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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?

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

☐ Yes

☒ No

3

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

If "Yes," describe these changes on Schedule O

☐ Yes

☒ No

4

Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses Section 501(c)(3) and 501(c)(4) organizations 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 \$ 243,218,721 including grants of \$ ) (Revenue \$ 251,780,654 )

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 \$ 122,845,328 including grants of \$ 142,689 ) (Revenue \$ 140,302,043 )

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 \$ 196,482,224 including grants of \$ 11,755,403 ) (Revenue \$ 191,392,240 )

THE UNIVERSITY OF ARIZONA PHYSICIANS (UAP) IS THE PRACTICE PLAN OF THE FACULTY-PHYSICIANS OF THE UNIVERSITY OF ARIZONA COLLEGE OF MEDICINE SERVING AS THE LARGEST PHYSICIAN PRACTICE IN ARIZONA, IT EMPLOYS MORE THAN 700 PHYSICIANS WHO ARE THE FULL-TIME FACULTY OF THE UNIVERSITY OF ARIZONA COLLEGE OF MEDICINE UAP PHYSICIANS PRACTICE AT THE UNIVERSITY OF ARIZONA HEALTH NETWORK'S HOSPITALS AND AT NUMEROUS HOSPITALS AND CLINICS ACROSS TUCSON, SOUTHERN ARIZONA, AND NEVADA AS FACULTY OF THE UA COLLEGE OF MEDICINE, UAP PHYSICIANS EDUCATE MORE THAN 500 MEDICAL STUDENTS AND TRAIN NEARLY AS MANY POST-GRADUATE MEDICAL RESIDENTS ANNUALLY THEY ALSO CONDUCT RESEARCH AT THE UNIVERSITY OF ARIZONA'S CANCER CENTER, STEELE CHILDREN'S RESEARCH CENTER, ARIZONA ARTHRITIS CENTER, SARVER HEART CENTER, AND MANY OTHER FACILITIES AND PROGRAMS

4d

Other program services (Describe in Schedule O )

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





















4e

Total program service expenses

562,546,273

Form 990 (2012)

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 instructions)? 	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	No
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	No
6 Did the organization maintain any donor advised funds or any similar funds or accounts for which 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 for escrow or custodial account liability, 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 temporarily restricted endowments, permanent endowments, 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 Yes	
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 Yes	
12a Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI and XII 	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 and XII 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, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? 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 United States? 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 United States? 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 hospital facilities? If "Yes," complete Schedule H 	20a Yes	
b If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return? 	20b Yes	

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants and other assistance to any government or organization 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, line 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 through 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	<b>Section 501(c)(3) and 501(c)(4) organizations.</b> 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, highest 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 employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? <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, Part II, III, or IV, and Part V, line 1</i> . . . . .	34	Yes	
35a	Did the organization have a controlled entity within the meaning of section 512(b)(13)?	35a	Yes	
b	If 'Yes' to line 35a, 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> . . . . .	35b	Yes	
36	<b>Section 501(c)(3) organizations.</b> 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 11b and 19? <b>Note.</b> 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

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

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	7	
	If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O			
b	Enter the number of voting members included in line 1a, above, who are independent	1b	2	
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	Yes	
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	Did the organization have members or stockholders?	6	Yes	
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?	7a	Yes	
b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?	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	Did the organization have local chapters, branches, or affiliates?	10a		No
b	If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?	10b		
11a	Has the organization provided a complete 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	Did the organization have a written conflict of interest policy? If "No," go to line 13	12a	Yes	
b	Were officers, directors, or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	Yes	
c	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done	12c	Yes	
13	Did the organization have a written whistleblower policy?	13	Yes	
14	Did 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," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take 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 made these available. Check all that apply. <input type="checkbox"/> Own website <input type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request <input type="checkbox"/> Other (explain in Schedule O)	
19	Describe in Schedule O whether (and if so, how), the organization made its governing documents, conflict of interest policy, and financial statements available to the public during the tax year	
20	State the name, physical address, and telephone number of the person who possesses the books and records of the organization	DONELLA FONES1501 N CAMPBELL AVENUE TUCSON, AZ (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. 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, or 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 (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(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) MARC BERG DIRECTOR	1 00 39 00	X						795	288,475	34,475
(2) LYLE BOOTMAN DIRECTOR	1 00 39 00	X						0	318,714	39,956
(3) THOMAS BOYER DIRECTOR	1 00 1 00	X						0	0	0
(4) LAURA EBERLY-SUNDT DIRECTOR	1 00 1 00	X						0	0	0
(5) FAYEZ GHISHAN DIRECTOR	1 00 39 00	X						79,736	645,566	55,219
(6) RAINER GRUESSNER DIRECTOR	1 00 39 00	X						2,159	505,181	37,689
(7) EDMUND L JENKINS DIRECTOR	1 00 2 00	X						0	0	0
(8) DAVID LABINER DIRECTOR	1 00 39 00	X						1,396	298,094	37,228
(9) STEVE LYNN DIRECTOR	1 00 3 00	X						0	0	0
(10) KAREN MLAWSKY DIRECTOR	1 00 39 00	X						0	679,223	108,003
(11) LYNN SCHNEIDER GRENNAN DIRECTOR	40 00 0 00	X						283,774	0	0
(12) STEVE GOLDSCHMID CHAIR	1 00 39 00	X		X				2,541	566,767	53,246
(13) SAMUEL KEIM CHAIR	1 00 39 00	X		X				1,396	359,527	36,874
(14) BARBARA PECK VICE CHAIR	1 00 2 00	X		X				0	0	0
(15) KATHRYN REED SECRETARY	1 00 39 00	X		X				3,857	354,385	47,581
(16) OLE THIENHAUS SECRETARY	1 00 39 00	X		X				17,051	284,517	24,758
(17) MISTY D HANSEN TREASURER	1 00 39 00	X		X				0	576,491	101,145



Part VII

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

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(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			
(18) JAMES V STOVER CEO OF HEALTH PLANS	40 00 0 00				X			332,455	0	66,230
(19) THOMAS M BALL MEDICAL DIRECTOR	40 00 0 00				X			339,928	0	38,247
(20) SARAH E FROST HOSPITAL ADMINISTRATOR	40 00 0 00				X			216,892	0	17,535
(21) JEAN FEDIGAN VICE PRESIDENT PATIENT CARE SERVICES	40 00 0 00				X			179,023	0	12,785
(22) JODY L BUTERA DIRECTOR OF FINANCE-PRACTICE PLAN	40 00 0 00					X		196,463	0	23,961
(23) SETH M DUBRY MEDICAL DIRECTOR	40 00 0 00					X		275,851	0	31,333
(24) HOSSAI SHAH PHYSICIANS ASSISTANT	40 00 0 00					X		229,390	0	26,828
(25) EDDY COFFMAN V P MEDICAID PROGRAMS	40 00 0 00					X		200,081	0	24,484
(26) WILBUR PITTINGER DIRECTOR SURGICAL SERVICES	40 00 0 00					X		197,410	0	16,555
(27) THERESA L LEBARRON FORMER VP HUMAN RESOURCES & PLANNING	0 00 0 00						X	197,586	0	0
1b Sub-Total . . . . .										
c Total from continuation sheets to Part VII, Section A . . . . .										
d Total (add lines 1b and 1c) . . . . .								2,757,784	4,876,940	834,132

2

Total number of individuals (including but not limited to those listed above) who received more than \$100,000 of reportable compensation from the organization▶91

		Yes	No
3	Did the organization list any <b>former</b> officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i> . . . . .	3 Yes	
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> . . . . .	4 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> . . . . .	5	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 Report compensation for the calendar year ending with or within the organization's tax year		
(A) Name and business address	(B) Description of services	(C) Compensation
UNIVERSITY OF ARIZONA 888 N EUCLID TUCSON AZ 85719	MEDICAL AND ADMINISTRATIVE	14,887,482
HURON HEALTHCARE 3005 MOMENTUM PLACE CHICAGO IL 60689	CONSULTING	5,806,876
CSC CONSULTING PO BOX 905145 CHARLOTTE NC 28290	CONSULTING	2,151,305
CYMETRIX CORPORATION 2875 MICHELLE DRIVE IRVINE CA 92606	CONSULTING	1,925,491
MORRISON MANAGEMENT SPECIALISTS PO BOX 102289 ATLANTA GA 30368	FOOD SERVICE	1,182,223
2 Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 of compensation from the organization ▶104		

Part VIII

Statement of Revenue

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

			(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	8,076,066		
	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 . . . . .		8,076,066		
Program Service Revenue	2a	CAPITATION AND CONTRACT REVENUE	Business Code 621111	329,954,305	329,954,305	
	b	NET PATIENT SERVICE REVENUE	621111	254,727,184	253,520,632	1,206,552
	c					
	d					
	e					
	f	All other program service revenue				
	g	Total. Add lines 2a-2f . . . . .		584,681,489		
	Other Revenue	3	Investment income (including dividends, interest, and other similar amounts) . . . . .		6,834,939	
4		Income from investment of tax-exempt bond proceeds . . . . .				
5		Royalties . . . . .				
6a		(i) Real				
		(ii) Personal				
b						
c						
d		Net rental income or (loss) . . . . .				
7a		(i) Securities				
		(ii) Other				
b						
c						
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					
b	Less direct expenses . . . . .					
c	Net income or (loss) from fundraising events . . . . .					
9a	Gross income from gaming activities See Part IV, line 19 . . . . .					
	a					
	b					
b	Less direct expenses . . . . .					
c	Net income or (loss) from gaming activities . . . . .					
10a	Gross sales of inventory, less returns and allowances . . . . .					
	a					
	b					
b	Less cost of goods sold . . . . .					
c	Net income or (loss) from sales of inventory . . . . .					
Miscellaneous Revenue		Business Code				
11a						
	b					
	c					
	d					
	e					
12	Total revenue. See Instructions . . . . .		599,592,494	583,474,937	1,206,552	6,834,939

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).

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

☐

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 United States. See Part IV, line 21.	11,898,092	11,898,092		
2	Grants and other assistance to individuals in the United States. See Part IV, line 22.				
3	Grants and other assistance to governments, organizations, and individuals outside the United States. See Part IV, lines 15 and 16.				
4	Benefits paid to or for members.				
5	Compensation of current officers, directors, trustees, and key employees.	3,103,596		3,103,596	
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.	201,130,157	179,856,223	21,273,934	
8	Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions).	4,180,543	3,518,929	661,614	
9	Other employee benefits.	32,851,969	30,523,071	2,328,898	
10	Payroll taxes.	6,736,339	5,244,841	1,491,498	
11	Fees for services (non-employees):				
a	Management.	31,323,697	30,532,396	791,301	
b	Legal.	449,804		449,804	
c	Accounting.	465,745		465,745	
d	Lobbying.	19,928		19,928	
e	Professional fundraising services. See Part IV, line 17.				
f	Investment management fees.	422,498		422,498	
g	Other (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O).	22,944,592	21,345,548	1,599,044	
12	Advertising and promotion.	1,141,101	300,008	841,093	
13	Office expenses.	5,961,814	5,399,585	562,229	
14	Information technology.	4,989,128	4,989,128		
15	Royalties.				
16	Occupancy.	8,919,665	5,193,266	3,726,399	
17	Travel.	1,830,040	1,683,521	146,519	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials.				
19	Conferences, conventions, and meetings.	331,706	296,106	35,600	
20	Interest.	752,967	750,941	2,026	
21	Payments to affiliates.				
22	Depreciation, depletion, and amortization.	6,811,980	4,808,851	2,003,129	
23	Insurance.	9,238,608	9,237,643	965	
24	Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O):				
a	MEDICAL CLAIMS	217,105,517	217,105,517		
b	SUPPLIES	27,149,342	26,969,505	179,837	
c	OTHER	3,677,967	2,893,102	784,865	
d					
e	All other expenses				
25	Total functional expenses. Add lines 1 through 24e.	603,436,795	562,546,273	40,890,522	0
26	Joint costs. Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720).				

Part X

Balance Sheet

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

				(A)		(B)
				Beginning of year		End of year
Assets	<b>1</b>	Cash—non-interest-bearing . . . . .		25,071,992	<b>1</b>	7,538,890
	<b>2</b>	Savings and temporary cash investments . . . . .		5,003,381	<b>2</b>	5,014,543
	<b>3</b>	Pledges and grants receivable, net . . . . .			<b>3</b>	
	<b>4</b>	Accounts receivable, net . . . . .		52,562,931	<b>4</b>	43,340,864
	<b>5</b>	Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L . . . . .			<b>5</b>	
	<b>6</b>	Loans and other 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). Complete Part II of Schedule L . . . . .			<b>6</b>	
	<b>7</b>	Notes and loans receivable, net . . . . .			<b>7</b>	
	<b>8</b>	Inventories for sale or use . . . . .		3,326,586	<b>8</b>	3,729,263
	<b>9</b>	Prepaid expenses and deferred charges . . . . .		23,617,796	<b>9</b>	41,037,451
	<b>10a</b>	Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D . . . . .	<b>10a</b> 109,137,266			
	<b>b</b>	Less: accumulated depreciation . . . . .	<b>10b</b> 65,731,921	48,870,194	<b>10c</b>	43,405,345
	<b>11</b>	Investments—publicly traded securities . . . . .			<b>11</b>	
	<b>12</b>	Investments—other securities. See Part IV, line 11 . . . . .		3,605,420	<b>12</b>	15,460,197
	<b>13</b>	Investments—program-related. See Part IV, line 11 . . . . .			<b>13</b>	
	<b>14</b>	Intangible assets . . . . .			<b>14</b>	
	<b>15</b>	Other assets. See Part IV, line 11 . . . . .		18,063,721	<b>15</b>	612,429
	<b>16</b>	<b>Total assets.</b> Add lines 1 through 15 (must equal line 34) . . . . .		180,122,021	<b>16</b>	160,138,982
Liabilities	<b>17</b>	Accounts payable and accrued expenses . . . . .		53,025,222	<b>17</b>	65,842,255
	<b>18</b>	Grants payable . . . . .			<b>18</b>	
	<b>19</b>	Deferred revenue . . . . .			<b>19</b>	204,777
	<b>20</b>	Tax-exempt bond liabilities . . . . .		11,968,116	<b>20</b>	5,607,038
	<b>21</b>	Escrow or custodial account liability. Complete Part IV of Schedule D . . . . .			<b>21</b>	
	<b>22</b>	Loans and other payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L . . . . .			<b>22</b>	
	<b>23</b>	Secured mortgages and notes payable to unrelated third parties . . . . .		14,916,091	<b>23</b>	24,309,486
	<b>24</b>	Unsecured notes and loans payable to unrelated third parties . . . . .			<b>24</b>	
	<b>25</b>	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24). Complete Part X of Schedule D . . . . .		44,106,450	<b>25</b>	11,592,248
	<b>26</b>	<b>Total liabilities.</b> Add lines 17 through 25 . . . . .		124,015,879	<b>26</b>	107,555,804
Net Assets or Fund Balances		<b>Organizations that follow SFAS 117 (ASC 958), check here <input type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.</b>				
	<b>27</b>	Unrestricted net assets . . . . .			<b>27</b>	
	<b>28</b>	Temporarily restricted net assets . . . . .			<b>28</b>	
	<b>29</b>	Permanently restricted net assets . . . . .			<b>29</b>	
		<b>Organizations that do not follow SFAS 117 (ASC 958), check here <input checked="" type="checkbox"/> and complete lines 30 through 34.</b>				
	<b>30</b>	Capital stock or trust principal, or current funds . . . . .		0	<b>30</b>	0
	<b>31</b>	Paid-in or capital surplus, or land, building or equipment fund . . . . .		0	<b>31</b>	0
	<b>32</b>	Retained earnings, endowment, accumulated income, or other funds . . . . .		56,106,142	<b>32</b>	52,583,178
	<b>33</b>	<b>Total net assets or fund balances</b> . . . . .		56,106,142	<b>33</b>	52,583,178
	<b>34</b>	<b>Total liabilities and net assets/fund balances</b> . . . . .		180,122,021	<b>34</b>	160,138,982

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	599,592,494
2	Total expenses (must equal Part IX, column (A), line 25)	2	603,436,795
3	Revenue less expenses Subtract line 2 from line 1	3	-3,844,301
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	56,106,142
5	Net unrealized gains (losses) on investments	5	321,337
6	Donated services and use of facilities	6	
7	Investment expenses	7	
8	Prior period adjustments	8	
9	Other changes in net assets or fund balances (explain in Schedule O)	9	0
10	Net assets or fund balances at end of year Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	52,583,178

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? If "Yes," check a box below to indicate whether the financial statements for the year were compiled or reviewed on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separate basis	2a	No
2b	Were the organization's financial statements audited by an independent accountant? If "Yes," check a box below to indicate whether the financial statements for the year were audited 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 separate basis	2b	Yes
2c	If "Yes," to line 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	2c	Yes
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?	3a	No
3b	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	3b	

SCHEDULE A  
(Form 990 or 990EZ)

Public Charity Status and Public Support

OMB No 1545-0047

2012

Open to Public Inspection

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.

