power over health care reimbursement increasingly rests with government payors, insurance companies, large employers, and others to whom cost containment is a top priority. The aging U.S. population provides an expanding market for health care services, as the elderly comprise an increasingly greater portion of hospital census relative to other age groups, and also a significant challenge, as reimbursement from government programs continues to lag the rate of health care inflation.

The Corporation is located in Tucson, Arizona. It provides a network of tertiary-level health care and is a major medical referral center for Arizona and other southwestern states. UMC Hospital is the only Level 1 Trauma Center in southern Arizona. UMC Hospital and UPHH are two of eight nonfederal acute-care hospitals in metropolitan Tucson, which consists of the City of Tucson and immediately surrounding areas (hereinafter referred to as metropolitan Tucson). All of these area hospitals, including UMC Hospital and UPHH, are not-for-profit or community hospitals.

Tucson hospitals reported just over 136,000 annual inpatient discharges and maintained nearly 2,550 licensed beds, of which 487 were at UMC Hospital and 197 were at UPHH for calendar year 2010. The Tucson health care market is a competitive, heavily managed-care penetrated market. Rates paid to the Corporation by managed-care organizations and certain governmental payors are pursuant to contracts with terms of up to five years. Current contracted rates and reimbursement rates established by government programs may not be adequate to compensate for increasing health care costs.

UA Healthcare, Inc.

Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

Continuing challenges facing the Corporation and the health care industry include providing high-quality patient care in a competitive environment, contending with an increasing regulatory environment, attaining reasonable rates for the services provided and managing costs. Budgetary issues for the State of Arizona resulted in a freeze of Arizona Health Care Cost Containment System (AHCCCS) rates at their 2008 payment levels. In April 2011, AHCCCS imposed a 5 percent rate reduction. Current rules will impose an additional 5 percent rate decrease on AHCCCS providers in October 2011, and other health care program cuts have been discussed by the legislature, such as Graduate Medical Education (GME) and Medicaid Disproportionate Share (DSH). This, as well as the slow overall economic recovery coupled with the uncertainty surrounding national health care reform efforts, will continue to negatively impact the Corporation's financial results. Another significant challenge facing the Corporation and the industry is the ongoing increase in labor costs due to a nationwide shortage of nurses and other health care professionals. Although moderated somewhat by recent market conditions, industry experts expect the labor shortage to continue for the foreseeable future. The Corporation has implemented various initiatives to better position itself to attract and retain qualified nursing and other personnel, improve productivity and otherwise manage labor-cost pressures.

Results of Operations

The following is a summary of operating results for the years ended June 30 (in thousands)

	2011	2010
Operating revenues		
Net patient service revenue	\$ 745,789	\$ 703,233
Capitation and contract services	353,484	340,306
Other revenue	18,969	19,773
Total operating revenues	1,118,242	1,063,312
Operating expenses		
Salaries and wages	402,595	375,183
Employee benefits	71,667	75,236
Supplies	153,160	148,688
Purchased services	34,257	34,649
Medical claims	215,217	195,042
Other	173,915	157,259
Depreciation and amortization	37,916	36,116
Total operating expenses	1,088,727	1,022,173
Operating income	29,515	41,139
Nonoperating items	(2,191)	(4,744)
Fundraising and grant income	2,897	1,602
Increase in net assets	\$ 30,221	\$ 37,997

Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010

Years Ended June 30, 2011 and 2010

Net patient service revenue for 2011 increased 6 percent over fiscal 2010, consistent with a 6 percent increase in volume. The Corporation expanded its service capabilities throughout fiscal 2010 through the opening of UMC Hospital's Diamond Children's Medical Center and bed tower, which is one of the primary drivers for the Corporation's increase in volume in fiscal 2011. The increase in volume reflects demand for our services, a growing population in our market service area, and increased bed availability due to increased staffing and our successful efforts to enhance patient flow through the two hospitals. The Corporation experienced relatively flat net revenue per adjusted patient day year over year. Net revenue per adjusted patient day increased slightly to \$2,579 in fiscal 2011, as compared to \$2,572 in fiscal 2010.

Capitation and contract service revenue increased 4 percent in 2011 compared to 2010, primarily due to the purchase of additional lives through the purchase of 50 percent ownership in the Medicare Special Needs Plan (SNP). The Health Plan participated in a joint venture with Maricopa Integrated Health Systems beginning in January 2008 to provide a Medicare Special Needs Plan in Pima County and Maricopa County. In January 2011, UPH purchased the Maricopa County lives and now has 100 percent ownership of that plan. The increase in capitation and contract service revenue was offset by a \$5 million decrease in contract revenue received from Pima County for the operational support of the UPHH.

Salaries, wages and employee benefits for 2011 increased 5 percent over 2010, reflecting an increase in full-time-equivalent employees from 6,059 in 2010 to 6,231 in 2011. In addition to the increase in personnel, there was also a 4 percent increase in the rate paid per full-time-equivalent employee in 2011 as compared to 2010. Most of the increases in employees were related to the expansion of services and additional physician recruitment in 2011. Employee benefits as a percentage of salaries and wages decreased to 18 percent in 2011, compared to 20 percent in 2010. This decrease was driven by improved network pricing on the self-insured employee medical insurance plan.

Supplies expense for 2011 increased approximately 3 percent over 2010, primarily due to increased volumes of 6 percent. During fiscal year 2011, surgery volumes increased 2 percent, contributing to the primary drivers of the supply increase, which were medical and surgical expense. The overall increase in supply expense was offset by improved contract pricing that was negotiated as a result of the consolidated operations of the Corporation.

Medical claim expense increased approximately 10 percent in 2011 compared to 2010 primarily due to increased member months and increased utilization. Member months increased 49,000, or 5 percent, in 2011 compared to 2010.

Purchased services consist primarily of outsourced dietary, environmental services and biomedical equipment services, organ procurement and other expenses. The 1 percent decrease for 2011 from fiscal year 2010 reflects successful contract renegotiation efforts and the use of benchmarking tools to control costs in these areas.

Other expenses consist primarily of professional services, insurance, utilities, repairs and maintenance, and leases. There was an 11 percent increase in other operating expenses in 2011 compared to fiscal year 2010. This was primarily due to the increases in professional services—non-medical, which increased \$7 million, or 38 percent, in 2011 compared to fiscal year 2010, primarily due to increased legal and consulting expense related to the integration efforts of the Corporation.

UA Healthcare, Inc.

Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

Interest expense, reflecting interest incurred on the Corporation's bonds payable, increased to \$16,446,000 in 2011 from \$13,561,000 in 2010. The increase in interest expense is primarily due to the fact that at the end of fiscal year 2010 the Corporation placed in service the Diamond Children's Medical Center at UMC Hospital where interest was previously being capitalized. In fiscal 2011, the Corporation capitalized interest on construction activity of \$271,000 compared to \$3,700,000 in fiscal year 2010.

The table below sets forth certain selected historical operating statistics for the Corporation for the years ended June 30.

Operating Statistics	2011	2010	Increase
Net patient service revenue (in thousands)	\$ 745,789	\$ 703,233	6.1%
Net patient service revenue per adjusted patient days	2,579	2,572	0.3%
Admissions (a)	31,281	29,232	7.0%
Average length of stay (a) (in days)	5.28	5.37	(1.7)%
Patient days (a)	165,140	157,020	5.2%
Adjusted patient days (a) (b)	289,181	273,467	5.7%

(a) Excludes newborns

(b) Adjusted patient days represent patient days for hospital admissions adjusted to include outpatient and emergency room services by multiplying inpatient days by the sum of gross inpatient revenues and outpatient revenues and dividing the result by gross inpatient revenues.

Revenue and Volume Trends

The Corporation's revenues depend upon inpatient occupancy levels, ancillary services, the volume of outpatient procedures, the mix of services provided, and the reimbursement rates for such services. The Corporation has entered into agreements with third-party payors, including government programs and managed-care health plans, under which the Corporation is paid based upon predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges. The Corporation experienced a 5.2 percent increase in total operating revenue in 2011 versus 2010 due to a variety of factors, including the IME funding from AHCCCS, expansion of services, increased volumes, and continued sound revenue cycle processes. Although efforts continue toward improving reimbursement rates with contracted payors, there can be no assurances that the Corporation will continue to achieve these levels of increases in the future. Further, reimbursement under the AHCCCS program is established at levels that do not cover the Corporation's costs. In fiscal year 2011, AHCCCS continued their fiscal year 2008 rate freeze until April 1, 2011, when they enacted an additional 5 percent rate cut. The Corporation believes it will not realize any rate increases from AHCCCS during calendar year 2011, and given the soft economy and related budget concerns at the state level, further rate reductions are possible and could be significant.

UA Healthcare, Inc.

Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

Financial Position

The following are condensed balance sheets at June 30

	2011	2010
Assets		
Current assets	\$ 379,255	\$ 382,568
Assets held by trustee	23,808	23,740
Capital assets, net	375,122	367,047
Other assets, net	86,798	90,486
	<u>\$ 864,983</u>	<u>\$ 863,841</u>
Liabilities		
Current liabilities	\$ 184,578	\$ 216,951
Long-term debt and long-term liabilities	316,455	313,161
Total liabilities	<u>501,033</u>	<u>530,112</u>
Net assets	363,950	333,729
	<u>\$ 864,983</u>	<u>\$ 863,841</u>

2011 and 2010 Liquidity and Capital Resources

Cash, cash equivalents and current unrestricted investments totaled approximately \$196 million and \$154 million at June 30, 2011 and 2010, respectively. The change in these liquid assets reflects \$41 million in cash provided by operations, offset by \$47 million in capital expenditures and \$28 million in debt principal and interest payments; the remaining change was a result of investment activity. Net cash provided by operating activities decreased as compared to the prior year, from \$73 million in 2010 to \$41 million in 2011, due primarily to payment timing differences for certain current assets and liabilities.

At June 30, 2011 and 2010, the Corporation's current ratio, which compares current assets to current liabilities, was 2.1 and 1.8, respectively. The Corporation's days net patient service revenue in accounts receivable increased to 55 days at June 30, 2011, compared to 43 days at June 30, 2010. Capital expenditures totaled \$47 million in 2011 versus \$77 million in 2010. Fiscal 2010 capital expenditures included the completion of the six-story bed tower and Diamond Children's Medical Center, both located at UMC Hospital.

At June 30, 2011, projects under construction were approximately \$3 million. Management believes that its capital expenditure program is adequate to maintain its existing health care facilities and provide for future growth needed to support the College of Medicine and the communities the Corporation serves.

The Corporation's total assets were \$865 million and \$864 million as of June 30, 2011 and 2010, respectively. The increase in total assets primarily reflects an increase in capital assets of \$8 million, net of disposals and depreciation. This increase was offset by a reduction in other assets due to the reduction of the Indirect Medical Education reimbursement receivable that was received prior to year-end fiscal 2011 and not received prior to year-end fiscal 2010.

UA Healthcare, Inc.

Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

At June 30, 2011, the Corporation had \$306 million in debt outstanding versus \$293 million at June 30, 2010. The current portion of assets held by trustee includes \$12 million at June 30, 2011 and 2010, respectively, for amounts held by the bond trustee for payments to bondholders' payable on July 1 of each year. Maturities and other information regarding the current bond obligations are presented in Note 9 to the Corporation's consolidated financial statements.

Market Risk Associated With Financial Instruments

The Corporation is exposed to market risk related to changes in market values of securities. The fair value of investments is based substantially on quoted market prices for identical or similar securities. The Corporation holds investments in corporate fixed-income investments, government and corporate bonds, common stocks, other investments in domestic and international funds, private equity, hedge funds, and money market mutual funds. The net increase in the fair value of investment securities during 2011 was \$6 million. The Corporation's equity and debt investment securities, excluding amounts held by trustees, totaled approximately \$243 million at June 30, 2011. This includes investment securities held by the UMC and UPH Captives of \$65 million at June 30, 2011. With respect to the Corporation's interest-bearing liabilities, the debt payable of \$306 million at June 30, 2011, is primarily subject to fixed rates of interest. The effective interest rates on debt payable range from 4.21 percent to 6.48 percent.