Department of the Treasury  
Internal Revenue Service

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<sup>1</sup>/<sub>3</sub>% 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<sup>1</sup>/<sub>3</sub>% 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 - Non-functionally integrated
- 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 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 monetary 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) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(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) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(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 2012 (line 6, column (f) divided by line 11, column (f))	14		
15 Public support percentage for 2011 Schedule A, Part II, line 14	15		
16a 33 1/3% support test—2012. 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—2011. If the organization did not check a 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—2012. 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—2011. 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 IIIPart 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) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(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) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(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 501(c)(3) organization, check this box and stop here ▶						

Section C. Computation of Public Support Percentage			
15 Public support percentage for 2012 (line 8, column (f) divided by line 13, column (f))	15		
16 Public support percentage from 2011 Schedule A, Part III, line 15	16		

Section D. Computation of Investment Income Percentage			
17 Investment income percentage for 2012 (line 10c, column (f) divided by line 13, column (f))	17		
18 Investment income percentage from 2011 Schedule A, Part III, line 17	18		
19a 33 1/3% support tests—2012. 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—2011. 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.** 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).

Facts And Circumstances Test

Explanation

SCHEDULE C

(Form 990 or 990-EZ)

Department of the Treasury  
Internal Revenue Service

Political Campaign and Lobbying Activities

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.

OMB No 1545-0047

2012

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 35c (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
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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 function 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 (and list in Part IV each affiliated group member's name, address, EIN, expenses, and share of excess lobbying expenditures)
- 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><tr><td>If the amount on line 1e, column (a) or (b) is:</td><td>The lobbying nontaxable amount is:</td></tr><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></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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) Total
2a Lobbying nontaxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots nontaxable 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)).

For each "Yes" response to lines 1a through 1i below, provide in Part IV a detailed description of the lobbying activity.		(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?				
b	Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?	Yes			
c	Media advertisements?				
d	Mailings to members, legislators, or the public?				
e	Publications, or published or broadcast statements?				
f	Grants to other organizations for lobbying purposes?				
g	Direct contact with legislators, their staffs, government officials, or a legislative body?	Yes		19,928	
h	Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?				
i	Other activities?				
j	Total. Add lines 1c through 1i.			19,928	
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 720 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 carry over 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) and if either (a) BOTH Part III-A, lines 1 and 2, are answered "No" OR (b) Part III-A, line 3, is answered "Yes."

1	Dues, assessments and similar amounts from members	1	
2	Section 162(e) nondeductible lobbying and political expenditures (do not include amounts of political expenses for which the section 527(f) tax was paid).	2a	
a	Current year		
b	Carryover from last year		
c	Total		
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, Part II-A (affiliated group list), Part II-A, line 2, and Part II-B, line 1. Also, complete this part for any additional information.

Identifier	Return Reference	Explanation
EXPLANATION OF LOBBYING ACTIVITIES	PART II-B, LINE 1	THE UNIVERSITY OF ARIZONA HEALTH NETWORK EMPLOYS A DIRECTOR OF LEGISLATIVE AFFAIRS. THIS POSITION PROVIDES LEADERSHIP IN THE AREA OF LEGISLATIVE INITIATIVES, HEALTH POLICY, AND CONSUMER ADVOCACY. THIS POSITION CREATES LINKS TO STATE AND FEDERAL LEGISLATIVE REPRESENTATIVES AND STAFF, RESEARCHES AND DEVELOPS POLICY POSITIONS FOR THE UNIVERSITY OF ARIZONA HEALTH NETWORK.

SCHEDULE D  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Supplemental Financial Statements

OMB No 1545-0047

2012

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 can 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 education)☐ Preservation of an historically important land area☐ Protection of natural habitat☐ Preservation of a certified historic structure☐ Preservation of open space

2

Complete lines 2a through 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, and not on a historic structure listed in the National Register

3

Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the tax 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 section 170(h)(4)(B)(ii)?

☐ Yes☐ No

9

In Part XIII, 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 (ASC 958), 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 XIII, the text of the footnote to its financial statements that describes these items

b

If the organization elected, as permitted under SFAS 116 (ASC 958), 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 (ASC 958) relating to these items

a

Revenues included in Form 990, Part VIII, line 1

▶ \$ \_\_\_\_\_

b

Assets included in Form 990, Part X

▶ \$ \_\_\_\_\_

For Paperwork Reduction Act Notice, see the Instructions for Form 990.

Cat No 52283D

Schedule D (Form 990) 2012

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

3

Using the organization's acquisition, 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 XIII

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 XIII 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 XIII. Check here if the explanation has been provided in Part XIII

☐

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

	(a)Current year	(b)Prior year	b (c)Two years back	(d)Three years back	(e)Four years back
1a	Beginning of year balance				
b	Contributions				
c	Net investment earnings, gains, and 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 current year end balance (line 1g, column (a)) held as

a

Board designated or quasi-endowment

b

Permanent endowment

c

Temporarily restricted endowment

The percentages in lines 2a, 2b, and 2c should equal 100%

3a

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

(i)

unrelated organizations

3a(i)

☐ Yes

☐ No

(ii)

related organizations

3a(ii)

☐ Yes

☐ No

b

If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?

3b

☐ Yes

☐ No

4

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

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

Description of property	(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		21,747,733	9,971,858	11,775,875
c Leasehold improvements		11,392,512	4,736,031	6,656,481
d Equipment		73,152,741	50,901,229	22,251,512
e Other		139,240	122,803	16,437
Total. Add lines 1a through 1e (Column (d) must equal Form 990, Part X, column (B), line 10(c).)				43,405,345



<b>Part XI Reconciliation of Revenue per Audited Financial Statements With Revenue per Return</b>					
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 XIII ) . . . . .	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 XIII ) . . . . .	4b			
c	Add lines 4a and 4b . . . . .	4c			
5	Total revenue Add lines 3 and 4c. (This must equal Form 990, Part I, line 12 ) . . . . .		5		

<b>Part XII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return</b>					
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 XIII ) . . . . .	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 XIII ) . . . . .	4b			
c	Add lines 4a and 4b . . . . .	4c			
5	Total expenses Add lines 3 and 4c. (This must equal Form 990, Part I, line 18 ) . . . . .		5		

**Part XIII 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, line 2, Part XI, lines 2d and 4b, and Part XII, lines 2d and 4b. Also complete this part to provide any additional information.

Identifier	Return Reference	Explanation
DESCRIPTION OF UNCERTAIN TAX POSITIONS UNDER FIN 48	PART X, LINE 2	INCOME TAXES FOOTNOTE FROM THE UNIVERSITY OF ARIZONA HEALTH NETWORK AND SUBSIDIARIES CONSOLIDATED FINANCIAL REPORT. IN GENERAL, THE CORPORATION'S SUBSIDIARIES ARE NOT-FOR-PROFIT ENTITIES AS DESCRIBED IN SECTION 501(C)(3) OF THE INTERNAL REVENUE CODE (THE CODE) AND ARE EXEMPT FROM FEDERAL AND STATE INCOME TAXES ON RELATED INCOME PURSUANT TO SECTION 501(A) OF THE CODE AND RELATED STATE LAWS. THE CORPORATION ITSELF APPLIED FOR SECTION 501(C)(3) TAX-EXEMPT STATUS WITH THE INTERNAL REVENUE SERVICE, AND THE APPLICATION IS PENDING. THE CORPORATION HAS REVIEWED ITS TAX POSITIONS FOR ALL OPEN TAX YEARS AND HAS CONCLUDED THAT NO LIABILITIES EXIST AS OF JUNE 30, 2013 AND 2012. THE CORPORATION FILES TAX RETURNS WITH THE U.S. FEDERAL AND THE STATE OF ARIZONA JURISDICTIONS. WITH FEW EXCEPTIONS, THE CORPORATION IS NO LONGER SUBJECT TO U.S. FEDERAL EXAMINATIONS BY TAX AUTHORITIES FOR YEARS BEFORE 2008.



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

2012

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 . . . . .	1a	Yes	
b	If "Yes," was it a written policy? . . . . .	1b	Yes	
2	If the organization had multiple hospital facilities, 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 hospital facilities <input type="checkbox"/> Applied uniformly to most hospital facilities <input type="checkbox"/> Generally tailored to individual hospital facilities			
3	Answer the following based on the financial assistance eligibility criteria that applied to the largest number of the organization's patients during the tax year  <b>a</b> Did the organization use Federal Poverty Guidelines (FPG) as a factor in determining eligibility for providing <i>free</i> care? If "Yes," indicate which of the following was the FPG family income limit for eligibility for <i>free</i> care  <input checked="" type="checkbox"/> 100% <input type="checkbox"/> 150% <input type="checkbox"/> 200% <input type="checkbox"/> Other _____ %	3a	Yes	
b	Did the organization use FPG as a factor in determining eligibility for providing <i>discounted</i> care? If "Yes," indicate which of the following was 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 _____ %	3b	Yes	
c	If the organization used factors other than FPG in determining eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care. Include in the description whether the organization used an asset test or other threshold, regardless of income, as a factor in determining 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"? . . . . .	4	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year? . . . . .	5a	Yes	
b	If "Yes," did the organization's financial assistance expenses exceed the budgeted amount? . . . . .	5b	Yes	
c	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? . . . . .	5c		No
6a	Did the organization prepare a community benefit report during the tax year? . . . . .	6a		No
b	If "Yes," did the organization make it available to the public? . . . . .	6b		
	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 Worksheet 1) . . . . .			25,982,639	17,830,846	8,151,793	1 350 %
b Medicaid (from Worksheet 3, column a) . . . . .			80,010,238	72,008,034	8,002,204	1 330 %
c Costs of other means-tested government programs (from Worksheet 3, column b) . . . . .						
d <b>Total</b> Financial Assistance and Means-Tested Government Programs . . . . .			105,992,877	89,838,880	16,153,997	2 680 %
<b>Other Benefits</b>						
e Community health improvement services and community benefit operations (from Worksheet 4) . . . . .						
f Health professions education (from Worksheet 5) . . . . .			11,526,431	5,003,055	6,523,376	1 080 %
g Subsidized health services (from Worksheet 6) . . . . .			10,916,410	3,970,332	6,946,078	1 150 %
h Research (from Worksheet 7) . . . . .						
i Cash and in-kind contributions for community benefit (from Worksheet 8) . . . . .			11,898,092		11,898,092	1 970 %
j <b>Total</b> Other Benefits . . . . .			34,340,933	8,973,387	25,367,546	4 200 %
k <b>Total.</b> Add lines 7d and 7j . . . . .			140,333,810	98,812,267	41,521,543	6 880 %

Part II

Community Building Activities

Complete this table if the organization conducted any 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					
7	Community health improvement advocacy					
8	Workforce development					
9	Other					
10	Total					

Part III

Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

1

Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No. 15?

1

No

2

Enter the amount of the organization's bad debt expense. Explain in Part VI the methodology used by the organization to estimate this amount.

2

59,232,571

3

Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's financial assistance policy. Explain in Part VI the methodology used by the organization to estimate this amount and the rationale, if any, for including this portion of bad debt as community benefit.

3

0

4

Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense or the page number on which this footnote is contained in the attached financial statements.

Section B. Medicare

5

Enter total revenue received from Medicare (including DSH and IME).

5

26,457,160

6

Enter Medicare allowable costs of care relating to payments on line 5.

6

27,822,755

7

Subtract line 6 from line 5. This is the surplus (or shortfall).

7

-1,365,595

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.  
☐ Cost accounting system    ☒ Cost to charge ratio    ☐ Other

Section C. Collection Practices

9a

Did the organization have a written debt collection policy during the tax year?

9a

Yes

b

If "Yes," did the organization's collection policy that applied to the largest number of its patients during the tax year contain provisions on the collection practices to be followed for patients who are known to qualify for financial assistance? Describe in Part VI.

9b

Yes

Part IV

Management Companies and Joint Ventures

(owned 10% or more by officers, directors, trustees, key employees, and physicians—see instructions)

(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 UM LEASING LLC	LEASING	50.000 %	0 %	0 %
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

## Section A. Hospital Facilities

Name, address, and primary website address

**Schedule H (Form 990) 2012**

Part V Facility Information (continued)

Section B. Facility Policies and Practices

(Complete a separate Section B for each of the hospital facilities or facility reporting groups listed in Part V, Section A)

U OF A MEDICAL CENTER SOUTH CAMPUS

Name of hospital facility or facility reporting group

For single facility filers only: line Number of Hospital Facility (from Schedule H, Part V, Section A)

1

	Yes	No
Community Health Needs Assessment (Lines 1 through 8c are optional for tax years beginning on or before March 23, 2012)		
1 During the tax year or either of the two immediately preceding tax years, did the hospital facility conduct a community health needs assessment (CHNA)? If "No," skip to line 9 . . . . . If "Yes," indicate what the CHNA report describes (check all that apply)	1 Yes	
a <input checked="" type="checkbox"/> A definition of the community served by the hospital facility		
b <input checked="" type="checkbox"/> Demographics of the community		
c <input checked="" type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community		
d <input checked="" type="checkbox"/> How data was obtained		
e <input checked="" type="checkbox"/> The health needs of the community		
f <input checked="" type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups		
g <input checked="" type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet the community health needs		
h <input checked="" type="checkbox"/> The process for consulting with persons representing the community's interests		
i <input type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs		
j <input type="checkbox"/> Other (describe in Part VI)		
2 Indicate the tax year the hospital facility last conducted a CHNA 20 <u>12</u>		
3 In conducting its most recent CHNA, did the hospital facility take into account input from representatives of the community served by the hospital facility, including those with special knowledge of or expertise in public health? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted . . . . .	3 Yes	
4 Was the hospital facility's CHNA conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI . . . . .	4 Yes	
5 Did the hospital facility make its CHNA report widely available to the public? . . . . . If "Yes," indicate how the CHNA report was made widely available (check all that apply)	5 Yes	
a <input checked="" type="checkbox"/> Hospital facility's website		
b <input checked="" type="checkbox"/> Available upon request from the hospital facility		
c <input type="checkbox"/> Other (describe in Part VI)		
6 If the hospital facility addressed needs identified in its most recently conducted CHNA, indicate how (check all that apply to date)		
a <input checked="" type="checkbox"/> Adoption of an implementation strategy that addresses each of the community health needs identified through the CHNA		
b <input type="checkbox"/> Execution of the implementation strategy		
c <input type="checkbox"/> Participation in the development of a community-wide plan		
d <input type="checkbox"/> Participation in the execution of a community-wide plan		
e <input type="checkbox"/> Inclusion of a community benefit section in operational plans		
f <input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA		
g <input type="checkbox"/> Prioritization of health needs in its community		
h <input type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community		
i <input type="checkbox"/> Other (describe in Part VI)		
7 Did the hospital facility address all of the needs identified in its most recently conducted CHNA? If "No," explain in Part VI which needs it has not addressed and the reasons why it has not addressed such needs . . . . .	7 Yes	
8a Did the organization incur an excise tax under section 4959 for the hospital facility's failure to conduct a CHNA as required by section 501(r)(3)? . . . . .	8a	No
b If "Yes" to line 8a, did the organization file Form 4720 to report the section 4959 excise tax? . . . . .	8b	
c If "Yes" to line 8b, what is the total amount of section 4959 excise tax the organization reported on Form 4720 for all of its hospital facilities? \$_____		

Part V

Facility Information (continued)