Subsequent Events

On August 9, 2011, the Corporation received proceeds of approximately \$74.4 million from the issuance of the University Medical Center Corporation Hospital Revenue Bonds, Series 2011. Approximately \$38 million of the proceeds are being used to pay and/or reimburse UMC for costs of the acquisition, construction, expansion, improvement and equipping of UMC health care facilities. Approximately \$34.5 million of the proceeds, with an average interest rate of approximately 4.95 percent, were placed in an escrow account to refund all of UMC's outstanding Hospital Revenue Refunding Bonds, Series 1993, with an average interest rate of 5.00 percent. The redemption occurred in September 2011. The refunding resulted in a reduction of aggregate debt service payments of approximately \$274,000 over 10 years following the refunding and will produce an economic gain (difference between the present values of the old and new debt service payments) of approximately \$257,000. A loss on refunding of approximately \$220,000, primarily related to unamortized financing costs on the Series 1993 Bonds, was incurred. The loss is deferred and will be amortized over the remaining term of the Series 1993 Bonds. The remainder of the proceeds are being used to fund a bond reserve fund escrow account and for costs related to the issuance of the bonds.

Effects of Inflation and Changing Prices

Various federal and state laws have been enacted that limit the amount the Corporation will receive for patient care. Revenues for acute-care hospital services rendered to Medicare patients are established under the federal government's prospective payment system. At the state level, revenues for acute-care services rendered to AHCCCS patients are based on a cost-based reimbursement program set by the state based on current budgetary conditions. Total AHCCCS and Medicare revenues approximated 28 percent and 30 percent, respectively, of the Corporation's net patient service revenues in 2011. Management believes that hospital industry operating margins have been, and will continue to be, under significant pressure because of changes in payor mix, reimbursement rates, and growth in operating expenses in excess of the increase in payments under Medicare, AHCCCS and other programs. In addition, as a result of increasing regulatory and competitive pressures, including measures being considered under various federal health care reform proposals, the Corporation's ability to maintain operating margins through price increases to nongovernmental payors and patients is limited.

UA Healthcare, Inc.

**Management's Discussion and Analysis
Years Ended June 30, 2011 and 2010**

Health Care Reform

As a result of the federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specific times over approximately the next decade. This federal health care reform legislation does not affect the 2011 basic financial statements.

Contact Information

UA Healthcare, Inc
Attn: Administration
1501 North Campbell Ave
Tucson, AZ 85724
www.azumc.com



Independent Auditor's Report

To the Board of Directors
UA Healthcare, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of UA Healthcare, Inc. and subsidiaries (the Corporation), a component unit of the state of Arizona, as of June 30, 2011, and the related consolidated statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2011, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements 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 an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual organizations or departments. The consolidating information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2011 consolidated financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying information on pages 49 through 51 is presented for additional analysis and is not a required part of the consolidated financial statements. The information on pages 49 through 51 has been subjected to auditing procedures applied in the audit of the 2011 basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

McGladrey & Pullen, LLP

Minneapolis, Minnesota
October 20, 2011

UA Healthcare, Inc.

Consolidated Balance Sheet

June 30, 2011

(In Thousands)

Assets

Current Assets	
Cash and cash equivalents	\$ 23,073
Short-term investments	172,596
Patient accounts receivable, net	109,193
Capitation and contract receivable, net	25,101
Supplies inventory	15,187
Assets held by trustee, current portion	11,883
Prepaid expenses and other	22,222
Total current assets	379,255
Assets Held by Trustee, net of current portion	23,808
Long-Term Investments, net of current portion	70,292
Capital Assets, net	375,122
Other Assets, net	16,506
Total	\$ 864,983

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 47,531
Accrued payroll and employee benefits	60,664
Accrued medical claims	30,434
Accrued professional liability	8,327
Other accrued liabilities	16,863
Current portion of long-term debt	20,759
Total current liabilities	184,578
Long-Term Debt, net of current portion and discounts	285,626
Other Long-Term Liabilities	30,829
Total liabilities	501,033
Commitments and Contingencies	
Net Assets	
Unrestricted	253,916
Invested in capital assets, net of related debt	87,597
Restricted	22,437
Total net assets	363,950
Total	\$ 864,983

See Notes to Financial Statements

UA Healthcare, Inc.

Consolidated Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2011
(In Thousands)

Operating revenues	
Net patient service revenue	\$ 745,789
Capitation and contract services revenue	353,484
Other operating revenue	18,969
Total operating revenues	1,118,242
Operating expenses	
Salaries and wages	402,595
Employee benefits	71,667
Supplies	153,160
Purchased services	34,257
Professional services, medical	41,921
Professional services, nonmedical	25,196
Medical claims expenses	215,217
Utilities	10,537
Other	96,261
Depreciation and amortization	37,916
Total operating expenses	1,088,727
Operating income	29,515
Nonoperating revenues and expenses	
Investment income	16,346
Interest expense	(16,796)
Fundraising expenses	(1,741)
Total nonoperating revenues and expenses	(2,191)
Excess of revenues over expenses before fundraising and grant income	27,324
Fundraising and grant income	2,897
Increase in net assets	30,221
Net assets, beginning of year	333,729
Net assets, end of year	<u><u>\$ 363,950</u></u>

See Notes to Financial Statements

UA Healthcare, Inc.

Consolidated Statement of Cash Flows
Year Ended June 30, 2011
(In Thousands)

Cash Flows From Operating Activities	
Cash received for services provided and other operating receipts	\$ 1,009,379
Capitation received	380,195
Cash paid to employees	(470,796)
Cash paid for supplies, purchased services and other	(660,034)
Cash paid for medical claims	(217,558)
Net cash provided by operating activities	41,186
Cash Flows From Capital and Related Financing Activities	
Principal payments on bonds payable	(6,759)
Principal payments on notes payable	(1,525)
Repayment of capital lease	(3,332)
Purchase of capital assets	(47,100)
Cash paid for interest	(16,319)
Fundraising and grants received (paid), net of expenses	(757)
Net cash used in capital and related financing activities	(75,792)
Cash Flows From Investing Activities	
Purchases of investments	(182,798)
Proceeds from sales of investments	179,010
Decrease in assets held by trustee, net	7,000
Investment income received and other	11,800
Net cash provided by investing activities	15,012
Net decrease in cash and cash equivalents	(19,594)
Cash and Cash Equivalents, beginning of year	42,667
Cash and Cash Equivalents, end of year	\$ 23,073

(Continued)

UA Healthcare, Inc.

Consolidated Statement of Cash Flows (Continued)
Year Ended June 30, 2011
(In Thousands)

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 29,515
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation and amortization	37,916
Gain on disposal of capital assets	(25)
Changes in assets and liabilities	
Patient accounts receivable, net	(64,229)
Supplies inventory	119
Prepaid expenses and other	25,641
Other assets	(219)
Accounts payable	21,933
Accrued payroll, employee benefits and other capitation	(11,899)
Accrued medical claims	2,526
Other accrued liabilities	3,345
Other long-term liabilities	(3,437)
Net cash provided by operating activities	\$ 41,186
Supplemental Schedule of Noncash Investing, Capital and Financing Activities	
Capital expenditures included in accounts payable	\$ 3,456
Interest capitalized, net of earnings on related bond proceeds	271
Change in pledges receivable	(1,867)
Change in unrealized net appreciation on investments	6,281

See Notes to Financial Statements

UA Healthcare, Inc.

Notes to Consolidated Financial Statements

Note 1. Organization and Operations

UA Healthcare, Inc. (the Corporation), an Arizona not-for-profit corporation, controls University Medical Center Corporation and subsidiaries (UMC) and University Physicians Healthcare and subsidiaries (UPH).

In June 2010, the Corporation was created to bring UMC and UPH together to align the two organizations strategically and operationally. After the creation of the Corporation, UMC's and UPH's bylaws were changed, designating the Corporation as UMC's and UPH's sole member and granting the Corporation certain reserved power and authority. These bylaw changes require that substantially all members of the boards of directors of UMC and UPH be members of the Corporation's board of directors, which are appointed by the Arizona Board of Regents (ABOR).

The Corporation accounted for the business combination as a "pooling like" transaction in which the historical basis of the assets, liabilities and net assets of the separate organizations were combined as of the beginning of the year (July 1, 2010) in which it occurred. These financial statements include the operations and all activities of UMC and UPH since July 1, 2010.

The Corporation elected to early adopt Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, issued November 2010. This statement is designed to improve financial reporting for governmental entities by improving the information presented about the financial reporting entity, which is composed of a primary government and related entities (component units). The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of management of the primary government by ensuring that the financial reporting entity includes only organizations for which the primary government is financially accountable or that the government determines would be misleading to exclude. The new standard also further clarifies reporting for primary governments that are business-type activities, allowing reporting of the consolidated entity in a single column. The new guidance for reporting blended component units requires condensed consolidating information to be included in the notes to the financial statements (see Note 19), which will allow users to better distinguish between the primary government and its component units. The adoption of this standard did not have an effect on the financial results of the Corporation or any of its component units.

During the recent regular session of the State Legislature, which adjourned in April 2011, the State Senate passed a measure that would have reduced the degree of control of ABOR over the Corporation, including changing the method of appointment of members of the Corporation's Board of Directors. The measure did not take effect. The Corporation cannot predict whether future changes to legislation may be proposed or enacted or what form any such changes may take.

Notes to Consolidated Financial Statements

Note 1. Organization and Operations (Continued)

In 1984, the Arizona Legislature passed a bill that enabled ABOR to convey University Medical Center Hospital (UMC Hospital) to a private not-for-profit, tax-exempt corporation, and University Medical Center Corporation was formed. Although an autonomous entity was created, the teaching missions and research alliances with the University of Arizona (the University) firmly remained with the UMC Hospital. UMC Hospital completed the transition from a state institution to a separate corporation in 1984. In June 2010, the Arizona Board of Regents approved a change in UMC's bylaws designating the newly formed Corporation as UMC's sole member and granting the Corporation certain reserved power and authority. Appointments of members of UMC's Board of Directors are made by ABOR. The Arizona Legislature has limited the number of regents allowed to serve on UMC's Board of Directors. UMC operates the following

- UMC Hospital is a 487-bed general acute-care teaching medical facility including the Diamond Children's Medical Center, the Peter and Paula Fasseas Cancer Clinic at UMC North, UMC Orange Grove, and physician offices in Tucson and Green Valley, Arizona. In addition, UMC is southern Arizona's sole Level 1 Trauma Center.
- University Medical Center Foundation (UMC Foundation) is an Arizona not-for-profit corporation whose primary purpose is fundraising for UMC.
- UMCC Insurance Funding Limited (UMC Captive) is an offshore captive insurance company used to fund general and professional liability and malpractice insurance coverage.

UPH is a not-for-profit corporation created by the University in 1985 as the medical practice for physicians at the University of Arizona's College of Medicine. The UPH physicians are employed by both the University and UPH and provide services at UMC Hospital. UPH is also responsible for the activities of University Physicians Healthcare Hospital (UPHH). Prior to June 30, 2010, members of the UPH Board of Directors were appointed by the physician members and community board members. Effective June 30, 2010, the Corporation became the sole corporate member of University Physicians Healthcare. With the change in control, a majority of UPH's board members are now appointed by ABOR. UPH operates the following

- UPHH is a 116-bed acute-care and an 81-bed psychiatric medical facility including physician offices in Tucson and Green Valley, Arizona. UPHH is operated under a lease agreement with Pima County.
- University Physicians Healthcare Practice Plan (Practice Plan) is responsible for patient care activities provided by the faculty members in the clinical departments of the University of Arizona College of Medicine (COM).
- University Physicians Healthcare Health Plans (Health Plan) has contracted with Arizona Health Care Cost Containment System (AHCCCS) to operate health plans that provide acute-care medical services to AHCCCS enrollees in several counties throughout southern Arizona. UPH formed University Physicians Health Plans-University Family Care, LLC (UFC) to hold the contract for and operate one of the health plans and directly manages the second. UFC is a single-member Arizona limited liability company created in October 2008.
- University Physicians Healthcare Foundation (UPH Foundation) is an Arizona not-for-profit corporation whose primary purpose is fundraising for UPH.
- Caduceus Indemnity Insurance Corporation, Ltd. (UPH Captive) is a captive insurance company, domiciled in Hawaii, used to fund professional liability and malpractice insurance coverage.