Financial Assistance Policy		Yes	No
<b>9</b> Did the hospital facility have in place during the tax year a written financial assistance policy that Explained eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?		<b>9</b>	Yes
<b>10</b> Used federal poverty guidelines (FPG) to determine eligibility for providing <i>free</i> care? . . . . . If "Yes," indicate the FPG family income limit for eligibility for free care <u>100 00000000000000</u> % If "No," explain in Part VI the criteria the hospital facility used		<b>10</b>	Yes
<b>11</b> Used FPG to determine eligibility for providing <i>discounted</i> care? . . . . . If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>200 00000000000000</u> % If "No," explain in Part VI the criteria the hospital facility used		<b>11</b>	Yes
<b>12</b> Explained the basis for calculating amounts charged to patients? . . . . . If "Yes," indicate the factors used in determining such amounts (check all that apply)		<b>12</b>	Yes
<b>a</b> <input checked="" type="checkbox"/> Income level			
<b>b</b> <input checked="" type="checkbox"/> Asset level			
<b>c</b> <input checked="" type="checkbox"/> Medical indigency			
<b>d</b> <input checked="" type="checkbox"/> Insurance status			
<b>e</b> <input checked="" type="checkbox"/> Uninsured discount			
<b>f</b> <input checked="" type="checkbox"/> Medicaid/Medicare			
<b>g</b> <input type="checkbox"/> State regulation			
<b>h</b> <input type="checkbox"/> Other (describe in Part VI)			
<b>13</b> Explained the method for applying for financial assistance? . . . . .		<b>13</b>	Yes
<b>14</b> Included measures to publicize the policy within the community served by the hospital facility? . . . . . If "Yes," indicate how the hospital facility publicized the policy (check all that apply)		<b>14</b>	Yes
<b>a</b> <input checked="" type="checkbox"/> The policy was posted on the hospital facility's website			
<b>b</b> <input checked="" type="checkbox"/> The policy was attached to billing invoices			
<b>c</b> <input type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms			
<b>d</b> <input type="checkbox"/> The policy was posted in the hospital facility's admissions offices			
<b>e</b> <input checked="" type="checkbox"/> The policy was provided, in writing, to patients on admission to the hospital facility			
<b>f</b> <input checked="" type="checkbox"/> The policy was available upon request			
<b>g</b> <input type="checkbox"/> Other (describe in Part VI)			
Billing and Collections			
<b>15</b> Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment? . . . . .		<b>15</b>	Yes
<b>16</b> Check all of the following actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP			
<b>a</b> <input type="checkbox"/> Reporting to credit agency			
<b>b</b> <input type="checkbox"/> Lawsuits			
<b>c</b> <input type="checkbox"/> Liens on residences			
<b>d</b> <input type="checkbox"/> Body attachments			
<b>e</b> <input type="checkbox"/> Other similar actions (describe in Part VI)			
<b>17</b> Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP? . . . . .		<b>17</b>	No
If "Yes," check all actions in which the hospital facility or a third party engaged			
<b>a</b> <input type="checkbox"/> Reporting to credit agency			
<b>b</b> <input type="checkbox"/> Lawsuits			
<b>c</b> <input type="checkbox"/> Liens on residences			
<b>d</b> <input type="checkbox"/> Body attachments			
<b>e</b> <input type="checkbox"/> Other similar actions (describe in Part VI)			

Part V

Facility Information (continued)

- 18
- Indicate which efforts the hospital facility made before initiating any of the actions listed in line 17 (check all that apply)
- a

☐

Notified individuals of the financial assistance policy on admission
- b

☐

Notified individuals of the financial assistance policy prior to discharge
- c

☐

Notified individuals of the financial assistance policy in communications with the patients regarding the patients' bills
- d

☐

Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy
- e

☐

Other (describe in Part VI)

Policy Relating to Emergency Medical Care

		Yes	No
19	Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy? . . . . . If "No," indicate why	Yes	
a	<input type="checkbox"/> The hospital facility did not provide care for any emergency medical conditions		
b	<input type="checkbox"/> The hospital facility's policy was not in writing		
c	<input type="checkbox"/> The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
d	<input type="checkbox"/> Other (describe in Part VI)		

Charges to Individuals Eligible for Assistance under the FAP (FAP-Eligible Individuals)

20	Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care		
a	<input type="checkbox"/> The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged		
b	<input type="checkbox"/> The hospital facility used the average of its three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged		
c	<input checked="" type="checkbox"/> The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged		
d	<input type="checkbox"/> Other (describe in Part VI)		
21	During the tax year, did the hospital facility charge any FAP-eligible individuals to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care? . . . . . If "Yes," explain in Part VI		No
22	During the tax year, did the hospital facility charge any FAP-eligible individuals an amount equal to the gross charge for any service provided to that individual? . . . . . If "Yes," explain in Part VI		No

Part V

Facility Information (continued)

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

(list in order of size, from largest to smallest)

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

5

Name and address	Type of Facility (describe)
1 U OF A MEDICAL CENTER-SPORTS CLINIC 2800 E AJO WAY SUITES 100-105 TUCSON,AZ 85713	CLINIC
2 U OF A MEDICAL CENTER-ALVERNON CLINIC 750 N ALVERNON WAY TUCSON,AZ 85711	AMBULATORY SURGERY CENTER
3 U OF A MEDICAL CENTER-WILMOT CLINIC 535 N WILMOT SUITE 101 TUCSON,AZ 85711	CLINIC
4 U OF A MEDICAL CENTER-PSYCHIATRIC CLINIC 2800 E AJO WAY SUITE 300 TUCSON,AZ 85713	CLINIC
5 U OF A MEDICAL CENTER-ALVERNON CLINIC 707 N ALVERNON WAY SUITE 101 TUCSON,AZ 85711	CLINIC
6	
7	
8	
9	
10	

Part VI Supplemental Information

Complete this part to provide the following information

- 1
- Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, Part V, Section A, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 10, 11, 12h, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22
- 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
- 8
- Facility reporting group(s).** If applicable, for each hospital facility in a facility reporting group provide the descriptions required for Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 10, 11, 12h, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22

Identifier	ReturnReference	Explanation
		PART I, LINE 7 THE ESTIMATED NET COST, IN EXCESS OF REIMBURSEMENT, IS DETERMINED USING A RATIO OF COST TO CHARGES, WHICH ADDRESSES ALL PATIENT SEGMENTS INCLUDING MEDICAID, MEDICARE, UNINSURED OR SELF-PAY
		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 \$300,946,000 AND \$266,988,000 AS OF JUNE 30, 2013 AND 2012, RESPECTIVELY "BAD DEBT EXPENSE IS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND IS NOT INCLUDED AS PART OF COMMUNITY BENEFIT FINANCIAL COUNSELORS ASSIST PATIENTS WITH CHARITY CARE APPLICATIONS AND THE UNINSURED DISCOUNT PROGRAM AND IDENTIFY IF PATIENTS ARE ELIGIBLE FOR THESE PROGRAMS



Identifier	ReturnReference	Explanation
		PART III, LINE 8 THE MEDICARE ALLOWABLE COST OF CARE IS REPORTED FROM THE UNIVERSITY OF ARIZONA MEDICAL CENTER - SOUTH CAMPUS MEDICARE COST REPORT
		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
U OF A MEDICAL CENTER SOUTH CAMPUS		PART V, SECTION B, LINE 3 IN 2012, THE UNIVERSITY OF ARIZONA MEDICAL CENTER - SOUTH CAMPUS COLLABORATED WITH TUCSON MEDICAL CENTER AND CARONDELET HEALTH NETWORK TO COMPLETE THE COMMUNITY HEALTH NEEDS ASSESSMENT FOR PIMA COUNTY TOGETHER, THE HEALTH SYSTEMS SHARED RESOURCES AND BROUGHT TOGETHER KEY MEMBERS OF THE COMMUNITY TO CONDUCT THE ASSESSMENT THE THREE HEALTH SYSTEMS DEFINED THEIR GEOGRAPHIC SCOPE TO COVER ALL OF PIMA COUNTY, WHERE OVER 80 PERCENT OF THE HOSPITALS' PATIENTS LIVE "WE APPRECIATED THE COLLABORATION AND EFFORT OF TUCSON'S NON-PROFIT HOSPITALS IN IDENTIFYING OUR REGION'S MOST PRESSING HEALTH NEEDS IN LAST YEAR'S PIMA COUNTY COMMUNITY HEALTH NEEDS ASSESSMENT," SAID COUNTY ADMINISTRATOR CHUCK HUCKELBERRY "CLOSING THOSE CRITICAL HEALTH GAPS IS THE REAL WORK, AND WE ARE GRATEFUL FOR COMMUNITY LEADERS LIKE THE UNIVERSITY OF ARIZONA HEALTH NETWORK THAT ARE MAKING INNOVATIVE AND CONCRETE PLANS TO ADDRESS THESE NEEDS THROUGH ITS MEDICAL SERVICES, COMMUNITY OUTREACH AND EXTERNAL RELATIONS PROGRAMS PIMA COUNTY IS PROUD TO PARTICIPATE IN THIS IMPORTANT WORK THROUGH OUR PARTNERSHIP WITH THE UNIVERSITY OF ARIZONA MEDICAL CENTER - SOUTH CAMPUS, WHICH IS MATURING INTO A HUB OF MEDICAL RESEARCH, EDUCATION AND PATIENT CARE BENEFITING COUNTY RESIDENTS "
U OF A MEDICAL CENTER SOUTH CAMPUS		PART V, SECTION B, LINE 4 TUCSON MEDICAL CENTER AND CARONDELET HEALTH NETWORK

Identifier	ReturnReference	Explanation
		PART VI, LINE 2 IN THE FALL OF 2011, THE THREE MAJOR NON-PROFIT HEALTH SYSTEMS IN PIMA COUNTY - CARONDELET HEALTH NETWORK, TUCSON MEDICAL CENTER, AND THE UNIVERSITY OF ARIZONA MEDICAL HEALTH NETWORK - COMBINED EFFORTS TO CONDUCT A COUNTY-WIDE COMMUNITY HEALTH NEEDS ASSESSMENT THIS COLLABORATION ALLOWED FOR HEALTH SYSTEMS TO WORK CLOSELY WITH ONE ANOTHER, BRING TOGETHER KEY MEMBERS OF THE COMMUNITY, AND SHARE RESOURCES TO COMPLETE THE ASSESSMENT AND BETTER UNDERSTAND THE HEALTH SERVICES SECTOR IN THE REGION
		PART VI, LINE 3 THE UNIVERSITY OF ARIZONA PHYSICIANS 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 WE ALSO OFFER 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 THIS PROGRAM, PATIENTS ARE CHARGED NO MORE THAN THE RATE THE CORPORATION RECEIVED UNDER THE MEDICARE PROGRAM IN ADDITION, 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
		<p>PART VI, LINE 4 THE UNIVERSITY OF ARIZONA MEDICAL CENTER - SOUTH CAMPUS PROVIDES QUATERNARY HEALTHCARE AND IS A MAJOR REFERRAL CENTER FOR THE STATE AND OTHER SOUTHWESTERN STATES THE HOSPITAL IS ONE OF EIGHT NON-FEDERAL ACUTE CARE HOSPITALS IN METROPOLITAN TUCSON, WHICH CONSISTS OF THE CITY OF TUCSON AND IMMEDIATELY SURROUNDING AREAS (HEREINAFTER REFERRED TO AS "METROPOLITAN TUCSON") 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 &amp; 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</p>
		<p>PART VI, LINE 5 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</p>

Identifier	ReturnReference	Explanation
		PART VI, LINE 6 THE UNIVERSITY OF ARIZONA HEALTH NETWORK (UAHN) IS ARIZONA'S FIRST ACADEMIC MEDICAL NETWORK IT INCLUDES THE UNIVERSITY OF ARIZONA MEDICAL CENTER - UNIVERSITY CAMPUS, THE UNIVERSITY OF ARIZONA MEDICAL CENTER - DIAMOND CHILDREN'S, THE UNIVERSITY OF ARIZONA MEDICAL CENTER - SOUTH CAMPUS, APPROXIMATELY 40 CLINICS, PRACTICE PLAN FOR PHYSICIANS FROM THE UNIVERSITY OF ARIZONA COLLEGE OF MEDICINE, AND A HEALTH PLAN DIVISION IT HAS BEEN NATIONALLY RECOGNIZED FOR PROVIDING EXCEPTIONAL PATIENT CARE, TEACHING NEW HEALTHCARE PROFESSIONALS AND CONDUCTING GROUNDBREAKING RESEARCH THROUGH THE PHYSICIAN-SCIENTISTS OF THE UNIVERSITY OF ARIZONA COLLEGE OF MEDICINE UAHN, WHICH WORKS IN PARTNERSHIP WITH THE UNIVERSITY OF ARIZONA COLLEGE OF MEDICINE, WAS CREATED TO FACILITATE BETTER COORDINATION, INTEGRATION AND PROMOTION OF CLINICAL ACTIVITIES TO SUPPORT THE COLLEGE OF MEDICINE'S EDUCATION, RESEARCH AND PATIENT-CARE GOALS THE UNIVERSITY OF ARIZONA MEDICAL CENTER - UNIVERSITY CAMPUS OPENED IN 1971 AND IS THE PRIMARY TEACHING HOSPITAL OF THE UNIVERSITY OF ARIZONA COLLEGE OF MEDICINE, NURSING, AND PHARMACY



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

2012

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. Part II can be duplicated if additional space is needed.

(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) UNIVERSITY OF ARIZONA 888 N EUCLID TUCSON,AZ 85719	74-2652689	STATE OF ARIZONA	11,492,619				MEDICAL EDUCATION, RESEARCH
(2) UNIVERSITY MEDICAL CENTER FOUNDATION 1501 N CAMPBELL AVENUE TUCSON,AZ 85724	86-0572438	501(C)(3)	373,573				MEDICAL EDUCATION, RESEARCH
(3) UNIVERSITY PHYSICIANS HEALTHCARE FOUNDATION 1501 N CAMPBELL AVENUE TUCSON,AZ 85724	20-2826747	501(C)(3)	31,900				MEDICAL EDUCATION

2

Enter total number of section 501(c)(3) and government organizations listed in the line 1 table . . . . .

3

3

Enter total number of other organizations listed in the line 1 table . . . . .

**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.  
Part III can be duplicated 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, Part III, column (b), 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)

Department of the Treasury  
Internal Revenue Service

Compensation Information

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.

OMB No 1545-0047

2012

Open to Public Inspection

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"/> Travel for companions</div><div><input type="checkbox"/> Tax idemnification and gross-up payments</div><div><input type="checkbox"/> Discretionary spending account</div><div><input type="checkbox"/> Housing allowance or residence for personal use</div><div><input type="checkbox"/> Payments for business use of personal residence</div><div><input type="checkbox"/> Health or social club dues or initiation fees</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 of 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 filing organization used to establish the compensation of the organization's CEO/Executive Director. Check all that apply. Do not check any boxes for methods used by a related organization to establish compensation of the CEO/Executive Director, but explain in Part III. <div><div><input type="checkbox"/> Compensation committee</div><div><input type="checkbox"/> Independent compensation consultant</div><div><input type="checkbox"/> Form 990 of other organizations</div><div><input type="checkbox"/> Written employment contract</div><div><input type="checkbox"/> Compensation survey or study</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?	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? If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III	4c		No
	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? If "Yes," to line 5a or 5b, describe in Part III	5b		No
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? If "Yes," to line 6a or 6b, describe in Part III	6b		No
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 Regulations 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) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, applicable column (D) and (E) amounts for that individual.

(A) Name and Title		(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 as deferred in prior Form 990
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
See Additional Data Table								

Part III Supplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 3, 4a, 4b, 4c, 5a, 5b, 6a, 6b, 7, and 8, and for Part II. Also complete this part for any additional information.

Identifier	Return Reference	Explanation
	PART I, LINES 4A-B	THERESA LEBARRON RECEIVED SEVERANCE PAYMENTS IN THE AMOUNT OF \$197,586 THE FOLLOWING INDIVIDUALS PARTICIPATED IN OR RECEIVED PAYMENTS FROM A NON-QUALIFIED RETIREMENT PLAN MISTY D HANSEN \$63,698, JAMES V STOVER \$34,046 AND KAREN MLAWSKY \$74,446
	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

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				
MARC BERG	(i)	45	0	750	71	11,697	12,563	0
	(ii)	188,123	100,343	9	18,651	4,056	311,182	0
LYLE BOOTMAN	(i)	0	0	0	0	0	0	0
	(ii)	318,714	0	0	22,472	17,484	358,670	0
FAYEZ GHISHAN	(i)	25,268	50,000	4,468	1,557	10,092	91,385	0
	(ii)	516,137	123,125	6,304	34,824	8,746	689,136	0
RAINER GRUESSNER	(i)	122	0	2,037	73	13,125	15,357	0
	(ii)	458,031	47,150	0	17,150	7,341	529,672	0
DAVID LABINER	(i)	79	0	1,317	73	11,778	13,247	0
	(ii)	266,695	31,399	0	20,867	4,510	323,471	0
KAREN MLAWSKY	(i)	0	0	0	0	0	0	0
	(ii)	493,885	182,145	3,193	94,303	13,700	787,226	0
LYNN SCHNEIDER GRENNAN	(i)	283,774	0	0	0	0	283,774	0
	(ii)	0	0	0	0	0	0	0
STEVE GOLDSCHMID	(i)	144	2,397	0	73	12,397	15,011	0
	(ii)	529,544	37,223	0	32,533	8,243	607,543	0
SAMUEL KEIM	(i)	79	0	1,317	73	12,074	13,543	0
	(ii)	337,455	22,072	0	19,307	5,420	384,254	0
KATHRYN REED	(i)	218	0	3,639	0	6,082	9,939	0
	(ii)	298,489	55,896	0	35,888	5,611	395,884	0
OLE THIENHAUS	(i)	116	15,000	1,935	0	8,689	25,740	0
	(ii)	281,942	2,575	0	11,768	4,301	300,586	0
MISTY D HANSEN	(i)	0	0	0	0	0	0	0
	(ii)	151,604	422,465	2,422	83,555	17,590	677,636	0
JAMES V STOVER	(i)	247,485	79,963	5,007	57,280	8,950	398,685	0
	(ii)	0	0	0	0	0	0	0
THOMAS M BALL	(i)	278,088	60,638	1,202	25,207	13,040	378,175	0
	(ii)	0	0	0	0	0	0	0
SARAH E FROST	(i)	210,018	6,721	153	15,975	1,560	234,427	0
	(ii)	0	0	0	0	0	0	0
JEAN FEDIGAN	(i)	172,203	5,546	1,274	7,118	5,667	191,808	0
	(ii)	0	0	0	0	0	0	0
JODY L BUTERA	(i)	152,734	43,523	206	19,015	4,946	220,424	0
	(ii)	0	0	0	0	0	0	0
SETH M DUBRY	(i)	242,939	32,563	349	21,794	9,539	307,184	0
	(ii)	0	0	0	0	0	0	0
HOSSAI SHAH	(i)	109,776	119,550	64	15,714	11,114	256,218	0
	(ii)	0	0	0	0	0	0	0
EDDY COFFMAN	(i)	164,444	35,430	207	15,328	9,156	224,565	0
	(ii)	0	0	0	0	0	0	0