Notes to Consolidated Financial Statements

Note 1. Organization and Operations (Continued)

UMC Hospital and UPHH are the primary teaching hospitals for the Colleges of Medicine, Nursing, Pharmacy and Public Health, and the School of Health-Related Professions of the University. The State of Arizona includes the Corporation in its financial statements as a discretely presented financial statement.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The Corporation is a health care organization as defined in the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide, Health Care Organizations, and follows accounting principles generally accepted in the United States of America. The Corporation follows applicable Governmental Accounting Standards Board (GASB) principles and has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Principles of consolidation: The consolidated financial statements include the accounts of the Corporation and all of its subsidiaries (together, the Corporation), as described in Note 1. All significant intercompany accounts and transactions have been eliminated upon consolidation.

Operating revenues and expenses: The Corporation's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Corporation's principal activity. Operating expenses are all expenses incurred to provide health care services other than financing costs and fundraising expenses. Other revenues, including investment income, are reported as nonoperating revenues. Capital-related contributions and grants are reported after nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Corporation's policy to use restricted resources first, and then unrestricted resources as they are needed.

Cash and cash equivalents: Cash and cash equivalents include cash, money market funds, and highly liquid debt instruments with original maturities of three months or less at the time of purchase that are not restricted, designated or managed by the Corporation's investment managers. The Corporation maintains cash in bank accounts that frequently exceed federally insured limits. To date, the Corporation has not experienced any losses on such accounts.

Investments: Investments are carried at fair value, which is further explained in Note 5. Realized gains and losses are computed based on the difference between the proceeds received and cost at time of acquisition using the average cost method. The unrealized net appreciation or depreciation of investments in marketable securities represents the change in the fair value of investments in the current period.

Fair value of financial instruments: The carrying amounts of cash and cash equivalents approximate fair value because of the short maturity of these financial instruments. Short-term and long-term investments and assets held by trustee (see Note 6) are generally stated at fair value as determined by quoted market prices of identical or similar securities, with the exception of hedge fund of funds. Hedge fund of funds are carried at the fair values reported by the fund managers based on the fair value of publicly traded securities, broker quotes and independent appraisals.

The fair value of the Corporation's bonds payable is estimated based on observable inputs of quoted prices of other similar bonds. At June 30, 2011, the estimated fair value of the Corporation's bonds payable was approximately \$275,206,000.

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Fair value estimates are made at a specific point in time, based on relevant published market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect estimates.

Patient accounts receivable: Patient accounts receivable are reported net of estimated allowances for contractual adjustments and allowances for uncollectible accounts. Estimated allowances for contractual adjustments and uncollectible accounts are approximately \$211,907,000 as of June 30, 2011.

The Corporation grants credit without collateral to its patients. The following summarizes the estimated percentage of accounts receivable from all payors as of June 30, 2011:

	<u>2011</u>
Medicare	28%
Arizona Health Care Cost Containment System (AHCCCS)	32%
Other third-party and commercial payors	37%
Other	3%

Supplies inventory: Inventories are stated at the lower of cost or market, which is determined primarily using the first-in, first-out method. Inventories consist mainly of pharmaceuticals and medical and surgical supplies.

Capital assets: Purchases of land, buildings and equipment are recorded at cost. The capitalization threshold (the dollar value above which asset acquisitions are added to the capital asset accounts) is \$2,500 for UMC and \$5,000 for UPH for all asset classifications and for items with a useful life of more than one year. Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined.

Depreciation: Depreciation is calculated using the straight-line method over the shorter of the property's estimated useful life or lease term. Estimated useful lives are as follows:

Buildings and improvements, leasehold improvements including certain fixed equipment	10–40 years
Equipment	3–15 years

Deferred financing costs: Other assets include deferred financing costs incurred in connection with the issuance of long-term debt. The deferred financing costs are amortized using the effective-interest method over the terms of the related borrowings.

Accrued medical claims: The costs of hospital and medical services provided to enrollees served under contract are accrued in the period that the services are rendered. A provision has been made for claims in process of review and for claims incurred but not received at year-end. The amount of this liability is computed using historical claims payment experience, and a review of experience for similar plans. Estimates are adjusted based upon changes in experience and such adjustments are reflected in current operations. Although considerable variability is inherent in such estimates, there is at least a possibility that recorded estimates will change by a material amount in the near term.

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Income taxes: UMC and UPH, as well as the UMC and UPH Foundations, are not-for-profit entities as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Corporation applied for tax-exempt Section 501(c)(3) status with the Internal Revenue Service, and the application is pending. The UMC Captive is not subject to income taxes, as no income taxes are levied in the Cayman Islands. The UPH Captive is domiciled in the state of Hawaii, and a 0.25 percent gross premium tax is assessed in lieu of state income and general excise taxes. Premium taxes are included in operating expenses. Accordingly, no provision for income taxes has been recorded in the accompanying consolidated financial statements.

Premium tax: The State of Arizona imposes a premium tax on capitation payments paid to the Health Plan by AHCCCS. The Health Plan receives the premium tax from AHCCCS and remits the entire amount to the appropriate taxing authority. The Corporation includes the taxes collected as revenues and taxes remitted within operating expense in the consolidated statement of revenues, expenses and changes in net assets.

Net patient service revenue: Revenues are recorded when services have been performed. Revenue under third-party payor agreements is subject to audit, retroactive adjustments and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined. Net patient service revenue is reported at the estimated net amounts due from patients and third-party payors for services rendered.

Laws and regulations concerning government programs, including Medicare and AHCCCS, are complex and subject to varying interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. As a result of nationwide investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. The Corporation expects that the level of review and audit to which it and other health care providers are subject will increase. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Corporation.

Capitation and contract services revenue: Capitation and contract services revenue consists of amounts earned under contracts that require UPH to provide health care services to subscribers of the contracting agency for either set monthly fees or monthly capitation fees as agreed upon by UPH and the contracting agency, and other amounts earned under contractual provisions. Amounts receivable under these agreements are recorded as capitation and contract receivables. All revenue, except that received from Pima County to assist in re-establishing a stable physician practice and to support the continued operation of the hospital (see Note 17), is received primarily from AHCCCS. Revenues are recognized in the period in which health care coverage relates. Capitation rates for nonreconciled risk groups are subject to adjustment based on national episodic/diagnostic risk. Provisions for settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined.

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Other operating revenue: Other operating revenue includes amounts received from the University to help defray a portion of the costs incurred by the Corporation in support of the academic mission of the University (see Note 15). Also included in other operating revenue are amounts received from the State of Arizona to support the cost of providing trauma services.

Fundraising and grant income: During 2011, the Corporation received approximately \$330,000 in grant revenues from the federal government and the State of Arizona, which are included in fundraising and grant income. These funds were used to acquire equipment as permitted under the grant agreements and were recognized as revenue when the funds were expended for the purpose specified by the grantor. In addition, the Corporation recognized \$2,567,000 in fundraising income during 2011 based on the terms of certain donor pledge agreements. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for specific operating purposes are reported as nonoperating revenues. Amounts that are restricted for capital purposes are reported as fundraising and grant income.

Risk management: The Corporation is exposed to various risks of loss from theft of, damage to, and destruction of assets, malpractice, workers' compensation, employee medical, and other matters for which the Corporation has self-insured a portion of and purchased commercial insurance coverage for the remaining risk. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Corporation also receives insurance coverage from the State of Arizona to reduce the risk of catastrophic loss on services provided under the AHCCCS programs. The gross capitation rates are reduced by the reinsurance cost. Under the State program, risk of loss for inpatient claims is generally limited to an annual deduction of \$20,000 per member, per policy year. Eligible reinsurance claims are reported in the accompanying financial statements as a reduction of health care expense in the amount expected to be collected from AHCCCS. Reinsurance receivable represents management's best estimate and is calculated based on the identification of qualifying incurred inpatient expense and a percentage of estimated inpatient cost incurred but not yet reported.

The cost of medical malpractice losses incurred by the Corporation is accrued in the period that the services are rendered. A provision has been made for claims in process of review and for claims incurred but not received at year-end. The amount of this liability is computed using historical claims payment experience and is recognized on an undiscounted basis. Estimates are adjusted based upon changes in experience, and such adjustments are reflected in current operations.

Premium deficiency reserves: The Corporation performs periodic analysis of its expected future health care costs and maintenance costs to determine whether such costs will exceed anticipated future revenues under its contracts. Should expected costs exceed anticipated revenues, a premium deficiency reserve is recognized. Investment income is not included in the calculation to estimate premium deficiency reserves. The Corporation's contract rates and anticipated expenses did not require a premium deficiency reserve at June 30, 2011.

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Notes to Consolidated Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Subsequent events: On August 9, 2011, the Corporation received proceeds of approximately \$74.4 million from the issuance of the University Medical Center Corporation Hospital Revenue Bonds Series 2011, with an average interest rate of approximately 4.95 percent. Approximately \$38 million of the proceeds is being used to pay or reimburse UMC for costs of the acquisition, construction, expansion, improvement and equipping of UMC health care facilities. Approximately \$34.5 million of the proceeds was placed in an escrow account to refund all UMC's outstanding Hospital Revenue Refunding Bonds, Series 1993 (see Note 9), with an average interest rate of 5.00 percent. The redemption occurred in September 2011. The refunding will result in a reduction of aggregate debt service payments of approximately \$274,000 over 10 years following the refunding and will produce an economic gain (difference between the present values of the old and new debt service payments) of approximately \$257,000. A loss on refunding of approximately \$220,000, primarily related to unamortized financing costs on the Series 1993 Bonds, will be incurred. The loss is deferred and will be amortized over the remaining term of the Series 1993 Bonds. The remainder of the proceeds is being used to fund a bond reserve fund escrow account and for costs related to the issuance of the bonds.

On September 2, 2011, the Corporation changed its name to The University of Arizona Health Network. Additionally, UMC Hospital changed its name to The University of Arizona Medical Center—University Campus, UPHH changed its name to The University of Arizona Medical Center—South Campus, the Practice Plan changed its name to The University of Arizona Physicians, and the Health Plan changed its name to The University of Arizona Health Plan.

Note 3. Unsponsored Community Benefit Expense

Unsponsored community benefits are programs or activities that provide treatment or promote health and healing as a response to identified community needs. These benefits (a) generate a low or negative margin, (b) respond to the needs of special populations, such as persons living in poverty and other disenfranchised persons, (c) supply services or programs that would likely be discontinued or would need to be provided by another not-for-profit or government provider, if the decision was made on a purely financial basis, (d) respond to public health needs and/or (e) involve education or research that improves overall community health.

Notes to Consolidated Financial Statements

Note 3. Unsponsored Community Benefit Expense (Continued)

The Corporation provides health care services free of charge to individuals who meet certain financial criteria. All patients in need of emergency services are accepted regardless of their ability to pay. The Corporation also offers substantial discounts to individuals who lack insurance or whose insurance coverage may not cover certain services, under its policy for the uninsured and underinsured. Under the UMC Hospital program, patients are charged no more than the rate the Corporation receives under the Medicare program. Under the UPHH program, patients are given a discount based upon a sliding fee scale based upon 2011 federal poverty guidelines. The Corporation also incurs significant costs to provide emergency care to non-U.S. citizens, as mandated under federal regulations. During 2011, the Corporation received reimbursement of \$1,300,000 from a temporary federal program to support a portion of emergency care to non-U.S. citizens. This program was scheduled to expire in September 2008, however, as unused funding remained in the program, it was extended to cover patient services until funds are exhausted, after which this source of funding is expected to cease. In addition, management believes losses incurred on services provided to enrollees under the Arizona Health Care Cost Containment System (AHCCCS), a government-mandated program for the indigent (see Note 4), also represent charity care. Charges for traditional charity care services are excluded from revenues. The estimated net costs, in excess of reimbursement, of providing care to the uninsured, non-U.S. citizens and to AHCCCS recipients were as follows for the year ended June 30, 2011 (in thousands):

	2011
Uninsured costs in excess of reimbursement	\$ 11,981
AHCCCS costs in excess of reimbursement	11,341
Non-U.S. citizens	2,211
Net cost of charity care	<u>\$ 25,533</u>

The Corporation directly contributes to programs that benefit the community, including medical research and other outreach programs as further described in Note 15. Total community benefits, including these programs in addition to the Corporation's charity care, are as follows for the year ended June 30, 2011 (in thousands):

	2011
Net cost of charity care (stated above)	\$ 25,533
University support	57,078
Contributions to community organizations	814
	<u>\$ 83,425</u>

Note 4. Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payments at amounts different from its established rates. Net patient service revenue is reported at estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. A summary of the payment arrangements with major third-party payors follows:

Notes to Consolidated Financial Statements

Note 4. Net Patient Service Revenue (Continued)

Medicare: Inpatient acute and nonacute care and a majority of outpatient services rendered to Medicare program beneficiaries are primarily paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services and medical education costs related to Medicare beneficiaries are paid primarily based on a cost-reimbursement methodology. UMC Hospital and UPHH cost reimbursement is determined after submission of an annual cost report and audits thereof by the Medicare Administrative Contractor (MAC). Rates paid UMC Hospital and UPHH by Medicare for outpatient services generally do not cover its costs. The classification of patients under the Medicare program and appropriateness of their admission are subject to review. UMC Hospital and UPHH cost reports have been audited by the MAC through June 30, 2008 and 2007, respectively. For the year ended June 30, 2011, approximately 30 percent of net patient service revenue was derived from services provided to Medicare patients.