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				
WILBUR PITTINGER	(i)	196,222	0	1,188	5,239	11,316	213,965	0
	(ii)	0	0	0	0	0	0	0
THERESA L LEBARRON	(i)	197,586	0	0	0	0	197,586	0
	(ii)	0	0	0	0	0	0	0

Schedule K  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Name of the organization  
UNIVERSITY PHYSICIANS HEALTHCARE

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 Part VI.  
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2012

Open to Public Inspection

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		12-21-2005	6,750,000	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	6,750,000							
4	Gross proceeds in reserve funds								
5	Capitalized interest from proceeds								
6	Proceeds in refunding escrows								
7	Issuance costs from proceeds	78,637							
8	Credit enhancement from proceeds								
9	Working capital expenditures from proceeds								
10	Capital expenditures from proceeds	6,671,363							
11	Other spent proceeds								
12	Other unspent proceeds								
13	Year of substantial completion	2006							
		Yes	No	Yes	No	Yes	No	Yes	No
14	Were the bonds issued as part of a current refunding issue?		X						
15	Were the bonds issued as part of an advance refunding issue?		X						
16	Has the final allocation of proceeds been made?	X							
17	Does the organization maintain adequate books and records to support the final allocation of proceeds?	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						
2	Are there any lease arrangements that may result in private business use of bond-financed property?		X						

Part III

Private 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 of bond-financed property?	X							
b	If "Yes" to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?	X							
c	Are there any research agreements that may result in private business use of bond-financed property?		X						
d	If "Yes" to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
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	0 00000%							
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	0 00000%							
6	Total of lines 4 and 5	0 00000%							
7	Does the bond issue meet the private security or payment test?		X						
8a	Has there been a sale or disposition of any of the bond financed property to a nongovernmental person other than a 501(c)(3) organization since the bonds were issued?		X						
b	If "Yes" to line 8a, enter the percentage of bond-financed property sold or disposed of								
c	If "Yes" to line 8a, was any remedial action taken pursuant to Regulations sections 1.141-12 and 1.145-2?								
9	Has the organization established written procedures to ensure that all nonqualified bonds of the issue are remediated in accordance with the requirements under Regulations sections 1.141-12 and 1.145-2?	X							

Part IV

Arbitrage

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has the issuer filed Form 8038-T?		X						
2	If "No" to line 1, did the following apply?								
a	Rebate not due yet?		X						
b	Exception to rebate?		X						
c	No rebate due?		X						
If you checked "No rebate due" in line 2c, provide in Part VI the date the rebate computation was performed									
3	Is the bond issue a variable rate issue?	X							
4a	Has the organization or the governmental issuer entered into a qualified hedge with respect to the bond issue?		X						
b	Name of provider								
c	Term of hedge								
d	Was the hedge superintegrated?								
e	Was a hedge terminated?								

Part IV

Arbitrage (Continued)

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
5a	Were gross proceeds invested in a guaranteed investment contract (GIC)?		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?								
6	Were any gross proceeds invested beyond an available temporary period?		X						
7	Has the organization established written procedures to monitor the requirements of section 148?	X							

Part V

Procedures To Undertake Corrective Action

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has the organization established written procedures to ensure that violations of federal tax requirements are timely identified and corrected through the voluntary closing agreement program if self-remediation is not available under applicable regulations?		X						

Part VI

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

Identifier	Return Reference	Explanation
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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  
  
2012  
  
Open to Public  
Inspection

Name of the organization  
UNIVERSITY PHYSICIANS HEALTHCARE

Employer identification number  
94-2958258

Identifier	Return Reference	Explanation
	FORM 990, PART VI, SECTION A, LINE 3	
	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 PHY SICIAN'S SOLE CORPORATE MEMBER
	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
	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
	FORM 990, PART VI, SECTION B, LINE 11	THE UNIVERSITY OF ARIZONA PHY SICIAN'S FORM 990 IS REVIEWED BY THE CHIEF FINANCIAL OFFICER, CHIEF EXECUTIVE OFFICER, AND AUDIT AND COMPLIANCE COMMITTEE OF THE BOARD OF DIRECTORS FO RM 990 IS DISTRIBUTED TO THE BOARD OF DIRECTORS PRIOR TO FILING WITH THE IRS
	FORM 990, PART VI, SECTION B, LINE 12C	THE UNIVERSITY OF ARIZONA PHY SICIANS REQUIRES BOARD MEMBERS, OFFICERS, AND KEY EMPLOYEES T O ANNUALLY COMPLETE A CONFLICT OF INTEREST FORM THESE FORMS ARE REVIEWED BY CORPORATE COM PLIANCE AND GENERAL COUNSEL ANY POTENTIAL CONFLICTS IDENTIFIED ARE SUBJECT TO FURTHER REV IEW BY SENIOR MANAGEMENT AND THE BOARD OF DIRECTORS
	FORM 990, PART VI, SECTION B, LINE 15	THE UNIVERSITY OF ARIZONA PHY SICIANS HIRES A THIRD PARTY CONSULTANT TO REVIEW COMPENSATION AND BENEFITS IN ADDITION, THE UNIVERSITY OF ARIZONA PHY SICIANS COMPLETES A SURVEY COMPAR ING THE COMPENSATION PACKAGE TO SIMILAR ORGANIZATIONS THE CEO HAS A WRITTEN EMPLOYMENT CO NTRACT THAT IS REVIEWED AND APPROVED BY THE UNIVERSITY OF ARIZONA HEALTH NETWORK'S COMPENS ATION COMMITTEE AND BOARD OF DIRECTORS
	FORM 990, PART VI, SECTION C, LINE 19	POLICIES ARE POSTED ON THE UNIVERSITY OF ARIZONA PHY SICIAN'S INTRANET GOVERNING DOCUMENTS AND FINANCIAL STATEMENTS ARE AVAILABLE UPON REQUEST

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

2012

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" to Form 990, Part IV, line 33.)

(a) Name, address, and EIN (if applicable) 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	-5,015,370	9,811,383	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	2,867,868	52,802,976	UNIVERSITY PHYSICIANS HEALTHCARE

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" to 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 entity?	
						Yes	No
See Additional Data Table							

Part III

Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" to 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) Disproporionate 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) UM LEASING LLC  4291 N CAMPBELL AVENUE TUCSON, AZ 85724 20-3400643	LEASING	AZ	UPH AND UMC	RELATED	278,736	1,371,148		No		Yes		50 000 %

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" to 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	(i) Section 512 (b)(13) controlled entity?	
								Yes	No
(1) ACADEMIC INSURANCE FUNDING LTD  PO BOX 1051 GEORGETOWN GRAND CAYMAN KY1-1102  CJ 98-0116943	CAPTIVE INSURANCE	CJ	N/A	C					No
(2) THE UNIVERSITY OF ARIZONA HEALTH PLANS- UNIVERSITY HEALTHCARE INC  2701 E ELVIRA ROAD TUCSON, AZ 85756 45-4370907	HEALTH INSURANCE	AZ	N/A	C					No

Part V

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

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

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 or (iv) rent from a controlled entity

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

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

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

e Loans or loan guarantees by related organization(s)

f Dividends from related organization(s)

g Sale of assets to related organization(s)

h Purchase of assets from related organization(s)

i Exchange of assets with related organization(s)

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

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

l Performance of services or membership or fundraising solicitations for related organization(s)

m Performance of services or membership or fundraising solicitations by related organization(s)

n Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)

o Sharing of paid employees with related organization(s)

p Reimbursement paid to related organization(s) for expenses

q Reimbursement paid by related organization(s) for expenses

r Other transfer of cash or property to related organization(s)

s Other transfer of cash or property from related organization(s)

Yes

No

1a

1b

1c

1d

1e

1f

1g

1h

1i

1j

1k

1l

1m

1n

1o

1p

1q

1r

1s

No

No

No

No

No

No

No

No

No

No

No

No

Yes

No

No

Yes

Yes

No

No

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-s)	(c) Amount involved	(d) Method of determining amount involved
(1) CADUCEUS INDEMNITY INSURANCE	F	6,800,000	ACTUAL TRANSFER
(2) CADUCEUS INDEMNITY INSURANCE	M	4,913,661	ACTUAL TRANSFER
(3) CADUCEUS INDEMNITY INSURANCE	P	2,816,669	ACTUAL TRANSFER

Schedule R (Form 990) 2012

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]

**Software ID:**  
**Software Version:**  
**EIN:** 94-2958258  
**Name:** UNIVERSITY PHYSICIANS HEALTHCARE

**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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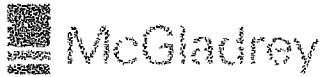
# **The University of Arizona Health Network and Subsidiaries**

Consolidated Financial Report  
With Independent Auditor's Report Thereon  
June 30, 2013 and 2012

## Contents

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## Independent Auditor's Report

To the Board of Directors  
The University of Arizona Health Network  
Tucson, Arizona

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The University of Arizona Health Network and Subsidiaries (the Corporation), a component of the State of Arizona, as of and for the years ended June 30, 2013 and 2012, and the related notes to the consolidated financial statement, which collectively comprise the Corporation's consolidated financial statements, as listed in the table of contents

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### ***Required Supplementary Information***

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

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual subsidiaries and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating and other supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements, or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

A handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

Minneapolis, Minnesota  
October 23, 2013

## **The University of Arizona Health Network and Subsidiaries**

### **Management's Discussion and Analysis Years Ended June 30, 2013, 2012 and 2011**

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The University of Arizona Health Network (UAHN) and Subsidiaries (the Corporation), an Arizona not-for-profit corporation, controls The University Medical Center Corporation and subsidiaries (UMC) and University Physicians Healthcare and subsidiaries (UPH)

**The University of Arizona Health Network and Subsidiaries** is comprised of a Hospital Division, a faculty-physician practice plan division known as The University of Arizona Physicians, a health plans division known as The University of Arizona Health Plans, and the University Medical Center Foundation

**The Hospital Division** encompasses The University of Arizona Medical Center—University Campus (formerly University Medical Center), The University of Arizona Medical Center—South Campus (formerly University Physicians Hospital), and more than 40 physician offices and clinics across southern Arizona

The University of Arizona Medical Centers are not-for-profit, tax-exempt hospitals that serve as the primary teaching hospitals for The University of Arizona (UA) Colleges of Medicine, Nursing, Pharmacy and Public Health

The University of Arizona Medical Center—University Campus (University Campus) was founded in 1971 as University Hospital, the state's first and only academic medical center. It is currently licensed for 487 beds. The University of Arizona Medical Center—South Campus (South Campus) is a 245-bed full-service hospital and outpatient treatment center managed by UPH under an operating agreement with Pima County.

**The University of Arizona Physicians Division (UAP)** is the practice plan of the faculty-physicians of the University of Arizona College of Medicine. Physicians are employed by both the University of Arizona and by the practice plan. UAP is the largest multi-specialty physician practice in Arizona. It employs more than 700 physicians who are the full-time faculty of the UA College of Medicine.

UAP physicians practice at the University Campus and South Campus and at numerous hospital clinics across Tucson, southern Arizona and Nevada.

As faculty of the UA College of Medicine, UAP educate more than 500 medical students and train nearly as many post-graduate medical residents annually. They also conduct research at the UA's Arizona Cancer Center, Steele Children's Research Center, Arizona Arthritis Center, Sarver Heart Center and many other facilities and programs.

**The University of Arizona Health Plans Division (UAHP)** offers health care insurance plans through three separate subdivisions:

- **Health Care Group (HCG)** provides health plan services to small businesses with between two and 50 employees under a state-sponsored commercial plan under contract with the Arizona Health Cost Containment System (AHCCCS) in various counties in southern Arizona.
- **University Family Care (UFC)** provides health plan services to enrollees under a contract with AHCCCS in various counties in southern Arizona.
- **University Care Advantage (UCA)** offers a Medicare Advantage Prescription Drug (MAPD) plan to enrollees who are dually eligible for both Medicare and Medicaid under contract with Centers for Medicare & Medicaid Services (CMS).
- **Management Contract (MC)** offers health plan services to Maricopa Health Plan, a contract of Maricopa Integrated Health System (MIHS), an AHCCCS managed-care plan under an administrative agreement with MIHS.

## **The University of Arizona Health Network and Subsidiaries**

### **Management's Discussion and Analysis Years Ended June 30, 2013, 2012 and 2011**

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The UAHP covers 122,000 lives from eight counties, with five products, including contracts that are either capitation risk contracts or administrative services agreements

**The University Medical Center Foundation (UMCF)** provides philanthropic support to the University of Arizona Health Network and Subsidiaries. The UMCF reinvests all earnings into the improvement of patient care, education and research, and capital improvements. Several major new buildings and many patient-care advances have been made possible by private philanthropic support. On May 21, 2013, the board of directors of the UMCF determined to discontinue active fundraising efforts. UMC will control UMCF's remaining assets, and the philanthropic support of the Corporation is now coordinated with the University of Arizona Foundation, an affiliate of the University of Arizona.

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 years ended June 30, 2013, 2012 and 2011. Readers are encouraged to consider the information presented here in conjunction with the accompanying consolidated financial statements.

#### **Using This Annual Report**

This annual report includes the consolidated financial statements of The University of Arizona Health Network and Subsidiaries, UMC and Subsidiaries, and UPH and Subsidiaries. These statements are designed to provide readers with an overview of the Corporation's finances. The consolidated balance sheets present information on the Corporation's assets, liabilities and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. The consolidated statements of revenues, expenses and changes in net position presents information indicating how the Corporation's net position changed during fiscal years 2013 and 2012. All changes in net position 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 consolidated financial statements provide additional information that is integral to an understanding of the information provided in the financial statements.

#### **Business Strategy**

The Corporation has moved into the implementation phase of a joint strategic plan with the UA College of Medicine. The plan integrates both organizations towards "Excellence The Path to Premier Academic Medicine." Their common goals focus on:

- Creative, humanistic education
- Innovative research
- Community health and wellness
- Strategic growth

## **The University of Arizona Health Network and Subsidiaries**

### **Management's Discussion and Analysis Years Ended June 30, 2013, 2012 and 2011**

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These goals are built upon the foundation of quality outcomes, financial stability and a unified culture. Implementation has already begun on the following critical business initiatives from the strategic plan:

- An expansion of the University of Arizona Health Plans into the commercial insurance exchange market
- Development of a service line business development strategy
- Implementation towards a long-term ambulatory strategy that consolidates services across UAHN facilities to create better utilization of facilities and address the changing market needs
- Optimizing access to care opportunities to make it easier for referring physicians and patients to access quaternary and tertiary care within the health network
- A refocus on providing a consistently high-quality patient experience

One of the Corporation's key business strategies is the establishment of a single, integrated electronic health record system that is expected to go live in November 2013. We expect the implementation of the Epic electronic health record system to greatly improve quality, safety, research opportunities and cost-effective patient care.

### **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.

### **Health Care Local Market**

The Corporation is located in Tucson, Arizona. It provides a network of tertiary and quaternary-level health care and is a major medical referral center for Arizona and other southwestern states. University Campus is the only Level 1 trauma center in southern Arizona. University Campus and South Campus 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). 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 three years. Current contracted rates and reimbursement rates established by government programs may not be adequate to compensate for increasing health care costs.

The Corporation also operates The University of Arizona Health Plans (UAHP), serving 122,000 Medicaid, Medicare and state-sponsored covered lives through contracts with AHCCCS, CMS and MIHS. UAHP operates in eight of the 15 Arizona counties, including Pima, Maricopa, Cochise, Santa Cruz, Pinal, Gila, Graham and Greenlee Counties.

## The University of Arizona Health Network and Subsidiaries

### Management's Discussion and Analysis Years Ended June 30, 2013, 2012 and 2011

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 AHCCCS rates at their 2008 payment levels. AHCCCS has imposed rate reductions of 5 percent in April 2011 and another 5 percent in October 2011. In addition, AHCCCS has also imposed other coverage reductions that have had the impact of reducing the number of covered lives in the statewide AHCCCS program. This increase in the number of statewide uninsured has created an unfavorable shift in the Corporation's payor mix. This, as well as the uncertainty surrounding national health care reform efforts, will continue to negatively impact the Corporation's financial results.