Arizona Health Care Cost Containment System: AHCCCS is a federal and state-supported research and demonstration program. AHCCCS is Arizona's alternative to the Medicaid program and is designed to provide for a portion of the cost of indigent health care needs. For outpatient services, the Corporation is reimbursed on a fixed payment system similar to Medicare's outpatient prospective payment system. For inpatient services, the Corporation receives a per diem rate depending on the AHCCCS plan payor and the nature of the services provided. One of the AHCCCS plan payors is a related party. All of the activity with this entity is eliminated in these consolidated financial statements. Rates paid to the Corporation by AHCCCS and AHCCCS-sponsored health plans are established at levels that do not cover the Corporation's costs. In addition, AHCCCS reduced outlier payments in 2008 and has enacted a rate freeze on all Arizona hospitals, including the Corporation, which was effective for fiscal year 2009.

Other: The Corporation has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Corporation under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

Note 5. Investments

Investment income on unrestricted investments consists of the following for the year ended June 30, 2011 (in thousands)

	2011
Net gain on sale of investments	\$ 4,561
Change in unrealized net appreciation on investments	6,281
Interest income on unrestricted investments	4,847
Interest income on assets held by trustee, net of amounts capitalized	657
Investment income	<u>\$ 16,346</u>

It is the Corporation's policy to classify investments without external restrictions or internal designation as current. The following tables present the estimated maturities of the Corporation's investments, excluding assets held by trustee (see Note 6), utilizing the segmented time distribution method as of June 30, 2011 (in thousands)

UA Healthcare, Inc.

Notes to Consolidated Financial Statements

Note 5. Investments (Continued)

Long-term investments: Long-term investments totaled \$70,292,000 at June 30, 2011, and include assets held by UMC Captive and UPH Captive for professional liability funding and assets of the UMC and UPH Foundations that have donor restrictions. Assets held by UMC Captive and UPH Captive include \$120,000 and \$2,500,000, respectively, that is required to be maintained to meet its minimum statutory capital requirements. Long-term investments that are required for obligations, classified as current liabilities, are reported in current assets. Following is a summary of the investments and their expected maturities (in thousands):

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1 to 5	5 to 10	10 +
Debt securities					
Money market mutual funds	\$ 52,376	\$ 52,376	\$ -	\$ -	\$ -
Corporate fixed income	42,651	18,778	18,832	2,339	2,702
Collateralized mortgage obligations	7,247	-	49	449	6,749
United States governmental-sponsored agencies mortgaged-backed securities	10,926	-	-	1,946	8,980
Other debt securities	8,468	3,301	924	-	4,243
		<u>\$ 74,455</u>	<u>\$ 19,805</u>	<u>\$ 4,734</u>	<u>\$ 22,674</u>
Other securities					
Hedge fund of funds	22,873				
Mutual funds	90,893				
Other securities	7,454				
Total investments	<u>242,888</u>				
Less current portion	<u>(172,596)</u>				
Long-term portion	<u>\$ 70,292</u>				

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Corporation's investment policy limits the portfolio duration related to debt securities to the Lehman Brothers Intermediate Government/Credit Index. This is an index based on all publicly issued intermediate government and corporate debt securities with average maturities of four to five years.

Credit risk: Investment in fixed-income securities is limited to investment-grade securities with a credit rating of BBB or equivalent, or better. At June 30, 2011, the Corporation held \$21,194,000 of AAA-rated, \$12,680,000 of AA-rated, and \$35,418,000 of A-rated securities. The money market mutual funds are not rated.

Custodial credit risk: The investments of the Corporation are uninsured and held by brokers in the Corporation's name.

Notes to Consolidated Financial Statements

Note 5. Investments (Continued)

Investment policy and valuation: The Corporation engages third parties to provide outsourced investment management and advisory services for the purpose of assisting the Corporation in optimizing investment portfolio performance. As part of this process, the Investment Committee of the Board of Directors periodically reviews and approves the Corporation's investment policies, with a goal of improving investment returns and reducing the risk of investment principal loss. The Corporation's investment policies follow an asset allocation approach with a portfolio allocated to meet expected near-term, intermediate and long-term needs. Under the policies, investment concentration in any one market segment is restricted. The following discussion describes how the Corporation's investments are valued.

Money market mutual funds: These holdings are invested in various money market funds and are primarily invested in U.S. government securities. The carrying value equals the statement balance adjusted for any unpaid earnings, which approximates fair value.

Corporate fixed income: These holdings are invested in various domestic corporate debt securities. The market value of these investments is based on the investment manager and/or trustee's valuation estimate, which is predominantly based on a market approach using trade data, current bids and comparable trades.

Collateralized mortgage obligations: These obligations are backed by collateral. The market value of these investments is based on the investment manager and/or trustee's valuation estimate, which is predominantly based on a market approach using trade data, current bids and comparable trades.

United States governmental-sponsored agencies mortgaged-backed securities: These securities are securitized investments that pool mortgages and give the holders of these securities the rights to the cash flows of the underlying mortgages within the pool they own. The market value of these investments is based on the investment manager and/or trustee's valuation estimate, which is predominantly based on a market approach using trade data, current bids and comparable trades.

Hedge fund of funds: Hedge fund of funds are recorded at the fair values reported by the fund managers. Accounting principles generally accepted in the United States of America define fair value as the amount at which an investment could be exchanged for cash in a current transaction with a third party, other than in a forced liquidation or sale. The funds' fair values, however, do not necessarily represent the liquidation value or market value of the funds. The Corporation values the investments based on the fair value amounts reported to the Corporation by the fund manager. Management believes this method provides a reasonable estimate of fair value.

Mutual funds: All of the investments listed in these categories consist primarily of domestic equities with readily determinable market values. These investments are recorded at fair value based on quoted market prices.

UA Healthcare, Inc.

Notes to Consolidated Financial Statements

Note 6. Assets Held by Trustee

Assets held by trustee include investments held under an indenture agreement related to bonds payable and amounts held by a trustee as required by the Industrial Commission of Arizona for workers' compensation. These investments are carried at their fair value, except for the guaranteed investment contracts, which are nonparticipating and are carried at cost. The composition of assets held by trustee is as follows as of June 30, 2011 (in thousands):

	UPH	UMC	Total
Funds held by trustee, as required by the Industrial Commission of Arizona	\$ -	\$ 2,251	\$ 2,251
Funds held by trustee, related to bonds payable			
Debt service funds	-	11,883	11,883
Bond reserve funds	1,143	20,229	21,372
Interest accumulation account	-	185	185
	<u>1,143</u>	<u>32,297</u>	<u>33,440</u>
Total assets held by trustee	1,143	34,548	35,691
Less current portion	-	(11,883)	(11,883)
Assets held by trustee, net of current portion	<u>\$ 1,143</u>	<u>\$ 22,665</u>	<u>\$ 23,808</u>

Assets held by trustee were invested as follows at June 30, 2011 (in thousands):

	UPH	UMC	Total
Money market mutual funds	\$ 119	\$ 5,671	\$ 5,790
Commercial paper	-	16,041	16,041
U S Treasury securities	1,024	8,464	9,488
Guaranteed investment contracts	-	4,372	4,372
Total assets held by trustee	<u>\$ 1,143</u>	<u>\$ 34,548</u>	<u>\$ 35,691</u>

All of the Corporation's assets held by trustee mature within one year, except for one of the guaranteed investment contracts, which will mature in two years. For the year ended June 30, 2011, all assets held by trustee that were invested in debt securities have credit ratings of A or equivalent, or better, all money market mutual funds are not rated. See Note 5 for disclosures related to interest rate and custodial credit risks.

UA Healthcare, Inc.

Notes to Consolidated Financial Statements

Note 7. Capital Assets

A summary of capital assets as of June 30 is as follows (in thousands)

	June 30, 2010	Additions	Retirements	Reclassifications	June 30, 2011
Land and improvements	\$ 15,259	\$ 75	\$ -	\$ 614	\$ 15,948
Buildings and improvements	391,488	7,315	(151)	24,493	423,145
Leasehold improvements	9,004	196	-	-	9,200
Equipment	244,386	24,415	(2,795)	4,893	270,899
Construction in process	20,050	13,348	-	(30,000)	3,398
Total	680,187	45,349	(2,946)	-	722,590
Less accumulated depreciation for					
Land improvements	(455)	(84)	-	-	(539)
Buildings and improvements	(139,189)	(12,720)	145	15	(151,749)
Leasehold improvements	(2,600)	(938)	-	-	(3,538)
Equipment	(170,896)	(23,503)	2,772	(15)	(191,642)
Total	(313,140)	(37,245)	2,917	-	(347,468)
Capital assets, net	\$ 367,047	\$ 8,104	\$ (29)	\$ -	\$ 375,122

During 2011, the Corporation completed and placed in service the new employee parking garage. Accordingly, the cost of this project was reclassified from construction in process to completed assets. Capital assets are depreciable, with the exception of land, construction in process, and certain artwork. Nondepreciable capital assets totaled \$18,069,000 at June 30, 2011. Interest costs incurred during construction, net of earnings on unspent bond proceeds on project-specific debt, which totaled approximately \$271,000 for the year ended June 30, 2011, are capitalized as a component of the cost of such additions. Capitalization of interest ceases when the additions are placed into service. Maintenance and repairs are expensed as incurred.

Note 8. Other Assets

A summary of other assets as of June 30, 2011, is as follows (in thousands)

	2011
Long-term portion of pledges receivable	\$ 7,716
Other	8,790
Other non-current assets, net	\$ 16,506

The Corporation has recorded pledges receivable from certain donors that have payment terms of two to five years. The pledges have no stated interest rate, thus, interest has been imputed at approximately 5 percent to 6 percent, and the pledges have been recorded at their estimated net present value. The current portion of pledges receivable was \$980,000 at June 30, 2011, and is included in prepaid expenses and other on the accompanying consolidated balance sheet.

UA Healthcare, Inc.

Notes to Consolidated Financial Statements

Note 9. Long-Term Debt

A summary of long-term debt as of June 30, 2011, is as follows (in thousands)

	Effective Interest	Principal and Interest Payments Payable Through	2011
Obligated by University Medical Center			
Series 2009 Bonds, \$61,800,000, net of discount, collateralized by a security interest in UMC's gross revenue	6.48%	July 2039	\$ 60,324
Series 2005 Bonds, \$140,000,000, net of discount, collateralized by a security interest in UMC's gross revenue	5.01%	July 2035	139,519
Series 2004 Bonds, \$52,000,000, net of discount, collateralized by a security interest in UMC's gross revenue	4.82%	July 2033	41,383
Series 1993 Bonds, \$54,750,000, net of discount, collateralized by a security interest in UMC's gross revenue	5.53%	July 2021	34,479
Capital leases and notes payable			<u>1,114</u>
			276,819
Less current portion			<u>(5,608)</u>
Long-term debt, net of current portion			<u>271,211</u>
Obligated by University Physicians Healthcare			
Series 2006 Authority Tax Exempt Revenue Bond, \$10,000,000, net of discount, collateralized by UPH capital assets and secured primarily by deed of trust, the assignments of rents and leases, a security agreement and a fixture filing made by UPH to Compass Bank	4.77%	September 2013	3,589
Series 2005 A Authority Tax Exempt Revenue Bond, \$6,750,000, net of discount, collateralized by UPH capital assets and secured primarily by deed of trust, the assignments of rents and leases, a security agreement and a fixture filing made by UPH to Compass Bank	4.42%	December 2025	5,492
Series 2005 B Authority Tax Exempt Revenue Bond, \$3,250,000, net of discount, collateralized by UPH capital assets and secured primarily by deed of trust, the assignments of rents and leases, a security agreement and a fixture filing made by UPH to Compass Bank	4.21%	December 2012	790

UA Healthcare, Inc.

Notes to Consolidated Financial Statements

Note 9. Long Term Debt (Continued)

	Effective Interest	Principal and Interest Payments Payable Through	2011
Obligated by University Physicians Healthcare (continued)			
Series 2000 Health Facilities Tax Exempt Revenue Bonds, \$5,000,000, net of discount, with a weekly variable interest rate averaging 0.41% in 2011, collateralized by UPH capital assets and a letter of credit	(a)	August 2030 (c)	3,760
Series 1994 Health Facilities Tax Exempt Revenue Bonds, \$4,000,000, net of discount, with a weekly variable interest rate averaging 0.41% in 2011, collateralized by UPH capital assets, a letter of credit and certain investments	(a)	August 2018 (c)	900
\$20,000,000 revolving line-of-credit agreement with Compass Bank, collateralized by a second and prior lien on certain of UPH's real property	(b)	November 2011	9,950
Capital leases and notes payable			2,331
			<u>26,812</u>
Less current portion			<u>(13,879)</u>
Long-term debt, net of current portion			<u>12,933</u>
Obligated by University Medical Imaging			
Capital lease			2,754
Less current portion			<u>(1,272)</u>
Long-term debt, net of current portion			<u>1,482</u>
Total Debt for UA Healthcare			
Total			306,385
Less current portion			<u>(20,759)</u>
Long-term debt, net of current portion			<u>\$ 285,626</u>

(a) The interest rates of the Series 2000 and 1994 debt issuances are based on the prime rate, plus 2.5 percent per annum (5.75 percent at June 30, 2011)

(b) The interest rate of the revolving line of credit is calculated as the higher of LIBOR plus 2 percent or 3.8 percent (3.8 percent at June 30, 2011)

(c) These two debt issuances are variable-rate demand revenue bonds. In conjunction with the variable-rate demand revenue bonds, UPH has entered into bank standby purchase and credit agreements in the amount of the bonds plus any accrued interest. Under the terms of these agreements, which expire on March 31, 2013, the bank will make liquidity loans to UPH immediately if the bond holders put the bonds to UPH and they are not successfully remarketed. Any draws on these agreements are due March 31, 2013.

UA Healthcare, Inc.

Notes to Consolidated Financial Statements

Note 9. Long-Term Debt (Continued)

Future scheduled maturities of bonds and related interest payable, assuming the variable-rate demand revenue bonds are remarketed (if such bonds are not remarketed \$4,660,000 may become due in 2013) at June 30, 2011, are as follows (in thousands)

Years Ending June 30,	Principal	Interest
2012	\$ 20,759	\$ 15,232
2013	9,906	14,727
2014	7,305	14,308
2015	6,699	13,983
2016	7,047	13,644
2017–2021	41,370	62,455
2022–2026	53,293	50,562
2027–2031	65,890	35,370
2032–2036	83,645	15,854
2037–2040	13,215	1,328
Total	<u>309,129</u>	<u>\$ 237,463</u>
Less unamortized portion of bond discount	(2,744)	
Total scheduled maturities of bonds payable, net	<u>\$ 306,385</u>	

UMC is subject to certain financial covenants under the Master Trust Indenture (the Indenture). In addition, the Indenture places certain restrictions on the incurrence of additional indebtedness and the sale or acquisition of property. UMC Hospital is the only member of the obligated group responsible for the public debt offerings by UMC.

UPH is also subject to certain financial and nonfinancial covenants under its bond agreements.

The Corporation has established and maintains separate funds as a bond reserve fund on outstanding bonds payable. These funds totaled \$21,372,000 at June 30, 2011, are held by the trustee, reflected in assets held by trustee in the accompanying consolidated balance sheet, and consist of money market mutual funds, commercial paper, U.S. Treasury securities and a guaranteed investment contract (see Note 6).

The bonds or other obligations of the Corporation do not constitute general obligations of the Arizona Board of Regents, the University, the State of Arizona or any political subdivision thereof.

UA Healthcare, Inc.**Notes to Consolidated Financial Statements****Note 9. Long-Term Debt (Continued)**

A schedule of changes in the Corporation's long-term debt for the year ended June 30, 2011, is as follows (in thousands)

	June 30, 2010	Additions	Reductions	June 30, 2011	Amounts Due Within One Year
Bonds payable	\$ 296,994	\$ -	\$ 6,759	\$ 290,235	\$ 7,077
Notes payable	3,384	-	1,449	1,935	1,217
Capital leases	7,597	-	3,332	4,265	2,515
Line of credit	10,000	-	50	9,950	9,950
Total debt	<u>\$ 317,975</u>	<u>\$ -</u>	<u>\$ 11,590</u>	<u>\$ 306,385</u>	<u>\$ 20,759</u>

Note 10. Operating Leases

The Corporation leases certain equipment, warehouse and office space under noncancelable operating leases, which expire through 2034. Rental expense recorded on operating leases was approximately \$6,413,000 for the year ended June 30, 2011.

Following is a schedule of future minimum lease payments under noncancelable operating leases (in thousands)

Years Ending June 30

2012	\$ 6,370
2013	4,901
2014	3,667
2015	3,121
2016	1,533
Thereafter	5,703
Total	<u>\$ 25,295</u>

Note 11. Accrued Medical Claims

Accrued medical claims liability at June 30, 2011, consists of the following (in thousands)

	2011
Claims payable or pending approval	\$ 8,691
Provisions for claims incurred but not yet reported	21,743
	<u>\$ 30,434</u>

UA Healthcare, Inc.

Notes to Consolidated Financial Statements

Note 11. Accrued Medical Claims (Continued)

The Health Plan estimates accrued claims payable based on historical claims payments and other relevant information. Unpaid claims adjustment expenses are an estimate of the cost to process the incurred but not reported claims and are included in the accrued medical claims liability. Estimates are continually monitored and reviewed, and as settlements are made or estimates adjusted, differences are reflected in current operations. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided.

The following is a reconciliation of the accrued claims liability for the year ended June 30, 2011 (in thousands)

Beginning balance	\$ 32,775
Incurring	
Current	219,000
Prior	(3,783)
Total	215,217
Paid	
Current	186,017
Prior	31,541
Total	217,558
Accrued medical claims	\$ 30,434

Note 12. Accrued Professional Liability and Other Long-Term Liabilities

A schedule of changes in the Corporation's accrued professional liability and other long-term liabilities for the year ended June 30, 2011, is as follows (in thousands)

	June 30, 2010	Additions	Reductions	June 30, 2011	Amounts Due Within One Year
Accrued professional liability	\$ 27,750	\$ 19,691	\$ 19,404	\$ 28,037	\$ 8,327
Employee vacation and benefit	18,132	12,054	12,260	17,926	11,304
Other	13,594	7,438	16,535	4,497	-
Total	59,476	39,183	48,199	50,460	\$ 19,631
Less current portion					
Included in accrued payroll and employee benefits	(10,152)	(11,788)	(10,636)	(11,304)	
Accrued professional liability	(11,773)	(7,503)	(10,949)	(8,327)	
Other long-term liabilities	\$ 37,551	\$ 19,892	\$ 26,614	\$ 30,829	

Employee vacation and benefit reserves include estimated liabilities for the Corporation's self-insured employee medical and workers' compensation benefits.

Notes to Consolidated Financial Statements

Note 12. Accrued Professional Liability and Other Long-Term Liabilities (Continued)

Professional liability insurance: Effective June 30, 2011, UMC and UPH consolidated some of their insurance programs. The primary professional and general liability for UMC is provided by or through the UMC Captive, a wholly owned subsidiary of UMC. The UMC Captive is organized under the laws of the Cayman Islands, British West Indies. For fiscal year 2011, UMC is insured for the first \$3,000,000 of primary professional liability coverage per event on a claims-made basis unless UPH is also involved on a claim. In those situations, there is a combined limit of \$4,000,000, and the allocation is determined on the circumstance of individual claims rather than predetermined allocation. General liability is also insured with UMC a \$2,000,000 limit and also on a claims-made basis. There is an overall aggregate reinsurance policy for the combined UMC/UPH primary professional and general liability in the amount of \$28,000,000. Annual premiums for the coverage provided by the UMC Captive are determined by the UMC Captive's Board of Directors after considering an actuarial report produced by a third-party actuary, which considers past claim experience, relevant trend factors and future expectations. These premiums eliminate in consolidation.

UMC has an undiscounted professional liability of approximately \$4,541,000 at June 30, 2011, to provide for possible claims, which have been determined on an occurrence basis as opposed to a claims-made basis. The accrued professional liability has been estimated by a third-party actuary and is included in accrued professional liability and long-term liabilities in the accompanying consolidated balance sheet. Cash and investments held by the UMC Captive to fund this liability totaled approximately \$15,156,000 at June 30, 2011 (see Note 5).

The primary professional and general liability for UPH is provided by or through the UPH Captive, a wholly owned subsidiary of UPH. The UPH Captive is organized under the laws of the State of Hawaii. For fiscal year 2011, UPH is insured for the first \$3,000,000 of primary professional liability coverage per event on an occurrence basis (including those claims that fall under the allocation agreement with the State of Arizona) unless UMC is also involved on a claim. In those situations with UMC, there is a combined limit of \$4,000,000, and the allocation is determined on the circumstance of individual claims rather than predetermined allocation. The UPH Captive also provides the primary managed care professional liability at a limit of \$4,000,000. The general liability changed from commercial insurance to the captive this year, and the UPH Captive provides UPH the coverage at a \$2,000,000 limit per occurrence. There is an overall aggregate reinsurance policy for the combined UMC/UPH/State of Arizona primary professional, managed care and general liability in the amount of \$28,000,000. Annual premiums for the coverage provided by the UPH Captive are determined by the UPH Captive's Board of Directors after considering an actuarial report produced by a third-party actuary, which considers past claim experience, relevant trend factors and future expectations. These premiums eliminate in consolidation.

UPH has an undiscounted professional liability of approximately \$18,279,000 at June 30, 2011, to provide for possible claims, which have been calculated on an occurrence basis as opposed to a claims-made basis. The accrued professional liability has been estimated by a third-party actuary and is included in accrued professional liability and long-term liabilities in the accompanying consolidated balance sheet. Cash and investments held by the UPH Captive to fund this liability totaled approximately \$49,947,000 at June 30, 2011 (see Note 5).

The UPH Captive issues separate policies for UPHH for \$500,000 professional liability, subject to a \$1,500,000 aggregate on a claims-made basis. There is also a \$2,000,000 general liability limit that is subject to the \$28,000,000 combined aggregate listed above.

In addition, there is a \$75,000,000 commercial excess reinsurance program purchased jointly by UMC and UPH to cover losses in excess of the policies with the captives.

Notes to Consolidated Financial Statements

Note 12. Accrued Professional Liability and Other Long-Term Liabilities (Continued)

UPH and the State of Arizona Department of Administration Risk Management Section, of the Office of the Attorney General of the State of Arizona entered into a Medical Malpractice Risk Allocation Agreement (MMRAA) effective 1996 for the purpose of providing a mechanism for the coordinated defense of claims and for the allocation of costs relating to the defense of medical malpractice claims and resulting liability arising out of the health care services. The MMRAA agreement provided that UPH is responsible for 75 percent of the costs and liabilities. The MMRAA is in effect through June 2012.