#### 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 did not significantly affect the 2013 basic consolidated financial statements.

#### Results of Operations

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

	2013	2012	2011
Operating revenues			
Net patient service revenue	\$ 836,574	\$ 814,399	\$ 750,958
Capitation revenue	278,528	288,677	328,076
Contract and other operating revenue	57,980	59,702	42,545
Total operating revenues	1,173,082	1,162,778	1,121,579
Operating expenses			
Salaries and wages	461,703	451,440	411,916
Employee benefits	74,938	70,664	72,440
Supplies	184,511	177,711	158,076
Purchased services	39,935	36,793	35,075
Medical claims	188,768	194,707	215,201
Other	148,424	178,442	161,024
Depreciation and amortization	39,290	39,220	37,916
Total operating expenses	1,137,569	1,148,977	1,091,648
Operating income	35,513	13,801	29,931
Nonoperating items	(5,729)	(17,241)	290
Increase (decrease) in net position	\$ 29,784	\$ (3,440)	\$ 30,221

## **The University of Arizona Health Network and Subsidiaries**

### **Management's Discussion and Analysis Years Ended June 30, 2013, 2012 and 2011**

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#### **Years Ended June 30, 2013, 2012 and 2011**

Net patient service revenue for 2013 increased 3 percent over fiscal 2012, reflecting 8 percent increase in volume. While inpatient days are down, the increase in volume is reflected by a strong increase in outpatient services, consisting of surgical procedures and emergency room visits and a shift to observation days. Net patient service revenue for 2012 increased 8 percent over fiscal 2011, with a 7 percent increase in volume. The increase in volume in 2012 reflects demand for our services and increased bed availability due to increased staffing and our successful efforts to enhance patient flow through the two hospitals. In addition, the Corporation opened the new state-of-the-art Behavioral Health Pavilion in 2012 at South Campus. The new facility provides inpatient and outpatient services as well as emergency medical and behavioral health services. Net revenue per adjusted patient day decreased slightly to \$2,507 in fiscal 2013, as compared to \$2,641 in fiscal 2012 and \$2,598 in fiscal 2011.

Capitation and contract revenue decreased 3 percent in 2013 compared to 2012 and decreased 8 percent in 2012 compared to 2011. The decrease in 2013 was primarily driven by the University Care Advantage (UCA), UAHP's Medicare special needs plan. Although UCA's admits were at budget, the cost per admit exceeded expectations and the revenue per-member per-month (PMPM) decreased. The decrease in 2012 was driven by a higher-than-expected number of members who had lower-than-expected medical claims, which are partially cost-reimbursed, coupled with the fact that AHCCCS provided less funds per member than in the prior year.

Salaries, wages and employee benefits for 2013 increased 3 percent over 2012, while full-time equivalent employees decreased from 6,611 in 2012 to 6,231 in 2013. Salaries, wages and employee benefits for 2012 increased 9 percent over 2011, reflecting an increase in full-time-equivalent employees from 6,231 in 2011 to 6,611 in 2012. There was also a 9 percent increase in the rate paid per full-time-equivalent employee in 2013 as compared to 2012 and 5 percent in 2012 compared to 2011. The increase in the rate paid per full-time-equivalent was not only driven by a modest overall market increase in pay but also an increase in the amount of overtime. Most of the 2012 increases in employees were related to the expansion of services and additional physician recruitment in 2011.

Supplies expense for 2013 increased approximately 4 percent over 2012, and for 2012 increased approximately 12 percent over 2011. During 2012, the health care industry has experienced a nationwide drug shortage, which resulted in higher costs. In addition to the drug shortage, the Corporation experienced an increase in specific bone marrow transplant cases, which use high-cost drugs. In 2013 and 2012, surgery volumes increased 2 percent and 8 percent, respectively, also contributing to the supply increase. The increase in drug supply expense was offset by savings on the medical and surgical supplies through a value analysis program, where physician leadership participates in the pricing negotiations and product selection process.

Medical claim expense relates to claims paid for health plan members. Medical claim expense decreased approximately 3 percent in 2013 compared to 2012, primarily due to member months, which decreased 121,000, or 7 percent, in 2013 compared to 2012. Medical claim expense decreased approximately 10 percent in 2012 compared to 2011 due to a 9 percent decrease in per-member per-month cost resulting from the April 2011 and October 2011 physician fee schedule reduction, the October 2012 hospital fee schedule reduction, the October 2011 25-day inpatient limitation, and a 17,348 decrease in member months. Medical claims expenses paid for health plan members to the Corporation for patient services provided are eliminated within the consolidated financial statements.

## The University of Arizona Health Network and Subsidiaries

### Management's Discussion and Analysis Years Ended June 30, 2013, 2012 and 2011

Purchased services consist primarily of outsourced dietary, environmental and biomedical equipment services, organ procurement and other expenses. The 9 percent increase for 2013 from fiscal year 2012 was primarily driven by the 8 percent increase in overall volume that drives these outsourced services. The 5 percent increase for 2012 from fiscal year 2011 was primarily driven by increased cost of organ procurement, which was a result of a 9 percent increase in transplant cases.

Other expenses consist primarily of professional services, insurance, utilities, repairs and maintenance, and leases. There was a 17 percent decrease in other operating expenses in 2013 compared to 2012 and an 11 percent increase in other operating expenses in 2012 compared to fiscal year 2011. This was primarily driven by professional services, medical and nonmedical, which decreased 34 percent in 2013 compared to fiscal year 2012 and increased 2 percent in 2012 compared to fiscal year 2011. The change in professional services-medical and nonmedical was primarily due to decreased legal and consulting expense related to the revenue cycle engagement and marketing and branding efforts in 2012 for the now-integrated Corporation and did not reoccur at that level in 2013.

Interest expense, included in nonoperating items in the above table, reflecting interest incurred on the Corporation's bonds payable, decreased to \$17,302,000 in 2013 from \$17,971,000 in 2012 and increased to \$17,971,000 in 2012 from \$16,266,000 in 2011. The decrease in 2013 interest expense is primarily due to reduction in principal. The increase in 2012 interest expense was related to the additional interest on the UMC bond issuance in the amount of \$73,275,000 in July 2011. In fiscal 2013, the Corporation capitalized interest on construction activity of \$291,000 compared to \$114,000 in fiscal year 2012 and \$271,000 in fiscal year 2011.

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

Operating Statistics	2013	2012	2013 vs 2012	2011	2012 vs 2011
Net patient service revenue (in thousands)	\$ 836,574	\$ 814,399	2.7%	\$ 750,958	8.7%
Net patient service revenue per adjusted patient days	2,507	2,613	(4.1)%	2,562	1.9%
Admissions (a)	30,331	32,612	(7.0)%	31,281	4.2%
Average length of stay (a) (in days)	5.68	5.29	7.4%	5.28	0.1%
Patient days (a)	172,163	172,360	(0.1)%	165,140	4.3%
Adjusted patient days (a) (b)	333,690	308,331	8.2%	289,181	6.6%
Member months (enrollment)	1,506,168	1,626,987	(7.4)%	1,641,037	(0.8)%
Days per K (c)	645	677	(4.7)%	718	(5.7)%
Admits per K (d)	169	179	(5.4)%	184	(2.7)%

(a) Excludes newborns

(b) Adjusted patient days represents 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.

(c) Days per K: Total inpatient days/total member months x 12,000 represents the annualized number of days incurred per 1,000 members.

(d) Admits per K: Total inpatient days/total admissions x 12,000 represents the annualized number of admits incurred per 1,000 members.



## The University of Arizona Health Network and Subsidiaries

### Management's Discussion and Analysis Years Ended June 30, 2013, 2012 and 2011

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#### Revenue and Volume Trends

The Corporation's revenues depend upon inpatient occupancy levels, ancillary services, the volume of outpatient procedures, clinic visits, 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 1 percent increase and a 4 percent increase in total operating revenue in 2013 versus 2012, and 2012 versus 2011, respectively, due to a variety of factors, including the Indirect Medical Education (IME) funding from AHCCCS and Safety Net Care Pool (SNCP) 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 2013, AHCCCS continued their fiscal year 2008 rate freeze until April 2011, when they enacted an additional 5 percent rate cut each in April 2011 and October 2011. In addition, AHCCCS has also imposed other coverage reductions that have had the effect of reducing the number of covered lives in the statewide AHCCCS program. The Corporation believes it will not realize any rate increases from AHCCCS during calendar year 2013.

The UAHP capitation revenue is composed of per-member per-month rates as defined by AHCCCS and the Centers for Medicare & Medicaid Services (CMS) contracts. These amounts are paid based upon membership enrollment as of the first day of each month. Total revenue is dependent upon the enrollment of the plans, which includes new enrollment and disenrollments each month. Profitability of certain populations in the AHCCCS enrollment is limited by AHCCCS policy, which results in receivables or payables of capitation settlement revenues. The UAHP administrative services revenue is composed of a per-member per-month rate as defined by the contract with MIHS.

#### Financial Position

The following are condensed balance sheets at June 30

	2013	2012	2011
<b>Assets</b>			
Current assets	\$ 418,853	\$ 406,994	\$ 374,588
Assets held by trustee, net of current portion	26,031	26,571	23,808
Capital assets, net	406,474	385,561	375,122
Other assets, net	86,779	93,386	86,830
	<u>\$ 938,137</u>	<u>\$ 912,512</u>	<u>\$ 860,348</u>
<b>Liabilities</b>			
Current liabilities	\$ 214,238	\$ 211,528	\$ 186,182
Long-term debt and long-term liabilities	333,605	340,474	310,216
Total liabilities	<u>547,843</u>	<u>552,002</u>	<u>496,398</u>
<b>Net position</b>	<u>390,294</u>	<u>360,510</u>	<u>363,950</u>
	<u>\$ 938,137</u>	<u>\$ 912,512</u>	<u>\$ 860,348</u>

## **The University of Arizona Health Network and Subsidiaries**

### **Management's Discussion and Analysis Years Ended June 30, 2013, 2012 and 2011**

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#### **Liquidity and Capital Resources**

Cash and short-term unrestricted investments totaled approximately \$155 million, \$161 million and \$196 million at June 30, 2013, 2012 and 2011, respectively. The change in these liquid assets reflects \$45 million in cash provided by operations, offset by \$60 million in capital expenditures. Net cash provided by operating activities increased as compared to the prior year from \$6 million in 2012 to \$35 million in 2013 and decreased from \$41 million in 2011 to \$6 million in 2012, due primarily to payment timing differences for certain current assets and liabilities.

At June 30, 2013, 2012 and 2011, the Corporation's current ratio, which compares current assets to current liabilities, was 2.0, 1.9 and 2.0, respectively. The Corporation's days net patient service revenue in accounts receivable was steady at 57, 56 and 57 days at June 30, 2013, 2012 and 2011, respectively. Capital expenditures totaled \$60 million in 2013 and \$48 and \$47 million in 2012 and 2011, respectively.

At June 30, 2013, projects under construction were approximately \$44 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.

At June 30, 2013, the Corporation had \$338 million in debt outstanding versus \$342 million at June 30, 2012, and \$306 million at June 30, 2011. The increase in debt outstanding in 2012 was primarily due to the Series 2011 UMC bond issuance offset by the refunding of some prior issuances. The current portion of assets held by trustee for payments to bondholders payable on July 1 of each year includes \$14 million at June 30, 2013, \$13 million at June 30, 2012, and \$12 million at June 30, 2011, respectively. Maturities and other information regarding the current bond obligations are presented in Note 9 to the Corporation's consolidated financial statements.

The increase in total assets in 2012 from 2011 primarily is due to an increase in capital assets related to the Corporation's new electronic health record system.

#### **Market Risk Associated With Financial Instruments**

The Corporation is exposed to market risk related to changes in fair values of securities. The fair value of investments is primarily based 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 Corporation's equity and debt investment securities, excluding amounts held by trustees, totaled approximately \$177 million at June 30, 2013. This includes investment securities held by the UMC and UPH Captives of \$66 million at June 30, 2013. With respect to the Corporation's interest-bearing liabilities, the debt payable of \$338 million at June 30, 2013, is primarily subject to fixed rates of interest. The effective interest rates on debt payable range from 4.081 percent to 6.480 percent.

## **The University of Arizona Health Network and Subsidiaries**

### **Management's Discussion and Analysis Years Ended June 30, 2013, 2012 and 2011**

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#### **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 fee schedule set by the state based on current budgetary conditions. 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 increases 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.

The UAHP has incurred revenue rate reductions from AHCCCS consistent with the AHCCCS provider reimbursement reductions for several years. Based upon the UAHP contracting strategy, the rate reductions from AHCCCS typically translate into almost equivalent medical cost reductions. However, in October 2011, AHCCCS reduced revenue of all of its contracted health plans through implementation of an additional revenue reduction coupled with a new profit limitation. This particular revenue reduction did not translate into medical cost reductions. The total net revenue reduction of the prospective population approximated \$1,900,000.

#### **Contact Information**

The University of Arizona Health Network  
Attn: Administration  
1501 North Campbell Ave  
Tucson, AZ 85724  
[www.uahealth.com](http://www.uahealth.com)

**The University of Arizona Health Network and Subsidiaries**

**Consolidated Balance Sheets**  
**June 30, 2013 and 2012**  
**(In Thousands)**

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Current Assets		
Cash	\$ 31,727	\$ 62,715
Short-term investments	123,411	98,330
Patient accounts receivable, net	129,117	125,548
Capitation and contract receivable, net	13,302	14,283
Supplies inventory	20,057	17,416
Assets held by trustee, current portion	14,394	13,284
Prepaid expenses and other	86,845	75,418
<b>Total current assets</b>	<b>418,853</b>	<b>406,994</b>
Assets Held by Trustee, net of current portion	26,031	26,571
Long-Term Investments	74,117	80,788
Capital Assets, net	406,474	385,561
Other Assets, net	12,662	12,598
<b>Total</b>	<b>\$ 938,137</b>	<b>\$ 912,512</b>
<b>Liabilities and Net Position</b>		
Current Liabilities		
Accounts payable	\$ 60,256	\$ 61,282
Accrued payroll and employee benefits	67,028	56,625
Accrued medical claims	23,332	25,169
Accrued professional liability	12,711	16,382
Other accrued liabilities	23,438	24,355
Current portion of long-term debt	27,473	27,715
<b>Total current liabilities</b>	<b>214,238</b>	<b>211,528</b>
Long-Term Debt, net of current portion	310,565	313,914
Other Long-Term Liabilities	23,040	26,560
<b>Total liabilities</b>	<b>547,843</b>	<b>552,002</b>
Commitments and Contingencies		
Net Position		
Net investment in capital assets	86,599	65,946
Restricted for bonds payable	9,536	8,625
Restricted by donor and other	21,510	15,693
Unrestricted	272,649	270,246
<b>Total net position</b>	<b>390,294</b>	<b>360,510</b>
<b>Total</b>	<b>\$ 938,137</b>	<b>\$ 912,512</b>

See Notes to Consolidated Financial Statements

**The University of Arizona Health Network and Subsidiaries**

**Consolidated Statements of Revenues, Expenses and Changes in Net Position**

**Years Ended June 30, 2013 and 2012**

**(In Thousands)**

	2013	2012
Operating revenues		
Net patient service revenue	\$ 836,574	\$ 814,399
Capitation revenue	278,528	288,677
Contract and other operating revenue	57,980	59,702
<b>Total operating revenues</b>	<b>1,173,082</b>	<b>1,162,778</b>
Operating expenses		
Salaries and wages	461,703	451,440
Employee benefits	74,938	70,664
Supplies	184,511	177,711
Purchased services	39,935	36,793
Professional services, medical	30,968	43,779
Professional services, nonmedical	14,122	24,732
Medical claims expenses	188,768	194,707
Utilities	13,514	12,417
Other	89,820	97,514
Depreciation and amortization	39,290	39,220
<b>Total operating expenses</b>	<b>1,137,569</b>	<b>1,148,977</b>
<b>Operating income</b>	<b>35,513</b>	<b>13,801</b>
Nonoperating revenues and (expenses)		
Investment income	11,573	730
Interest expense	(17,302)	(17,971)
<b>Total nonoperating revenues and (expenses)</b>	<b>(5,729)</b>	<b>(17,241)</b>
<b>Increase (decrease) in net position</b>	<b>29,784</b>	<b>(3,440)</b>
Net position, beginning of year	360,510	363,950
Net position, end of year	<b>\$ 390,294</b>	<b>\$ 360,510</b>