Self-insurance workers' compensation: UMC has established self-insurance funds (see Note 6) for the deductible portion of workers' compensation insurance coverage. UMC's funding for the estimated deductible portion of self-insured workers' compensation insurance coverage is based on the self-insurance funds' estimate of the ultimate costs for both reported claims and actuarially determined estimates of claims incurred but not yet reported. Self-insured workers' compensation retention in 2011 was \$400,000 per occurrence. UMC has recorded an undiscounted liability of approximately \$3,482,000 as of June 30, 2011, for incurred claims and those claims that have been incurred but not yet reported, which is included in other accrued liabilities and other long-term liabilities in the accompanying consolidated balance sheet. UPH has a commercial policy to cover workers' compensation claims.

Self-insurance health and dental programs: The Corporation is self-insured for employee medical, dental and vision for its employees. The accrual for estimated claims includes estimates of the ultimate costs for claims incurred but not reported and are based upon the estimated cost of settlement. Self-insured health insurance retention in 2011 is \$500,000 per insured member. The Corporation has recorded a liability of approximately \$4,609,000 at June 30, 2011, for known claims and for estimated claims that have been incurred but not yet reported, which is included in accrued payroll and employee benefits in the accompanying consolidated balance sheet.

Note 13. Retirement Plans

UMC has a defined contribution plan, the University Medical Center Corporation Employee Pension Plan (the Plan), for employees of the Corporation. The Plan covers all employees of UMC subject to minimum employment requirements, as defined in the plan agreement. UMC makes contributions to the Plan in amounts equal to (a) 3 percent of total compensation plus (b) 3 percent of compensation in excess of 80 percent of the FICA wage base. In addition, UMC will make up to a 3 percent matching contribution to a 403(b) plan for the benefit of those employees that participate in the matching program. Such contributions are allocated to each participant as defined in the plan agreement. Retirement plan expense, net of participant forfeitures, was approximately \$10,874,000 for the year ended June 30, 2011. Accrued liabilities include \$5,661,000 payable to the Plan as of June 30, 2011.

Full-time physician employees of UPH who are also faculty employees of the University may participate in the state retirement program. The program is funded through payroll deductions from covered members and amounts contributed by UPH that equal the amount contributed by each member. Contributions to the retirement program by UPH are not separately identified, but are included in an aggregate amount paid to the UA for employee-related expenses, which also includes payroll taxes and various insurance costs. It is estimated that the portion representing retirement contributions is 5.38 percent of gross wages for 2011.

UPH has a 401(k) plan for all eligible employees. UPH makes contributions of 3 percent of eligible employee annual gross wages and makes a contribution equal to the employee's deferral up to 4 percent of the employee's salary. Retirement plan expense, net of participant forfeitures, was approximately \$4,749,000 for the year ended June 30, 2011. Accrued liabilities include \$1,385,000 payable to the Plan as of June 30, 2011.

Notes to Consolidated Financial Statements

Note 14. Net Assets

Under GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and Statement No. 38, *Certain Financial Statement Note Disclosures*, net assets are classified as one of three components as follows

Invested in capital assets, net of related debt: This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets

Restricted: A majority of this component of net assets consists of external constraints placed on net asset use by contributors due to time or use restrictions, the remaining is restricted by creditors (such as through debt covenants), grantors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation

Unrestricted: This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets

Note 15. Related-Party Transactions

University of Arizona: The Corporation and the University both provide and receive services from each other under various contracts, which are negotiated on a year-to-year basis. Payments to the University by the Corporation include utilities, leases, grounds maintenance and various administrative functions. Amounts paid to the University for these services were approximately \$6,375,000 the year ended June 30, 2011.

The Corporation pays the University for services provided by interns and residents. Resident and intern salaries totaled approximately \$30,806,000 for the year ended June 30, 2011. These amounts are determined through annual negotiations, which consider market rates and the staffing needs of both the College of Medicine and the Corporation. In addition, the Corporation provided support of approximately \$26,272,000 to various departments of the University, the College of Medicine, and the University's nursing program.

The Corporation has entered into contractual agreements with the University to provide support for the academic mission of the University, which is negotiated on a year-to-year basis. Charges to the University for such services and facilities provided by the Corporation were approximately \$9,418,000 for the year ended June 30, 2011. This amount is included in other operating revenue in the accompanying consolidated financial statements.

The Corporation has an agreement with the Arizona Board of Regents whereby it is required to pay to the Dean of the College of Medicine 4 percent of all fees collected for professional health care services delivered by its members and employees. Assessments totaled \$5,583,000 in fiscal 2011. The fund may be used at the discretion of the Dean for the benefit of the College of Medicine. In addition, UPH contracts for payroll, personnel and medical purchasing services with the University. Fees assessed for these services totaled \$3,902,000 in fiscal 2011.

Notes to Consolidated Financial Statements

Note 16. Reinsurance

UPH receives reinsurance coverage from the State of Arizona to reduce the risk of catastrophic loss on services provided under the University Family Care program. This reinsurance expense is reflected as reduced capitation rates paid to UPH. Under the state program, risk of loss for inpatient claims is generally limited to an annual deductible of \$20,000 per member, per policy year. Eligible claims in excess of the deductible are generally paid at 75 percent to 100 percent with no annual maximum benefit. The risk of loss for members with a diagnosis that is specifically covered by the state program or members who receive a covered transplant is not limited by a deductible. These claims are generally paid at 85 percent to 100 percent with no annual maximum benefit.

The State of Arizona also provides reinsurance coverage for Health Care Group claims. Claims in excess of \$165,000 for contract year 2010–2011 are reimbursed by Presidio, a third-party insurer, at 50 percent to 90 percent up to a maximum of \$2,000,000.

Amounts received and estimated to be recoverable under reinsurance contracts totaling approximately \$19,900,000 for fiscal 2011 are treated as a reduction of health care claims expense, which is included in operating expense in the accompanying consolidated financial statements. Recorded recoveries represent management's best estimate and are calculated based on a percentage of health care claims costs incurred. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Reinsurance receivables total approximately \$7,917,000 at June 30, 2011.

Note 17. Commitments and Contingencies

Regulatory matters: The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, and reimbursement for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Corporation is in compliance with fraud and abuse, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specific times over approximately the next decade. This federal health care reform legislation does not affect the 2011 basic consolidated financial statements.

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated the Centers for Medicare & Medicaid Services (CMS) to implement a Recovery Audit Contractor (RAC) program on a permanent and nationwide basis no later than 2010. The program uses RACs to search for potentially improper Medicare payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, which have occurred at least one year ago but not longer than three years ago. RAC assessments against the Corporation have begun in fiscal 2011, however, the outcome of future assessments is unknown and cannot be reasonably estimated.

Notes to Consolidated Financial Statements

Note 17. Commitments and Contingencies (Continued)

The conversion from the *International Statistical Classification of Diseases and Related Health Problems* 9th revision (ICD-9) to their 10th revision (ICD-10) will require the modification and reprogramming of many information technology (IT) applications affecting UPHH's revenue cycle, net revenue realization, clinical and hospital processes, financial processes, and IT software support. UPHH is still assessing the impact of the conversion to ICD-10, which needs to be completed by October 1, 2013.

The Health Information Technology for Economic and Clinic Health (HITECH) portion of the American Recovery and Reinvestment Act of 2009 includes \$27.0 billion in incentives through Medicare and Medicaid reimbursement systems to foster electronic health record (EHR) adoption. In order to be eligible for EHR incentive funding, eligible hospitals and professionals must use a certified EHR, report quality measures, and achieve "meaningful use," as defined by HITECH. UPHH is assessing the impact of the incentive funding and the implementation cost to achieve criteria to be eligible.

Lease with Pima County: Pima County (the County) is required to pay UPHH service fees as defined in the lease to assist in re-establishing a stable physician practice and to support the continued operation of the hospital. These payments, which will be made to the extent that UPHH's allowable costs, as defined, exceed its revenues. These amounts are recorded as capitation and contract services revenue and totaled \$20,000,000 in 2011.

In June 2004, UPH entered into an agreement with the County to lease the Kino hospital facility, now UPHH. Rent is payable in annual installments of \$10, or \$250 in the aggregate over the initial lease term. UPH is responsible for the hospital operations and its financial results. The initial term of the lease is 25 years. UPH has an extension option for another 25 years.

During 2010, ABOR renegotiated the lease with the County to obtain additional funding for UPHH. The negotiated intergovernmental agreement provides that the County pay ABOR, rather than UPH directly, any service fees designated for UPHH. All obligations under the agreement are to be performed by the Corporation and its subsidiaries. Under the terms of the agreement, ABOR and the Corporation have the option of terminating the agreement at any time with at least one year advance written notice. The County is required to continue to make any payments due under the agreement during that one-year period. The renegotiated lease provides for payments to ABOR for UPHH totaling \$20,000,000 and \$15,000,000 for fiscal years 2011 and 2012, respectively.

The County is not responsible to provide any additional funding after June 30, 2012.

Continuation of the UPHH lease agreement with Pima County as well as Medicare and AHCCCS programs is dependent upon governmental policies. These and other contracts are subject to renewal at various future dates. The loss of one or more of these contracts would have an adverse effect on UPH's future operations.

University Family Care performance bond: UPH secured an annual performance bond on behalf of University Family Care (UFC) in the amount of \$20,188,000 with Fidelity and Deposit Company of Maryland and Zurich American Insurance Company to satisfy the performance bond requirement of UFC's AHCCCS contract. The bond satisfies UFC's contractual obligation as prescribed by AHCCCS.

Notes to Consolidated Financial Statements

Note 17. Commitments and Contingencies (Continued)

University Family Care AHCCCS performance measures: UFC's contract with AHCCCS requires the UFC be in compliance with certain financial and nonfinancial performance measures as defined. At June 30, 2011, UFC was in compliance with these financial performance measures. For the contract year ended September 30, 2008, management has determined that the Plan did not maintain AHCCCS nonfinancial performance standards in seven categories. In response to these violations, AHCCCS may require UFC to submit a corrective action plan to cure the violations and may subject the Plan to sanctions of up to \$100,000 for each deficiency. At June 30, 2011, UFC has accrued \$100,000 related to this potential liability. Due to the uncertainty of the outcome of AHCCCS's review, it is at least reasonably possible that recorded estimates will change by a material amount in the near term. For contract years subsequent to 2008, management has determined that the Plan has maintained AHCCCS nonfinancial performance standard in all categories.

All of UFC's revenues were earned under its AHCCCS contract. Continuation of the AHCCCS programs is dependent upon governmental policies. This contract is subject to renewal. UFC has been awarded its AHCCCS contract renewal through September 30, 2013. The loss of this contract would have an adverse effect on UFC's future operations.

Litigation: The Corporation is party to a number of pending or threatened lawsuits arising out of, or incidental to, the ordinary course of business for which it carries professional and general liability coverage and other insurance coverages (see Note 12). In the opinion of management, upon consultation with legal counsel, all of the pending or threatened lawsuits that are determined to result in a probable loss to the Corporation have been properly recorded within the consolidated financial statements.

AHCCCS reimbursement: In April 2011, AHCCCS imposed a 5 percent rate reduction. An additional 5 percent rate decrease on AHCCCS plans will occur in October 2011. For the year ended June 30, 2011, approximately 28 percent of net patient service revenue was derived from services provided to AHCCCS patients.

Note 18. Recent Accounting Pronouncements Not Yet Adopted

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued December 2010, will be effective for the Corporation beginning with its year ending June 30, 2013. This statement is intended to enhance the usefulness of the codification of governmental accounting and financial reporting standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This statement incorporates into GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Oversight Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining guidance in a single source, the GASB believes that GASB Statement No. 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local governments' financial reports. Management has not yet evaluated the effect of this pronouncement on the Corporation.

UA Healthcare, Inc.

Notes to Consolidated Financial Statements

Note 19. Condensed Financial Information

Following is the condensed balance sheet as of June 30, 2011, and the related condensed statement of revenues, expenses and changes in net assets for the material subsidiaries of UMC for the year ended June 30, 2011 (in thousands)

	UMC Hospital	UMC Captive	Other	Total UMC
Current assets	\$ 248,642	\$ 11,665	\$ 464	\$ 260,771
Capital assets	320,897	-	144	321,041
Other long-term assets	29,185	3,548	23,731	56,464
Total assets	<u>\$ 598,724</u>	<u>\$ 15,213</u>	<u>\$ 24,339</u>	<u>\$ 638,276</u>
Current liabilities	\$ 78,689	\$ 1,810	\$ (18)	\$ 80,481
Long-term liabilities	282,859	2,004	-	284,863
Total liabilities	<u>\$ 361,548</u>	<u>\$ 3,814</u>	<u>\$ (18)</u>	<u>\$ 365,344</u>
Net assets				
Unrestricted	\$ 168,818	\$ 11,399	\$ 10,337	\$ 190,554
Invested in capital assets, net of related debt	63,718	-	144	63,862
Restricted	4,640	-	13,876	18,516
Total net assets	<u>\$ 237,176</u>	<u>\$ 11,399</u>	<u>\$ 24,357</u>	<u>\$ 272,932</u>
Net patient service revenue	\$ 586,341	\$ -	\$ -	\$ 586,341
Other operating revenue	20,117	3,600	(3,600)	20,117
Total operating revenues	<u>606,458</u>	<u>3,600</u>	<u>(3,600)</u>	<u>606,458</u>
Operating expenses	547,016	-	-	547,016
Depreciation	28,480	-	-	28,480
Total operating expenses	<u>575,496</u>	<u>-</u>	<u>-</u>	<u>575,496</u>
Operating income (loss)	30,962	3,600	(3,600)	30,962
Nonoperating revenue (expenses)	(10,106)	382	4,608	(5,116)
Excess of revenues over expenses before fundraising and grant income (expense)	20,856	3,982	1,008	25,846
Fundraising and grant income (expense)	6,557	-	(4,176)	2,381
Increase (decrease) in net assets	<u>27,413</u>	<u>3,982</u>	<u>(3,168)</u>	<u>28,227</u>
Net assets, beginning of year	209,763	7,417	27,525	244,705
Net assets, end of year	<u>\$ 237,176</u>	<u>\$ 11,399</u>	<u>\$ 24,357</u>	<u>\$ 272,932</u>

UA Healthcare, Inc.

Notes to Consolidated Financial Statements

Note 19. Condensed Financial Information (Continued)

Following is a condensed statement of cash flows for the material subsidiaries of UMC for the year ended June 30, 2011 (in thousands)

	UMC Hospital	UMC Captive	Other	Total UMC
Net cash provided (used) by				
Operating activities	\$ 56,126	\$ -	\$ -	\$ 56,126
Capital and related financing activities	(58,685)	-	-	(58,685)
Investing activities	5,766	(266)	42	5,542
Increase (decrease) in cash	3,207	(266)	42	2,983
Beginning cash	931	317	283	1,531
Ending cash	\$ 4,138	\$ 51	\$ 325	\$ 4,514

Following is the condensed balance sheet for the material subsidiaries of UPH as of June 30, 2011 (in thousands)

	UPH	UPH Captive	UFC	Other	Total UPH
Current assets	\$ 112,978	\$ 5,216	\$ 9,660	\$ 3,497	\$ 131,351
Capital assets	42,709	-	-	7,362	50,071
Other long-term assets	6,539	49,947	1,879	(4,082)	54,283
Total assets	\$ 162,226	\$ 55,163	\$ 11,539	\$ 6,777	\$ 235,705
Current liabilities	\$ 66,064	\$ 6,756	\$ 33,175	\$ 4,868	\$ 110,863
Long-term liabilities	85,960	11,596	(42,448)	(21,284)	33,824
Total liabilities	\$ 152,024	\$ 18,352	\$ (9,273)	\$ (16,416)	\$ 144,687
Net assets (deficit)					
Unrestricted	\$ (7,312)	\$ 34,311	\$ 20,812	\$ 15,551	\$ 63,362
Invested in capital assets, net of related debt	16,373	-	-	7,362	23,735
Restricted	1,141	2,500	-	280	3,921
Total net assets	\$ 10,202	\$ 36,811	\$ 20,812	\$ 23,193	\$ 91,018

UA Healthcare, Inc.

Notes to Consolidated Financial Statements

Note 19. Condensed Financial Information (Continued)

Following is the condensed statement of revenues, expenses and changes in net assets and the condensed statement of cash flows for the material subsidiaries of UPH for the year ended June 30, 2011 (in thousands)

	UPH	UPH Captive	UFC	Other	Total UPH
Net patient service revenue	\$ 212,802	\$ -	\$ -	\$ (18,541)	\$ 194,261
Capitation and contract services revenue	88,716	5,544	273,163	32,017	399,440
Total operating revenues	301,518	5,544	273,163	13,476	593,701
Operating expenses	306,234	5,245	266,989	8,646	587,114
Depreciation	7,132	-	420	713	8,265
Total operating expenses	313,366	5,245	267,409	9,359	595,379
Operating income (loss)	(11,848)	299	5,754	4,117	(1,678)
Nonoperating revenue (expenses)	(869)	4,381	-	(356)	3,156
Excess of revenues over expenses before fundraising and grant income	(12,717)	4,680	5,754	3,761	1,478
Fundraising and grant income	516	-	-	-	516
Increase (decrease) in net assets	(12,201)	4,680	5,754	3,761	1,994
Net assets, beginning of year	22,403	32,131	15,058	19,432	89,024
Net assets, end of year	\$ 10,202	\$ 36,811	\$ 20,812	\$ 23,193	\$ 91,018
Net cash provided (used) by					
Operating activities	\$ (18,010)	\$ (360)	\$ -	\$ 1,694	\$ (16,676)
Capital and related financing activities	(15,367)	-	-	-	(15,367)
Investing activities	4,805	4,649	-	-	9,454
Increase (decrease) in cash	(28,572)	4,289	-	1,694	(22,589)
Beginning cash	40,442	701	-	-	41,143
Ending cash	\$ 11,870	\$ 4,990	\$ -	\$ 1,694	\$ 18,554

Supplementary Information

UA Healthcare, Inc.

**Consolidating Balance Sheet
June 30, 2011
(In Thousands)**

Assets	UMC	UPH	UAHC	UMI	Eliminations	Total
Current Assets						
Cash and cash equivalents	\$ 4,514	\$ 18,554	\$ -	\$ 5	\$ -	\$ 23,073
Short-term investments	132,109	40,487	-	-	-	172,596
Patient accounts receivable, net	87,992	29,786	-	-	(8,585)	109,193
Capitation and contract receivable, net	-	25,101	-	-	-	25,101
Supplies inventory	11,973	3,214	-	-	-	15,187
Assets held by trustee, current portion	11,883	-	-	-	-	11,883
Prepaid expense and other	12,300	14,209	-	237	(4,524)	22,222
Total current assets	260,771	131,351	-	242	(13,109)	379,255
 Assets Held by Trustee, net of current portion	 22,665	 1,143	 -	 -	 -	 23,808
 Long-Term Investments, net of current portion	 20,336	 49,956	 -	 -	 -	 70,292
 Capital Assets, net	 321,041	 50,071	 -	 4,010	 -	 375,122
 Other Assets, net	 13,463	 3,184	 -	 -	 (141)	 16,506
Total	\$ 638,276	\$ 235,705	\$ -	\$ 4,252	\$ (13,250)	\$ 864,983
Liabilities and Net Assets						
Current Liabilities						
Accounts payable	\$ 30,663	\$ 22,356	\$ -	\$ 151	\$ (5,639)	\$ 47,531
Accrued payroll and employee benefits	27,111	33,553	-	-	-	60,664
Accrued medical claims	-	32,983	-	-	(2,549)	30,434
Accrued professional liability	1,644	6,683	-	-	-	8,327
Other accrued liabilities	15,455	1,409	-	2,761	(2,762)	16,863
Current portion of long-term debt	5,608	13,879	-	1,272	-	20,759
Total current liabilities	80,481	110,863	-	4,184	(10,950)	184,578
 Long-Term Debt, net of current portion	 271,211	 12,933	 -	 1,482	 -	 285,626
 Other Long-Term Liabilities	 13,652	 20,891	 -	 -	 (3,714)	 30,829
Total liabilities	365,344	144,687	-	5,666	(14,664)	501,033
 Net Assets (Deficit)	 272,932	 91,018	 -	 (1,414)	 1,414	 363,950
Total	\$ 638,276	\$ 235,705	\$ -	\$ 4,252	\$ (13,250)	\$ 864,983

University Medical Center Corporation and Subsidiaries

Consolidating Balance Sheet

June 30, 2011

(In Thousands)

Assets	UMC Hospital	Other	Eliminations	Total
Current Assets				
Cash and cash equivalents	\$ 4,138	\$ 376	\$ -	\$ 4,514
Short-term investments	121,280	10,829	-	132,109
Patient accounts receivable, net	87,992	-	-	87,992
Supplies inventory	11,973	-	-	11,973
Assets held by trustee, current portion	11,883	-	-	11,883
Prepaid expenses and other	11,376	988	(64)	12,300
Total current assets	248,642	12,193	(64)	260,771
Assets Held by Trustee, net of current portion	22,665	-	-	22,665
Long-Term Investments, net of current portion	48	20,288	-	20,336
Capital Assets, net	320,897	144	-	321,041
Other Assets, net	6,472	7,716	(725)	13,463
Total	\$ 598,724	\$ 40,341	\$ (789)	\$ 638,276
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 30,514	\$ 212	\$ (63)	\$ 30,663
Accrued payroll and employee benefits	27,112	-	(1)	27,111
Accrued professional liability	-	1,644	-	1,644
Other accrued liabilities	15,455	-	-	15,455
Current portion of long-term debt	5,608	-	-	5,608
Total current liabilities	78,689	1,856	(64)	80,481
Long-Term Debt, net of current portion	271,211	-	-	271,211
Other Long-Term Liabilities	11,648	2,004	-	13,652
Total liabilities	361,548	3,860	(64)	365,344
Net Assets	237,176	36,481	(725)	272,932
Total	\$ 598,724	\$ 40,341	\$ (789)	\$ 638,276

University Physicians Healthcare and Subsidiaries

Consolidating Balance Sheet June 30, 2011 (In Thousands)

Assets	Practice Plan	UPH Hospital	Health Plan	Capital and Other	UPH Captive	Eliminations	Total
Current Assets							
Cash and cash equivalents	\$ 34,242	\$ (37,885)	\$ 1,694	\$ 15,513	\$ 4,990	\$ -	\$ 18,554
Short-term investments	-	5,206	-	35,281	-	-	40,487
Patient accounts receivable, net	17,021	13,928	-	-	-	(1,163)	29,786
Capitation and contract receivable, net	2,538	11,184	12,019	5	-	(645)	25,101
Supplies inventory	25	2,996	-	193	-	-	3,214
Assets held by trustee, current portion	-	-	-	-	-	-	-
Prepaid expense and other	6,074	488	1,285	6,169	226	(33)	14,209
Total current assets	59,900	(4,083)	14,998	57,161	5,216	(1,841)	131,351
Assets Held by Trustee, net of current portion	-	-	-	1,143	-	-	1,143
Long-Term Investments, net of current portion	5	(5)	-	2,509	49,947	(2,500)	49,956
Capital Assets, net	1,099	16,253	7,362	25,357	-	-	50,071
Other Assets, net	(707)	3,433	297	161	-	-	3,184
Total	\$ 60,297	\$ 15,598	\$ 22,657	\$ 86,331	\$ 55,163	\$ (4,341)	\$ 235,705
Liabilities and Net Assets							
Current Liabilities							
Accounts payable	\$ 3,313	\$ 7,327	\$ 2,768	\$ 8,875	\$ 73	\$ -	\$ 22,356
Accrued payroll and employee benefits	20,146	3,741	1,649	8,017	-	-	33,553
Accrued medical claims	-	-	34,459	-	-	(1,476)	32,983
Accrued professional liability	-	-	-	-	6,683	-	6,683
Other accrued liabilities	556	2	1,008	208	-	(365)	1,409
Current portion of long-term debt	-	13,416	-	463	-	-	13,879
Total current liabilities	24,015	24,486	39,884	17,563	6,756	(1,841)	110,863
Long-Term Debt, net of current portion and discounts	-	3,882	-	9,051	-	-	12,933
Other Long-Term Liabilities	111	26,835	(63,732)	46,081	11,596	-	20,891
Total liabilities	24,126	55,203	(23,848)	72,695	18,352	(1,841)	144,687
Net Assets (Deficit)	36,171	(39,605)	46,505	13,636	36,811	(2,500)	91,018
Total	\$ 60,297	\$ 15,598	\$ 22,657	\$ 86,331	\$ 55,163	\$ (4,341)	\$ 235,705

UA Healthcare, Inc.