See Notes to Consolidated Financial Statements

**The University of Arizona Health Network and Subsidiaries**

**Consolidated Statements of Cash Flows**

**Years Ended June 30, 2013 and 2012**

**(In Thousands)**

	2013	2012
Cash Flows From Operating Activities		
Cash received for services provided and other operating receipts	\$ 889,924	\$ 926,832
Capitation and contract services received	275,959	299,940
Cash paid for employees and benefits	(527,074)	(524,257)
Cash paid for supplies, purchased services and other	(413,436)	(496,044)
Cash paid for medical claims	(190,605)	(199,972)
<b>Net cash provided by operating activities</b>	<b>34,768</b>	<b>6,499</b>
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets	(59,905)	(47,590)
Proceeds from issuance of Series 2011 Bonds, net of issuance cost	-	73,239
Proceeds from borrowings on line of credit	18,250	4,000
Repayment of line of credit	(12,466)	-
Extinguishment of bonds	(4,207)	-
Proceeds from note payable	9,440	-
Advance refunding of bonds payable	-	(33,033)
Principal payments on bonds payable	(13,403)	(7,486)
Principal payments on notes payable	(407)	(1,282)
Repayment of capital lease	(1,870)	(2,698)
Cash paid for interest	(17,115)	(18,879)
Fundraising and grants received net of expenses paid	(266)	(29)
<b>Net cash used in capital and related financing activities</b>	<b>(81,949)</b>	<b>(33,758)</b>
Cash Flows From Investing Activities		
Purchases of investments	(131,939)	(224,337)
Proceeds from sales of investments	136,946	291,191
(Increase) decrease in assets held by trustee, net	1,051	(3,537)
Investment income received and other	10,135	3,584
<b>Net cash provided by investing activities</b>	<b>16,193</b>	<b>66,901</b>
<b>Net (decrease) increase in cash</b>	<b>(30,988)</b>	<b>39,642</b>
Cash, beginning of year	62,715	23,073
Cash, end of year	\$ 31,727	\$ 62,715

See Notes to Consolidated Financial Statements

**The University of Arizona Health Network and Subsidiaries**

**Consolidated Statements of Cash Flows (Continued)**

**Years Ended June 30, 2013 and 2012**

**(In Thousands)**

	2013	2012
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities		
Operating income	\$ 35,513	\$ 13,801
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	39,317	39,220
Loss on disposal of capital assets	(27)	69
Changes in assets and liabilities		
Patient accounts receivable, net	(9,680)	(1,515)
Supplies inventory	(2,641)	(2,228)
Prepaid expenses and other	(7,881)	(50,117)
Other assets	9,556	3,501
Accounts payable	(3,392)	8,693
Accrued payroll, employee benefits and other capitation	11,602	(52)
Accrued medical claims	91	(7,814)
Other accrued liabilities	(37,690)	2,748
Other long-term liabilities	-	193
<b>Net cash provided by operating activities</b>	<b>\$ 34,768</b>	<b>\$ 6,499</b>
Supplemental Schedule of Noncash Investing, Capital and		
Financing Activities		
Capital expenditures included in accounts payable	\$ 1,897	\$ 1,158
Interest capitalized, net of earnings on related bond proceeds	291	114
Change in pledges receivable	(897)	(273)
Change in unrealized net appreciation on investments	1,438	(1,177)

See Notes to Consolidated Financial Statements

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Organization and Operations

The University of Arizona Health Network (UAHN) and Subsidiaries (the Corporation), an Arizona not-for-profit corporation, controls The University Medical Center Corporation and Subsidiaries (UMC) and University Physicians Healthcare and Subsidiaries (UPH). The members of the Corporation's Board of Directors are appointed by the Arizona Board of Regents (ABOR).

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. The Corporation accounted for the business combination as a "pooling like" transaction in which the historical basis of the assets, liabilities and net position of the separate organizations were combined as of the beginning of the year (July 1, 2010) in which it occurred.

UMC consists of the following:

- The University of Arizona Medical Center—University Campus (University Campus) was founded in 1971 as University Hospital, the state's first and only academic medical center. It 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, the University Campus is southern Arizona's sole Level 1 trauma center. The University Campus is a primary teaching hospital for The University of Arizona (UA) Colleges of Medicine, Nursing, Pharmacy and Public Health.
- 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 consists of the following:

- The University of Arizona Physicians (UAP) is the practice plan of the faculty-physicians of the University of Arizona (UA) College of Medicine. Physicians are employed by both the UA and by the practice plan. UAP is the largest physician practice in Arizona. It employs more than 700 physicians who are the full-time faculty of the UA College of Medicine. UAP physicians practice at the Corporation's hospitals and at numerous hospitals and clinics across Tucson, southern Arizona and Nevada. As faculty of the UA College of Medicine, UAP physicians educate more than 500 medical students and train nearly as many post-graduate medical residents annually. They also conduct research at The University of Arizona's Arizona Cancer Center, Steele Children's Research Center, Arizona Arthritis Center, Sarver Heart Center and many other facilities and programs.
- The University of Arizona Medical Center - South Campus (South Campus) is a 245-bed full-service hospital and outpatient treatment center managed by UPH under an operating agreement with Pima County. South Campus is a primary teaching hospital for UA Colleges of Medicine, Nursing, Pharmacy and Public Health.



## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Organization and Operations (Continued)

- The University of Arizona Health Plans (UAHP) offer health care insurance plans through three separate subdivisions
  - Health Care Group (HCG) offers insurance plans to small businesses with between two and 50 employees
  - University Family Care (UFC) offers insurance plans to enrollees under a contract through the Arizona Health Care Cost Containment System (AHCCCS) in various counties in southern Arizona
  - The University of Arizona Health Plans—University Care Advantage (UCA) offers Medicare Advantage prescription drug coverage to enrollees who are dually eligible for both Medicare and Medicaid
  - Management Contract (MC) offers health plan services to Maricopa Health Plan, a contract of Maricopa Integrated Health System (MIHS), an AHCCCS managed care plan under an administrative agreement with MIHS
  - University Healthcare Marketplace (UHM) will provide health plan services to members enrolled in the Federal Facilitated Marketplace starting January 1, 2014, in various counties in Arizona. UHM is an Arizona Department of Insurance licensed health plan
- Caduceus Indemnity Insurance Corporation, Ltd (UPH Captive) is a captive insurance company, domiciled in Hawaii, used to fund professional liability and malpractice insurance coverage

The Corporation has formed divisions to more efficiently operate its business. The Corporation operates a hospital division, which encompasses University Campus, South Campus, and more than 40 physician offices and clinics across southern Arizona, a practice plan division, encompassing UAP, and a health plans division, encompassing UAHP.

#### 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 Entities*, and follows accounting principles generally accepted in the United States of America. Accounting records are maintained on the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Operating revenues and expenses:** The Corporation's consolidated statements of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care and health insurance services, the Corporation's principal activities. Operating expenses are all expenses incurred to provide health care and health insurance services other than financing costs and fundraising expenses. Nonoperating revenues include investment income and capital-related and other contributions. 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:** 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. At June 30, 2013, the Corporation had a book balance of cash of \$31,727,000 and bank balance of \$45,115,756. The depository insurance related to these bank balances at June 30, 2013, was \$1,250,000.

**Investments:** Investments are carried at fair value generally based on quoted market prices or an amount determined by external investment managers if quoted prices are not available. Management reviews and evaluates fair value provided by the external managers, as well as the valuation methods and assumptions used in determining the fair value of such investments. 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 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, 2013 and 2012, the estimated fair value of the Corporation's bonds payable was approximately \$323,616,000 and \$347,077,000, respectively.

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 \$300,946,000 and \$266,988,000 as of June 30, 2013 and 2012, respectively.

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

The Corporation grants credit without collateral to its patients. The following summarizes the estimated percentage of net accounts receivable from all payors as of June 30, 2013 and 2012:

	2013	2012
Medicare	30%	31%
Arizona Health Care Cost Containment System (AHCCCS)	20%	26%
Other third-party and commercial payors	38%	33%
Other, including self pay	12%	10%

**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 \$5,000 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 capital asset's estimated useful life or lease term. Estimated useful lives are as follows:

	Years
Buildings and improvements, leasehold improvements, including certain fixed equipment	10 - 40
Equipment	3 - 15

**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. Considerable variability is inherent in such estimates, and there is at least a possibility that recorded estimates will change by a material amount in the near term.

**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 resulted in a premium deficiency reserve of \$1,021,000 and \$185,000 at June 30, 2013 and 2012, respectively.

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Net position:** In accordance with Governmental Accounting Standards Board (GASB) Statement No. 63 (See Note 17), the consolidated financial statements utilize a net position presentation. Net position of the Corporation is classified in three components. *Net position invested in capital assets* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of these assets. *Restricted net position* categories consist of noncapital net position that must be used for a particular purpose, as specified by creditors, grantors or contributors external to the Corporation. *Unrestricted net position* are remaining net position that do not meet the definition of restricted or invested in capital assets.

**Income taxes:** In general, the Corporation's subsidiaries are not-for-profit entities as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code and related state laws. The Corporation itself applied for Section 501(c)(3) tax-exempt status with the Internal Revenue Service, and the application is pending.

The Corporation has reviewed its tax positions for all open tax years and has concluded that no liabilities exist as of June 30, 2013 and 2012. The Corporation files tax returns with the U.S. federal and the State of Arizona jurisdictions. With few exceptions, the Corporation is no longer subject to U.S. federal examinations by tax authorities for years before 2008.

**Premium tax:** The State of Arizona imposes a premium tax on capitation payments paid to UAHP by AHCCCS. UAHP 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 position.

**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.

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

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#### **Note 2. Summary of Significant Accounting Policies (Continued)**

During the fiscal year ended June 30, 2012, the federal government approved the creation of the Safety Net Care Pool (SNCP) in the state of Arizona. Under this SNCP program, the Corporation is reimbursed for a portion of costs already incurred for uncompensated care and AHCCCS costs in excess of reimbursement. This reimbursement is facilitated through intergovernmental transfers in accordance with specific state statutes subject to federal regulations and approval.

SNCP reimbursements are recorded as net patient service revenue in the statement of revenues, expenses and changes in net position. The Corporation received and recognized net revenue of approximately \$63,000,000 and \$32,000,000 in 2013 and 2012, respectively.

During fiscal years 2013 and 2012, AHCCCS committed approximately \$53,000,000 and \$48,000,000, respectively, to the Corporation related to the Corporation's eligible unreimbursed Indirect Medical Education (IME) costs. The fiscal year 2013 and 2012 funds were not received by June 30, and are recorded in prepaid expenses and other on the consolidated balance sheet. In both years, the revenue associated with IME was recorded in net patient service revenue. The availability of these funds was made possible due to the Corporation's unreimbursed IME costs and facilitated by matching funds made available by UA and Pima County.

**Capitation revenue:** Capitation revenue consists of monthly capitation fees as agreed upon by the Corporation and the contracting agency. Amounts receivable under these agreements are recorded as capitation 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 16), is received primarily from AHCCCS. Revenues are recognized in the period to 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.

**Contract and other operating revenue:** Contract revenue consists of amounts earned under contracts that require the Corporation to provide health care services to subscribers of the contracting agency for either set monthly fees or other amounts earned under contractual provisions.

Other operating revenue includes amounts received from UA to help defray a portion of the costs incurred by the Corporation in support of the academic mission of UA (see Note 14). Also included in other operating revenue are amounts received from the State of Arizona to support the trauma readiness costs and electronic health records (EHR).

The Corporation recognizes revenue for Incentive Funding for Meaningful Use of Electronic Health Records payments from AHCCCS and Medicare in the period in which it has obtained reasonable assurance that it is in compliance with the applicable EHR meaningful use requirements. Accordingly, the Corporation recognized \$3,798,328 and \$10,878,000 of operating revenue for EHR incentives for the year ended June 30, 2013 and 2012, respectively. A portion of the revenues from incentive payments are subject to retrospective adjustments, as those incentive payments are calculated using Medicare cost report data that is subject to audit. Additionally, the Corporation's compliance with the meaningful use criteria is subject to audit by the federal government and AHCCCS.

**Community benefit:** The Corporation furthers its charitable purpose by providing a wide variety of benefits to the community. These services and donations account for a measurable portion of the Corporation's costs and serve to promote affordable access to care, health education, community development and healthy lifestyles (See Note 3).

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**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 two 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 received from AHCCCS are reduced by the reinsurance cost. 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 reinsurance claims are reported in the accompanying consolidated 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.

**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.

**Reclassifications:** Certain 2012 balances have been reclassified to conform to the 2013 presentation, these reclassifications decreased operating income and increased nonoperating revenues and expenses by approximately \$1,162,000, there was no effect on consolidated net position or the decrease in net position.

**Subsequent events:** All of the effects of subsequent events that provide additional evidence about conditions that existed at the consolidated balance sheet date, including the estimates inherent in the process of preparing the consolidated financial statements, are recognized in the consolidated financial statements. The Corporation does not recognize subsequent events that provide evidence about conditions that did not exist at the consolidated balance sheet date but arose after, but before the consolidated financial statements are available to be issued. In some cases, nonrecognized subsequent events are disclosed to keep the consolidated financial statements from being misleading.

On August 27, 2013, the Corporation received proceeds of approximately \$33,000,000 from the issuance of the University Medical Center Corporate Hospital Revenue Bonds, Series 2013. Approximately \$23,000,000 of the proceeds are being used to pay and/or reimburse UMC for costs of the construction, renovation and equipping of UMC's health care facilities. The remaining \$10,000,000 of the proceeds were placed in a construction fund to be used for future construction projects.

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

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#### **Note 2. Summary of Significant Accounting Policies (Continued)**

As a result of the alignment of UMC and UPH (See Note 1), the Corporation is consolidating areas of redundancy. One of these areas is UPH and UMC each having separate captive insurance companies. As a result, in June of 2013, the UMC Captive was renamed Academic Insurance Funding Limited (UAHN Captive). Effective July 1, 2013, the UPH Captive ceased writing insurance for future policy period, however, all tail liabilities (losses with occurrence dates prior to July 1, 2013) of UPH remain with the UPH Captive. Effective for losses occurring subsequent to July 1, 2013, UAHN Captive will insure the Corporation for medical, professional liability, managed income, commercial liability and defense costs. Another of these areas is the Corporation ceasing fundraising efforts through its foundations. The fundraising efforts in the future will be organized and managed by the UA's Foundation. The separately maintained investments of the Corporation's foundations held at June 30, 2013, will remain with the Corporation.

UCA was awarded its CMS contract renewal through December 31, 2013. During fiscal year 2013, UCA sought to expand operations within its calendar year 2014 CMS contract to additional counties beyond those historically served by UCA. This expansion was denied by CMS and UCA responded by appealing that decision. UCA has lost the appeal and received a notice of nonrenewal of its CMS contract for calendar year 2014 on all counties. The loss of this contract will have an adverse effect on UCA's future operations for the calendar year 2014, but will not affect UCA's future eligibility to seek renewal of a contractual relationship with CMS for years after 2014. UFC's contract with AHCCCS requires UFC to be in compliance with certain financial and nonfinancial performance measures, as well as certain prerequisites to maintain UFC's eligibility as a party to the contract with AHCCCS. Effective October 1, 2013, UFC will achieve compliance with certain of these prerequisites due to UCA's contract with the Centers for Medicare & Medicaid Services. The UCA Medicare SNP contract has not been renewed for calendar year 2014, and UFC will no longer be in compliance with this AHCCCS requirement as of January 1, 2014. This lack of compliance could result in sanctions, financial penalties, required corrective action plans, or termination of the AHCCCS contract.

The Corporation has evaluated events and transactions occurring subsequent to June 30, 2013, through October 23, 2013, the date of issuance of the consolidated financial statements. During this period, there were no events requiring recognition in the consolidated financial statements. Other than the items above, there were no nonrecognized subsequent events requiring disclosure.

#### **Note 3. Un-sponsored Community Benefit Expense**

Un-sponsored 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.

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 3. Un-sponsored 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 this program, patients are charged no more than the rate the Corporation receives under the Medicare program, and patients are given a discount based upon a sliding fee scale based upon 2012 federal poverty guidelines. The Corporation also incurs significant costs to provide emergency care to non-U.S. citizens, as mandated under federal regulations. In addition, management believes costs incurred in excess of revenues received 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, is determined using a cost of charge ratio. The costs of providing care to the uninsured, non-U.S. citizens and to AHCCCS recipients were as follows for the years ended June 30, 2013 and 2012 (in thousands):

	2013	2012
Uninsured costs in excess of reimbursement	\$ 29,461	\$ 35,618
AHCCCS costs in excess of reimbursement	16,380	19,973
Non-U.S. citizens costs in excess of reimbursement	1,239	2,064
Net cost of charity care	<u>\$ 47,080</u>	<u>\$ 57,655</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, are as follows for the years ended June 30, 2013 and 2012 (in thousands):

	2013	2012
Net cost of charity care (stated above)	\$ 47,080	\$ 57,655
The University of Arizona support	50,552	52,722
Contributions to community organizations	434	871
	<u>\$ 98,066</u>	<u>\$ 111,248</u>



## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

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#### 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:

**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. The University Campus and the South Campus cost reimbursements are determined after submission of an annual cost report and audits thereof by the Medicare Administrative Contractor (MAC). Rates paid to the University Campus and the South Campus by Medicare for outpatient services generally do not cover their costs. The classification of patients under the Medicare program and appropriateness of their admission are subject to review. The University Campus and the South Campus cost reports have been audited by the MAC through June 30, 2010 and 2009, respectively. For the years ended June 30, 2013 and 2012, approximately 25 percent, of net patient service revenue was derived from services provided to Medicare patients.