Consolidating Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2011
(In Thousands)

	UMC	UPH	UAHC	UMI	Eliminations	Total
Operating revenues						
Net patient service revenue	\$ 586,341	\$ 194,261	\$ -	\$ 2,761	\$ (37,574)	\$ 745,789
Capitation and contract services revenue	-	399,440	-	-	(45,956)	353,484
Other operating income	20,117	-	-	-	(1,148)	18,969
Total operating revenues	606,458	593,701	-	2,761	(84,678)	1,118,242
Operating expenses						
Salaries and wages	220,837	181,276	-	-	482	402,595
Employee benefits	36,707	39,824	-	-	(4,864)	71,667
Supplies	129,505	23,576	24	4	51	153,160
Purchased services	25,733	8,466	3	88	(33)	34,257
Professional services, medical	72,306	10,932	-	-	(41,317)	41,921
Professional services, nonmedical	4,281	11,756	8,989	170	-	25,196
Medical claims expense	-	250,030	-	-	(34,813)	215,217
Utilities	6,102	4,228	1	102	104	10,537
Other	51,545	57,026	(9,017)	995	(4,288)	96,261
Depreciation and amortization	28,480	8,265	-	1,171	-	37,916
Total operating expenses	575,496	595,379	-	2,530	(84,678)	1,088,727
Operating income (loss)	30,962	(1,678)	-	231	-	29,515
Nonoperating revenues and expenses						
Investment income	11,509	4,918	-	-	(81)	16,346
Interest expense	(15,016)	(1,630)	-	(150)	-	(16,796)
Fundraising expense	(1,609)	(132)	-	-	-	(1,741)
Total nonoperating revenues and expenses	(5,116)	3,156	-	(150)	(81)	(2,191)
Excess of revenues over expenses before fundraising and grant income	25,846	1,478	-	81	(81)	27,324
Fundraising and grant income	2,381	516	-	-	-	2,897
Increase in net assets	\$ 28,227	\$ 1,994	\$ -	\$ 81	\$ (81)	\$ 30,221

University Medical Center Corporation and Subsidiaries

Consolidating Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2011
(In Thousands)

	UMC Hospital	Other	Eliminations	Total
Operating revenues				
Net patient service revenue	\$ 586,341	\$ -	\$ -	\$ 586,341
Other operating revenue	20,117	3,600	(3,600)	20,117
Total operating revenues	606,458	3,600	(3,600)	606,458
Operating expenses				
Salaries and wages	220,837	-	-	220,837
Employee benefits	36,707	-	-	36,707
Supplies	129,505	-	-	129,505
Purchased services	25,733	-	-	25,733
Professional services, medical	72,306	-	-	72,306
Professional services, nonmedical	4,281	-	-	4,281
Utilities	6,102	-	-	6,102
Other	51,545	-	-	51,545
Depreciation and amortization	28,480	-	-	28,480
Total operating expenses	575,496	-	-	575,496
Operating income	30,962	3,600	(3,600)	30,962
Nonoperating revenues and expenses				
Investment income	8,862	2,647	-	11,509
Interest expense	(15,016)	-	-	(15,016)
Fundraising expenses	(3,952)	(6,921)	9,264	(1,609)
Total nonoperating revenues and expenses	(10,106)	(4,274)	9,264	(5,116)
Excess (deficit) of revenues over expenses before fundraising and grant income	20,856	(674)	5,664	25,846
Fundraising and grant income	6,557	5,088	(9,264)	2,381
Increase (decrease) in net assets	\$ 27,413	\$ 4,414	\$ (3,600)	\$ 28,227

University Physicians Healthcare and Subsidiaries

Consolidating Statement of Revenues, Expenses and Changes in Net Assets Year Ended June 30, 2011 (In Thousands)

	Practice Plan	UPH Hospital	Health Plan	Capital and Other	UPH Captive	Eliminations	Total
Operating revenues							
Net patient service revenue	\$ 125,543	\$ 84,782	\$ -	\$ 2,477	\$ -	\$ (18,541)	\$ 194,261
Capitation and contract services	44,569	39,049	324,622	5,098	5,544	(19,442)	399,440
Total operating revenues	170,112	123,831	324,622	7,575	5,544	(37,983)	593,701
Operating expenses							
Salaries and wages	99,815	45,130	17,911	18,420	-	-	181,276
Employee benefits	21,947	11,671	4,239	2,159	-	(192)	39,824
Supplies	1,927	20,307	243	1,099	-	-	23,576
Purchased services	904	5,247	2,200	172	-	(57)	8,466
Professional services, medical	223	18,738	-	4,336	-	(12,365)	10,932
Professional services, nonmedical	1,633	4,653	3,052	3,773	-	(1,355)	11,756
Medical claim expense	-	-	268,551	-	-	(18,538)	250,013
Utilities	445	1,525	152	2,106	-	-	4,228
Other	48,929	18,778	17,270	(27,703)	5,245	(5,476)	57,043
Depreciation and amortization	508	3,684	1,133	2,940	-	-	8,265
Total operating expenses	176,331	129,733	314,751	7,302	5,245	(37,983)	595,379
Operating income (loss)	(6,219)	(5,902)	9,871	273	299	-	(1,678)
Nonoperating revenues and expenses							
Investment income (loss)	2,189	550	(257)	270	4,381	(2,215)	4,918
Interest expense	-	(2,966)	(99)	(780)	-	2,215	(1,630)
Fundraising expenses	-	-	-	(132)	-	-	(132)
Total nonoperating revenues and expenses	2,189	(2,416)	(356)	(642)	4,381	-	3,156
Excess (deficit) of revenues over expenses before fundraising and grant income	(4,030)	(8,318)	9,515	(369)	4,680	-	1,478
Fundraising and grant income	-	-	-	516	-	-	516
Increase (decrease) in net assets	\$ (4,030)	\$ (8,318)	\$ 9,515	\$ 147	\$ 4,680	\$ -	\$ 1,994

Health Care Group (an Operating Division of University Physicians Healthcare)

Balance Sheet
June 30, 2011
(In Thousands)

Assets

Current Assets	
Incentive receivable	\$ 662
Current due from affiliates and intercompany receivables	15,424
Other current assets	77
Total current assets	\$ 16,163

Liabilities and Net Assets

Current Liabilities	
Accrued administrative costs	\$ 275
Medical claims payable	1,056
Other current liabilities	716
Total current liabilities	2,047
Unrestricted Net Assets	14,116
Total	\$ 16,163

Health Care Group (an Operating Division of University Physicians Healthcare)

Statement of Revenues, Expenses and Changes in Net Assets Year Ended June 30, 2011 (In Thousands)

	Classic	Active	Secure Adv	Silver	Copper	Total
Revenues						
Capitation premiums	\$ 9,319	\$ 2,744	\$ 2,887	\$ 69	\$ 105	\$ 15,124
Reconciliation	662	-	-	-	-	662
Total revenues	9,981	2,744	2,887	69	105	15,786
Health care expenses						
Hospitalization expenses						
Hospital inpatient	1,955	221	424	17	18	2,635
Total hospitalization expenses	1,955	221	424	17	18	2,635
Medical compensation						
Primary care physician services	327	140	131	1	4	603
Referral physician services	1,546	434	509	6	6	2,501
Other professional services	6	7	5	-	204	222
Total medical compensation expenses	1,879	581	645	7	214	3,326
Other medical expenses						
Emergency services	305	150	85	2	4	546
Pharmacy	1,576	205	436	6	8	2,231
Lab, x-ray and medical imaging	548	114	176	3	3	844
Outpatient facility	576	108	122	-	4	810
Durable medical equipment	49	10	8	-	-	67
Transportation	255	74	55	16	-	400
NF, home health care	122	5	15	2	-	144
Physical therapy	62	40	15	-	-	117
Miscellaneous medical expenses	-	-	-	-	-	-
Total other medical expenses	3,493	706	912	29	19	5,159
Total health care expenses	7,327	1,508	1,981	53	251	11,120
Less						
Reinsurance	(280)	-	(36)	-	-	(316)
Third-party liability	(21)	(1)	-	-	-	(22)
Total net health care expenses	7,026	1,507	1,945	53	251	10,782
Administrative expenses						
Compensation	1,078	432	430	-	-	1,940
Data processing	66	25	25	-	-	116
Management fees	49	20	20	-	-	89
Occupancy	16	6	6	-	-	28
Depreciation	15	6	6	-	-	27
Other administrative expenses	106	42	42	-	-	190
Total administrative expenses	1,330	531	529	-	-	2,390
Total expenses	8,356	2,038	2,474	53	251	13,172
Increase in unrestricted net assets	\$ 1,625	\$ 706	\$ 413	\$ 16	\$ (146)	2,614
Unrestricted net assets, beginning of year						11,298
Unrestricted net assets, end of year						<u>\$ 13,912</u>

Unaudited
University Physicians Healthcare
Health Care Group (an Operating Division of University Physicians Healthcare)
Claims Lag Report
June 30, 2011

Payment Month	Current	1st Prior	2nd Prior	3rd Prior	4th Prior	5th Prior	6th Prior	7th Prior	8th Prior	9th Prior	10th Prior	11th Prior	12th Prior	13th Prior	14th Prior	15th & Prior*	Total
Current	261,785	472,698	125,158	45,079	16,379	6,875	2,330	(7,035)	50,185	-	-	-	-	-	-	-	973,454
1st Prior		237,320	370,343	159,803	55,735	8,671	1,971	748	2,068	30,144	-	-	-	-	-	-	866,803
2nd Prior			169,382	339,586	98,673	19,048	39,395	28,077	2,063	(19,922)	6,065	-	-	-	-	-	682,367
3rd Prior				296,394	330,284	128,170	53,179	9,461	21,423	9,904	29,430	12,857	-	-	-	-	891,102
4th Prior					219,480	276,767	77,091	9,109	32,688	28,169	12,594	10,220	26,444	-	-	-	692,562
5th Prior						212,201	444,922	188,339	67,239	63,786	2,854	11,998	4,173	(14,587)	-	-	980,925
6th Prior							236,048	551,422	93,105	72,277	24,111	354,073	6,859	3,158	6,377	-	1,347,430
7th Prior								205,796	328,291	153,743	34,916	(10)	777	3,923	150	2,050	729,636
8th Prior									249,983	476,297	185,043	26,945	63,326	3,015	2,927	61,574	1,069,110
9th Prior										298,424	558,612	263,711	18,878	35,962	2,490	22,125	1,200,202
10th Prior											230,085	465,906	108,993	86,863	11,824	31,742	935,413
11th Prior												300,935	373,957	79,211	28,350	41,751	824,204
12th Prior													320,272	501,651	92,625	90,592	1,005,140
13th Prior														217,977	387,303	271,233	876,513
14th Prior															262,730	608,380	871,110
15th & Prior*																138,518,723	138,518,723
Totals	261,785	710,018	664,883	840,862	720,551	651,732	854,936	985,917	847,045	1,112,822	1,083,710	1,446,635	923,679	917,173	794,776	139,648,170	152,464,694
Expense	503,345	605,534	612,670	1,076,560	853,349	936,961	700,827	1,066,662	1,136,119	1,446,574	992,582	987,610	936,410	920,734	853,594	139,891,476	153,521,007
Adjustment	345,561	355,449	153,712	(184,951)	(105,217)	(274,673)	162,147	(74,601)	(284,656)	(328,789)	93,176	460,324	(12,203)	(3,417)	(58,703)	(243,159)	-
Remaining	587,121	250,965	101,499	50,747	27,581	10,556	8,038	6,144	4,418	4,963	2,048	1,299	528	144	115	147	1,056,313

*Amounts in this column or row include the amounts for the 12th prior period, and any earlier periods where the expenses reported exceed the payments made to date