**Arizona Health Care Cost Containment System:** 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 subsidiary (UFC). 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 substantially less than the Corporation's costs. AHCCCS has maintained a rate freeze on all Arizona hospitals, including the Corporation, which was effective for fiscal year 2009, and imposed statewide rate reductions on April 1, 2011, and October 1, 2011. For the years ended June 30, 2013 and 2012, approximately 16 percent and 18 percent, respectively, of net patient service revenue was derived from services provided to AHCCCS patients.

**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.

# The University of Arizona Health Network and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 5. Investments

Investment income on unrestricted investments consists of the following for the years ended June 30, 2013 and 2012 (in thousands)

	2013	2012
Net gain (loss) on sales of investments	\$ 4,551	\$ (4,242)
Change in net unrealized gains and (losses) on investments	1,438	(1,177)
Interest income on unrestricted investments	5,363	5,187
Interest income on assets held by trustee	221	962
Investment income	<u>\$ 11,573</u>	<u>\$ 730</u>

It is the Corporation's policy to classify investments without external restrictions or internal designation as short-term investments. 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, 2013 and 2012 (in thousands)

Investment Type	Fair Value	2013 Investment Maturities (In Years)			
		Less Than 1	1 to 5	6 to 10	11 +
Debt securities					
U S Fixed Income	\$ 31,599	\$ 1,372	\$ 10,427	\$ 4,461	\$ 15,339
Global Fixed Income	1,394	40	595	759	-
		<u>\$ 1,412</u>	<u>\$ 11,022</u>	<u>\$ 5,220</u>	<u>\$ 15,339</u>
Other securities					
Equity Mutual Funds	64,028				
Money Market Mutual Funds	42,076				
Domestic Bond Mutual Funds	33,155				
International Bond Mutual Funds	9,429				
Managed Futures	4,789				
Commodities/Natural Resources	2,772				
Hedge Funds	5,528				
Real Estate	1,958				
Private Equity	800				
Total	<u>197,528</u>				
Less short-term investments	<u>(123,411)</u>				
Long-term investments	<u>\$ 74,117</u>				

# The University of Arizona Health Network and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 5. Investments (Continued)

Investment Type	Fair Value	2012 Investment Maturities (In Years)			
		Less Than 1	1 to 5	6 to 10	11 +
Debt securities					
U S Fixed Income	\$ 25,260	\$ 1,911	\$ 6,309	\$ 3,130	\$ 13,910
Global Fixed Income	993	-	-	993	-
		<u>\$ 1,911</u>	<u>\$ 6,309</u>	<u>\$ 4,123</u>	<u>\$ 13,910</u>
Other securities					
Equity Mutual Funds	47,731				
Money Market Mutual Funds	14,585				
Domestic Bond Mutual Funds	42,577				
International Bond Mutual Funds	1,489				
Managed Futures	950				
Commodities/Natural Resources	7,275				
Hedge Funds	33,111				
Real Estate	1,240				
Private Equity	<u>3,907</u>				
Total	179,118				
Less short-term investments	<u>(98,330)</u>				
Long-term investments	<u>\$ 80,788</u>				

**Long-term investments:** Long-term investments totaled \$74,117,000 and \$80,788,000 at June 30, 2013 and 2012, respectively, and include assets held by the Corporation's captives for professional liability funding and assets of the Corporation's foundations that have donor restrictions. Assets held by the Corporation's captives include \$2,620,000 at June 30, 2013 and 2012, which 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 short-term investments.

**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, 2013 and 2012, respectively, the Corporation held \$6,833,000 and \$3,134,000 of AAA-rated, \$16,397,000 and \$16,775,000 of AA-rated, \$7,436,000 and \$5,147,000 of A-rated, and \$2,327,000 and \$1,197,000 of below A-rated securities.

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

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 5. Investments (Continued)

**Investment policy:** 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.

#### 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, 2013 and 2012 (in thousands):

	June 30, 2013			
	UAHN	UPH	UMC	Total
Funds held by trustee, as required by the Industrial Commission of Arizona	\$ 3,230	\$ -	\$ -	\$ 3,230
Funds held by trustee, related to bonds payable				
Debt service funds	-	-	14,394	14,394
Bond reserve funds	-	127	22,674	22,801
	-	127	37,068	37,195
Total assets held by trustee	3,230	127	37,068	40,425
Less current portion	-	-	(14,394)	(14,394)
Assets held by trustee, net of current portion	\$ 3,230	\$ 127	\$ 22,674	\$ 26,031

# The University of Arizona Health Network and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 6. Assets Held by Trustee (Continued)

	June 30, 2012			
	UAHN	UPH	UMC	Total
Funds held by trustee, as required by the Industrial Commission of Arizona	\$ 2,748	\$ -	\$ -	\$ 2,748
Funds held by trustee, related to bonds payable				
Debt service funds	-	-	13,284	13,284
Bond reserve funds	-	1,155	22,668	23,823
	-	1,155	35,952	37,107
Total assets held by trustee	2,748	1,155	35,952	39,855
Less current portion	-	-	(13,284)	(13,284)
Assets held by trustee, net of current portion	\$ 2,748	\$ 1,155	\$ 22,668	\$ 26,571

Assets held by trustee were invested as follows at June 30, 2013 and 2012 (in thousands)

	June 30, 2013			
	UAHN	UPH	UMC	Total
Money market mutual funds	\$ -	\$ 127	\$ 25,738	\$ 25,865
Commercial paper	-	-	4,013	4,013
U S Treasury securities	3,230	-	7,317	10,547
Total assets held by trustee	\$ 3,230	\$ 127	\$ 37,068	\$ 40,425

	June 30, 2012			
	UAHN	UPH	UMC	Total
Money market mutual funds	\$ -	\$ 123	\$ 24,554	\$ 24,677
Commercial paper	-	-	8,487	8,487
U S Treasury securities	2,748	1,032	2,911	6,691
Total assets held by trustee	\$ 2,748	\$ 1,155	\$ 35,952	\$ 39,855

All of the Corporation's assets held by trustee mature within one year. For the years ended June 30, 2013 and 2012, a majority of 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.

# The University of Arizona Health Network and Subsidiaries

## 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, 2012	Additions	Retirements	Reclassifications	June 30, 2013
Land and improvements	\$ 15,956	\$ -	\$ (55)	\$ 128	\$ 16,029
Buildings and improvements	443,676	589	-	11,191	455,456
Equipment	289,041	2,856	(135)	23,110	314,872
Construction in process	21,859	56,512	-	(34,429)	43,942
Total	770,532	59,957	(190)	-	830,299
Less accumulated depreciation for					
Land improvements	(644)	(353)	-	-	(997)
Buildings and improvements	(169,839)	(16,022)	(8)	-	(185,869)
Equipment	(214,488)	(22,604)	133	-	(236,959)
Total	(384,971)	(38,979)	125	-	(423,825)
Capital assets, net	\$ 385,561	\$ 20,978	\$ (65)	\$ -	\$ 406,474

	June 30, 2011	Additions	Retirements	Reclassifications	June 30, 2012
Land and improvements	\$ 15,948	\$ -	\$ -	\$ 8	\$ 15,956
Buildings and improvements	432,345	7,211	-	4,120	443,676
Equipment	270,899	18,800	(1,874)	1,216	289,041
Construction in process	3,398	23,805	-	(5,344)	21,859
Total	722,590	49,816	(1,874)	-	770,532
Less accumulated depreciation for					
Land improvements	(539)	(105)	-	-	(644)
Buildings and improvements	(155,287)	(14,552)	-	-	(169,839)
Equipment	(191,642)	(23,971)	1,125	-	(214,488)
Total	(347,468)	(38,628)	1,125	-	(384,971)
Capital assets, net	\$ 375,122	\$ 11,188	\$ (749)	\$ -	\$ 385,561

During 2013 and 2012, the Corporation completed and placed in service various assets. Accordingly, the costs of these projects were 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 \$58,761,000 and \$36,530,000 at June 30, 2013 and 2012, respectively. Interest costs incurred during construction, net of earnings on unspent bond proceeds on project-specific debt, which totaled approximately \$291,000 and \$114,000 for the years ended June 30, 2013 and 2012, respectively, 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.

# The University of Arizona Health Network and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 8. Other Assets

A summary of other assets as of June 30, 2013 and 2012, is as follows (in thousands)

	2013	2012
Long-term portion of pledges receivable	\$ 7,303	\$ 7,038
Other	5,359	5,560
Other noncurrent assets, net	<u>\$ 12,662</u>	<u>\$ 12,598</u>

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 4 percent to 6 percent, and the pledges have been recorded at their estimated net present value. The current portion of pledges receivable was \$223,000 and \$1,385,000 at June 30, 2013 and 2012, respectively, and is included in prepaid expenses and other on the accompanying consolidated balance sheets.

### Note 9. Long-Term Debt

A summary of long-term debt as of June 30, 2013 and 2012, is as follows (in thousands)

	Effective Interest	Principal and Interest Payments Payable Through	2013	2012
Obligated by University Medical Center Series 2011 Bonds, \$73,275,000, net of discount, collateralized by a security interest in UMC's gross revenue	4.08%	July 2039	\$ 70,471	\$ 73,325
Series 2009 Bonds, \$61,800,000, net of discount, collateralized by a security interest in UMC's gross revenue	6.48%	July 2039	60,464	60,394
Series 2005 Bonds, \$140,000,000, net of discount, collateralized by a security interest in UMC's gross revenue	5.01%	July 2035	139,029	139,276
Series 2004 Bonds, \$52,000,000, net of discount, collateralized by a security interest in UMC's gross revenue	4.82%	July 2033	37,545	39,502
Capital leases			342	658
			<u>307,851</u>	<u>313,155</u>
Less current portion			(6,149)	(5,105)
			<u>301,702</u>	<u>308,050</u>

# The University of Arizona Health Network and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 9. Long Term Debt (Continued)

	Effective Interest	Principal and Interest Payments Payable Through	2013	2012
Obligated by University Physicians Healthcare				
Note Payable - Series 2005 \$9,900,000, net of discount, collateralized by UPH property and equipment 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	4,940	-
Note Payable - Term Loan, payable in monthly installments of \$18,750, bearing interest at a variable rate averaging 1 6% in 2013, collateralized by a deed of trust and repayment guarantee	1 60%	March 2016	4,444	-
\$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	(a)	Due on demand	19,734	13,950
Other notes payable			418	11,968
Capital leases and other			381	966
Total University Physicians Healthcare debt			29,917	26,884
Less current portion			(21,054)	(21,177)
Long-term debt, net of current portion for UPH			8,863	5,707
Obligated by University Medical Imaging				
Capital lease			270	1,590
Less current portion			(270)	(1,433)
Long-term debt, net of current portion			-	157
Total debt for the Corporation				
Total			338,038	341,629
Less current portion			(27,473)	(27,715)
			<u>\$ 310,565</u>	<u>\$ 313,914</u>



## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 9. Long Term Debt (Continued)

(a) The interest rate of the revolving line of credit is calculated as the higher of LIBOR plus 2 percent or 2.5 percent, not to exceed 24 percent (2.5 percent at June 30, 2013). The line-of-credit agreement expires in March 2014.

Future scheduled maturities of bonds and related interest payable, at June 30, 2013, are as follows (in thousands):

	Principal	Interest
2014	\$ 27,473	16,783
2015	6,631	16,476
2016	10,721	16,146
2017	7,083	15,817
2018	7,453	16,192
2019–2023	44,194	71,906
2024–2028	56,168	58,875
2029–2033	70,800	43,949
2034–2038	79,135	20,676
2039–2042	30,582	1,909
Total	340,240	\$ 278,729
Less unamortized portion of bond discount	(2,202)	
Total scheduled maturities of bonds payable, net	\$ 338,038	

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 is the only member of the obligated group responsible for the public debt offerings of UMC.

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

The Corporation has established and maintains separate funds as a bond reserve fund on outstanding bonds payable. These funds totaled \$22,801,000 and \$23,823,000 at June 30, 2013 and 2012, respectively, are held by the trustee, and reflected in assets held by trustee in the accompanying consolidated balance sheets (See Note 6).

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

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 9. Long-Term Debt (Continued)

Schedules of changes in the Corporation's long-term debt for the years ended June 30, 2013 and 2012, are as follows (in thousands)

	June 30, 2012	Additions	Reductions	June 30, 2013	Amounts Due Within One Year
Bonds payable	\$ 324,465	\$ -	\$ (16,538)	\$ 307,927	\$ 6,228
Notes payable	704	9,440	(407)	9,737	872
Capital leases	2,510	-	(1,870)	640	640
Line of credit	13,950	18,250	(12,466)	19,734	19,733
Total debt	\$ 341,629	\$ 27,690	\$ (31,281)	\$ 338,038	\$ 27,473

	June 30, 2011	Additions	Reductions	June 30, 2012	Amounts Due Within One Year
Bonds payable	\$ 290,235	\$ 73,239	\$ (39,009)	\$ 324,465	\$ 11,400
Notes payable	1,935	51	(1,282)	704	351
Capital leases	4,265	-	(1,755)	2,510	2,014
Line of credit	9,950	4,000	-	13,950	13,950
Total debt	\$ 306,385	\$ 77,290	\$ (42,046)	\$ 341,629	\$ 27,715

#### 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 \$7,125,000 and \$7,147,000 for the years ended June 30, 2013 and 2012, respectively.

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

<u>Years Ending June 30,</u>	
2014	\$ 10,098
2015	6,616
2016	4,109
2017	1,146
2018	761
Thereafter	7,170
	<u>\$ 29,900</u>

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 11. Accrued Medical Claims

Accrued medical claims liability at June 30, 2013 and 2012, consists of the following (in thousands)

	2013	2012
Claims payable or pending approval	\$ 6,800	\$ 11,509
Provisions for claims incurred but not yet reported	16,532	13,660
	<u>\$ 23,332</u>	<u>\$ 25,169</u>

UAHP 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 years ended June 30, 2013 and 2012 (in thousands)

	2013	2012
Beginning balance	\$ 25,169	\$ 30,434
Incurred		
Current	187,109	198,460
Prior	1,659	(3,753)
Total	<u>188,768</u>	<u>194,707</u>
Paid		
Current	163,777	169,301
Prior	26,828	30,671
Total	<u>190,605</u>	<u>199,972</u>
Accrued medical claims	<u>\$ 23,332</u>	<u>\$ 25,169</u>

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

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

Schedules of changes in the Corporation's accrued professional liability and other long-term liabilities for the years ended June 30, 2013 and 2012, are as follows (in thousands)

	June 30, 2012	Additions	Reductions	June 30, 2013	Amounts Due Within One Year
Accrued professional liability	\$ 31,343	\$ 63,355	\$ (62,740)	\$ 31,958	\$ 12,711
Employee vacation and benefit	28,577	411,834	(412,495)	27,916	24,404
Other	9,100	16,843	(20,557)	5,386	5,105
Total	69,020	492,032	(495,792)	65,260	\$ 42,220
Less current portion					
Accrued professional liability	(16,382)	(42,656)	46,327	(12,711)	
Included in accrued payroll and employee benefits	(19,433)	(219,733)	214,762	(24,404)	
Included in other accrued liabilities	(6,645)	(16,230)	17,770	(5,105)	
Other long-term liabilities	\$ 26,560	\$ 213,413	\$ (216,933)	\$ 23,040	

	June 30, 2011	Additions	Reductions	June 30, 2012	Amounts Due Within One Year
Accrued professional liability	\$ 22,821	\$ 19,614	\$ (11,092)	\$ 31,343	\$ 16,382
Employee vacation and benefit	29,216	454,985	(455,624)	28,577	19,433
Other	3,555	17,156	(11,611)	9,100	6,645
Total	55,592	491,755	(478,327)	69,020	\$ 42,460
Less current portion					
Accrued professional liability	(8,327)	(9,683)	1,628	(16,382)	
Included in accrued payroll and employee benefits	(20,969)	(12,482)	14,018	(19,433)	
Included in other accrued liabilities	(1,706)	(13,254)	8,315	(6,645)	
Other long-term liabilities	\$ 24,590	\$ 456,336	\$ (454,366)	\$ 26,560	

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

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

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

**Professional liability insurance:** Effective June 30, 2011, the Corporation carried a consolidated aggregate limit of \$75,000,000 for excess commercial, professional and general liability exposures. This is in excess of the \$4,000,000/\$28,000,000 (aggregate) that the Corporation's captives provide. Annual premiums for the coverage provided by the Corporation's captives are determined by the Captive 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.

Effective June 30, 2012, the Corporation and the State of Arizona Department of Administration Risk Management Section of the Office of the Attorney General entered into a Medical Malpractice Risk Allocation Agreement (MMRAA) to provide a mechanism for the coordinated defense of claims and for the allocation of costs relating to the defense and indemnity of medical malpractice claims. The MMRAA provides that the Corporation is responsible for 83 percent of the costs and liabilities.

The Corporation has undiscounted professional and general liabilities estimated losses of approximately \$31,958,000 and \$31,343,000 at June 30, 2013 and 2012, respectively, to provide for actual and projected claims. The accrued professional liability has been estimated by a third-party actuary and is included in accrued professional liability in the accompanying consolidated balance sheets. Cash and investments held by the Corporation's captives to fund this liability totaled approximately \$66,024,000 and \$73,842,000 at June 30, 2013 and 2012, respectively.

**Self-insured workers' compensation:** The Corporation has established self-insurance funds (see Note 6) for the retained portion of its workers' compensation insurance program. The funding for the estimated retained amounts is based on the Industrial Commission of Arizona's calculation of the costs for both reported claims and actuarially determined estimates of claims incurred but not yet reported.

The self-insured workers' compensation retention for 2013 is \$400,000 per occurrence. The Corporation purchases an excess workers' compensation policy to provide statutory limits coverage in excess of the \$400,000 retention.

Effective July 1, 2011, UPH entered into the Corporation's self-insured workers' compensation program. Previously, UPH purchased commercial insurance. The Corporation has recorded an undiscounted liability of approximately \$4,504,000 and \$3,969,000 (inclusive of UPH) as of June 30, 2013 and 2012, respectively, 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 sheets.

**Self-insured health and dental programs:** The Corporation is self-insured for employee medical and dental 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 2013 is \$500,000 per insured member. The Corporation has recorded a liability of approximately \$6,272,000 and \$5,181,000 at June 30, 2013 and 2012, respectively, 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 sheets.

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 13. Retirement Plans

Effective January 2012, the Corporation consolidated their existing retirement plans into a new defined contribution plan, The University of Arizona Health Network Employee Retirement and Savings Plan (the UAHN Plan), for employees of the Corporation. The UAHN Plan covers all employees subject to minimum employment requirements, as defined in the plan agreement. The Corporation makes contributions to the UAHN 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, the Corporation will make up to a 3 percent matching contribution to a 403(b) plan for the benefit of those employees who participate in the matching program. Such contributions are allocated to each participant as defined in the plan agreement and vest over five years. Retirement plan expense, net of participant forfeitures, was approximately \$18,105,000 and \$14,887,000 for the years ended June 30, 2013 and 2012, respectively. Accrued liabilities include \$9,191,000 and \$6,669,000 payable to the UAHN Plan as of June 30, 2013 and 2012, respectively.

Full-time physician employees of the Corporation who are also faculty employees of the University of Arizona must participate in the Arizona state retirement system (ASRS). The program is funded through payroll deductions from covered members. Contributions to the retirement program by the Corporation are not separately identified, but are included in an aggregate amount paid to the University of Arizona for employee-related expenses, which also includes payroll taxes and various insurance costs.

#### Note 14. Related-Party Transactions

**University of Arizona:** The Corporation and UA both provide and receive services from each other under various contracts, which are negotiated on a year-to-year basis. Payments to UA by the Corporation include utilities, leases, grounds maintenance and various administrative functions. Amounts paid to UA for these services were approximately \$7,130,000 and \$7,178,000 the years ended June 30, 2013 and 2012, respectively.

The Corporation pays UA for services provided by interns and residents. Resident and intern salaries totaled approximately \$31,492,000 and \$30,065,000 for the years ended June 30, 2013 and 2012, respectively. 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 \$11,627,000 and \$17,093,000, respectively, to various departments of UA, the College of Medicine, and UA's nursing program.

The Corporation has entered into contractual agreements with UA to provide support for the academic mission of UA, which is negotiated on a year-to-year basis. Charges to UA for such services and facilities provided by the Corporation were approximately \$9,265,000 and \$9,253,000 for the years ended June 30, 2013 and 2012, respectively. This amount is included in other operating revenue in the accompanying consolidated financial statements.

UPH has an agreement with the Arizona Board of Regents whereby it is required to pay to the College of Medicine 4 percent of all fees collected for professional health care services delivered by its members and employees. Assessments totaled \$6,134,000 and \$6,055,000 in fiscal 2013 and 2012, respectively. The fund may be used at the discretion of the dean of the College of Medicine for the benefit of the College of Medicine. In addition, UPH contracts for payroll, personnel and purchased services with UA. Fees assessed for these services totaled \$5,319,000 and \$4,731,000 in fiscal 2013 and 2012, respectively.

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 15. Reinsurance

The Corporation 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 HCG claims. Claims in excess of \$225,000 for contract year 2012–2013 are reimbursed by Berkley Accident and Health, 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 \$14,100,000 and \$17,500,000 for fiscal 2013 and 2012, respectively, 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 \$8,319,000 and \$6,501,000 at June 30, 2013 and 2012, respectively.

#### Note 16. Commitments and Contingencies

**Regulatory matters:** Laws and regulations concerning government programs, including Medicare, Medicaid and various research grant programs, 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.

The Centers for Medicare & Medicaid Services (CMS) implemented a project using recovery auditors as part of CMS' further efforts to assure accurate payments. The project uses the recovery auditors to search for potentially inaccurate Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once a recovery auditor identifies a claim believed to be inaccurate, the recovery auditor makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The Corporation will deduct from revenue amounts assessed under the Recovery Audit Program (RAP) audits at the time a notice is received until such time that estimates of net amounts due can be reasonably estimated. RAP assessments against the Corporation are anticipated, however, the outcome of such assessments are unknown and cannot be reasonably estimated.

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 16. Commitments and Contingencies (Continued)

In March 2010, President Obama signed the Patient Protection and Affordable Care Act (PPACA) into law. PPACA will result in sweeping changes across the health care industry, including how care is provided and paid. A primary goal of this comprehensive reform legislation is to extend health coverage to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. Given that the final regulations and interpretive guidelines have yet to be published, the Corporation is unable to fully predict the impact of PPACA on its operations and financial results. The Corporation's management expects that in the coming years, patients that were previously uninsured and unable to pay for care will have basic insurance coverage, and amounts for reimbursement for services from both public and private payors will be reduced and made conditional on various quality measures. Management of the Corporation is studying and evaluating the anticipated impacts and developing strategies needed to prepare for implementation, and is preparing to work cooperatively with other constituents to optimize available reimbursement.

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

Pima County (the County) is required to pay the Corporation for service fees as defined in the lease to assist in supporting the continued operation of South Campus. 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 amounts are recorded as capitation and contract services revenue and totaled \$14,400,000 and \$15,000,000 in 2013 and 2012, respectively.

#### UAHP performance measures:

- UFC's contract with AHCCCS requires UFC be in compliance with certain financial and nonfinancial performance measures, as well as certain prerequisites to maintain UFC's eligibility as a party to the contract with AHCCCS. Lack of compliance with these measures or prerequisites could result in sanctions, financial penalties, required corrective action plans, or termination of the AHCCCS contract. Management has determined that UFC 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. UFC was awarded a new five year contract with AHCCCS effective October 1, 2013, through September 30, 2018. The loss of this contract would have an adverse effect on UFC's future operations.



## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 16. Commitments and Contingencies (Continued)

- UCA's contract with CMS requires UCA to be in compliance with certain financial and nonfinancial covenants. During fiscal year 2013, UCA sought to expand operations within its calendar year 2014 CMS contract to additional counties beyond those historically served by UCA. This expansion was denied by CMS and UCA responded by appealing that decision. UCA has lost the appeal and, as a result, received a notice of nonrenewal of its CMS contract for calendar year 2014 on all counties. The loss of this contract will have an adverse effect on UCA's future operations for the calendar year 2014, but will not affect UCA's future eligibility to seek renewal of a contractual relationship with CMS for subsequent years.
- HCG's contract with AHCCCS requires HCG to be in compliance with certain financial and nonfinancial performance measures as defined. At June 30, 2013, HCG was in compliance with these measures.

The Corporation, through its subsidiaries, holds various performance bonds as required by the contracts that govern the operation of the Corporation's health plans, UFC, UCA and HCG.

**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.

#### Note 17. Recent Accounting Pronouncements

**Recent accounting pronouncements adopted in the current year:** In 2013, the Corporation adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and identifies net position as the residual of all other elements presented in the balance sheet. Upon adoption of the new requirements, "net assets" was effectively renamed "net position" in the basic financial statements of the Corporation.

**Recent accounting pronouncements not yet effective:** In 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement specifically requires certain balances currently being reported as assets and liabilities to be reported as deferred outflows of resources and deferred inflows of resources on the balance sheet. Further, the pronouncement also requires certain items currently reported as assets and liabilities on the balance sheet to be reported as outflows of resources and inflows of resources on the statement of revenues, expenses, and changes in net position. This statement must be adopted in the year ending June 30, 2014. The Corporation has not yet determined the impact of this statement on the basic financial statements.

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 17. Recent Accounting Pronouncements (Continued)

In 2012, the GASB issued GASB Statement No. 66, *Technical Corrections – 2012*, which amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1998 FASB and AICPA Pronouncements*. These amendments are intended to resolve conflicting accounting and financial reporting guidance that could diminish the consistency in reporting for a) governmental fund type usage for risk financing activities, b) operating lease payments that vary from a straight-line basis, c) differences between the initial investment and the principal amount of purchased loans, and d) servicing fees related to certain mortgage loan sales. The provisions of this statement must be adopted no later than the year ending June 30, 2014. The adoption of this statement is not expected to have a material impact on the basic financial statements of the Corporation.

In 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which require enhanced note disclosure and required supplementary information for both defined benefit and defined contribution pension plans, as well as provide standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for pension plans. GASB Statement No. 67 must be adopted for pension plans no later than the year ending June 30, 2015, while GASB Statement No. 68 must be adopted no later than the year ending June 30, 2016. The Corporation has not yet determined the impact of these statements on the basic financial statements.

In 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The provisions of this statement must be adopted no later than the year ending December 31, 2014. The Corporation has not yet determined the impact of this statement on the basic financial statements.

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 18. Condensed Financial Information

Following is the condensed balance sheet as of June 30, 2013, and the related condensed statements of revenues, expenses, and changes in net position, and cash flows for the material subsidiaries of The University of Arizona Health Network for the year ended June 30, 2013 (in thousands)

	UMC	UPH	UAHN	Eliminations and Other	Total Corporation	
					2013	2012
Current assets	\$ 319,606	\$ 103,253	\$ (783)	\$ (3,223)	<b>\$ 418,853</b>	\$ 406,994
Capital assets	301,043	43,585	59,108	2,738	<b>406,474</b>	385,561
Other long-term assets	51,009	70,126	2,725	(11,050)	<b>112,810</b>	119,957
Total assets	<b>\$ 671,658</b>	<b>\$ 216,964</b>	<b>\$ 61,050</b>	<b>\$ (11,535)</b>	<b>\$ 938,137</b>	<b>\$ 912,512</b>
Current liabilities	\$ 48,650	\$ 107,638	\$ 69,291	\$ (11,341)	<b>\$ 214,238</b>	\$ 211,528
Long-term liabilities	307,921	22,294	3,390	-	<b>333,605</b>	340,474
Total liabilities	<b>356,571</b>	<b>129,932</b>	<b>72,681</b>	<b>(11,341)</b>	<b>547,843</b>	<b>552,002</b>
Net position						
Net investment in capital assets	16,949	13,164	53,955	2,531	<b>86,599</b>	65,946
Restricted for bonds payable	6,179	127	2,725	505	<b>9,536</b>	8,625
Restricted by donor and other	16,144	5,366	-	-	<b>21,510</b>	15,693
Unrestricted	275,815	68,375	(68,311)	(3,230)	<b>272,649</b>	270,246
Total net position	<b>315,087</b>	<b>87,032</b>	<b>(11,631)</b>	<b>(194)</b>	<b>390,294</b>	<b>360,510</b>
Total liabilities and net position	<b>\$ 671,658</b>	<b>\$ 216,964</b>	<b>\$ 61,050</b>	<b>\$ (11,535)</b>	<b>\$ 938,137</b>	<b>\$ 912,512</b>

# The University of Arizona Health Network and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 18. Condensed Financial Information (Continued)

	UMC	UPH	UAHN	Eliminations and Other	Total Corporation	
					2013	2012
Net patient service revenue	\$ 647,090	\$ 254,725	\$ 210	\$ (65,451)	<b>\$ 836,574</b>	\$ 814,399
Capitation revenue	-	278,528	-	-	<b>278,528</b>	288,677
Contract and other operating revenue	29,507	59,551	924	(32,002)	<b>57,980</b>	59,702
Total operating revenues	676,597	592,804	1,134	(97,453)	<b>1,173,082</b>	1,162,778
Operating expenses	606,524	598,302	(8,892)	(97,655)	<b>1,098,279</b>	1,109,757
Depreciation and amortization	23,497	4,808	10,426	559	<b>39,290</b>	39,220
Total operating expenses	630,021	603,110	1,534	(97,096)	<b>1,137,569</b>	1,148,977
Operating income (loss)	46,576	(10,306)	(400)	(357)	<b>35,513</b>	13,801
Nonoperating revenue (expenses)	(11,536)	5,722	109	(24)	<b>(5,729)</b>	(17,241)
Increase (decrease) in net position	35,040	(4,584)	(291)	(381)	<b>29,784</b>	(3,440)
Net position, beginning of year	280,047	91,616	(11,340)	187	<b>360,510</b>	363,950
Net position, end of year	<b>\$ 315,087</b>	<b>\$ 87,032</b>	<b>\$ (11,631)</b>	<b>\$ (194)</b>	<b>\$ 390,294</b>	<b>\$ 360,510</b>
Net cash provided by (used in)						
Operating activities	\$ 10,721	\$ (36,891)	\$ 37,391	\$ 23,547	<b>\$ 34,768</b>	\$ 6,499
Capital and related financing activities	(23,523)	16,351	(49,102)	(25,675)	<b>(81,949)</b>	(33,758)
Investing activities	11,876	2,046	143	2,128	<b>16,193</b>	66,901
Increase (decrease) in cash	(926)	(18,494)	(11,568)	-	<b>(30,988)</b>	39,642
Beginning cash	33,214	29,497	-	4	<b>62,715</b>	23,073
Ending cash	<b>\$ 32,288</b>	<b>\$ 11,003</b>	<b>\$ (11,568)</b>	<b>\$ 4</b>	<b>\$ 31,727</b>	<b>\$ 62,715</b>

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 18. Condensed Financial Information (Continued)

Following is the condensed balance sheet as of June 30, 2013, and the related condensed statements of revenues, expenses and changes in net position, and cash flows for the material subsidiaries of UMC for the year ended June 30, 2013 (in thousands)

	University Campus	UMC Captive	Eliminations and Other	Total UMC	
				2013	2012
Current assets	\$ 319,231	\$ 579	\$ (204)	<b>\$ 319,606</b>	\$ 300,736
Capital assets	300,954	-	89	<b>301,043</b>	313,006
Other long-term assets	28,080	7,783	15,146	<b>51,009</b>	59,427
Total assets	<b>\$ 648,265</b>	<b>\$ 8,362</b>	<b>\$ 15,031</b>	<b>\$ 671,658</b>	<b>\$ 673,169</b>
Current liabilities	\$ 49,742	\$ 2,871	\$ (3,963)	<b>\$ 48,650</b>	\$ 72,406
Long-term liabilities	304,231	3,690	-	<b>307,921</b>	320,716
Total liabilities	<b>353,973</b>	<b>6,561</b>	<b>(3,963)</b>	<b>356,571</b>	<b>393,122</b>
Net position					
Net investment in capital assets	16,949	-	-	<b>16,949</b>	23,367
Restricted for bonds payable	6,179	-	-	<b>6,179</b>	8,625
Restricted by donor and other	16,024	120	-	<b>16,144</b>	11,719
Unrestricted	255,140	1,681	18,994	<b>275,815</b>	236,336
Total net position	<b>294,292</b>	<b>1,801</b>	<b>18,994</b>	<b>315,087</b>	<b>280,047</b>
Total liabilities and net position	<b>\$ 648,265</b>	<b>\$ 8,362</b>	<b>\$ 15,031</b>	<b>\$ 671,658</b>	<b>\$ 673,169</b>

# The University of Arizona Health Network and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 18. Condensed Financial Information (Continued)

	University Campus	UMC Captive	Eliminations and Other	Total UMC	
				2013	2012
Net patient service revenue	\$ 647,090	\$ -	\$ -	<b>\$ 647,090</b>	\$ 619,283
Other operating revenue	27,740	3,600	(1,833)	<b>29,507</b>	28,181
Total operating revenues	674,830	3,600	(1,833)	<b>676,597</b>	647,464
Operating expenses	609,992	421	(3,889)	<b>606,524</b>	597,616
Depreciation	23,496	-	1	<b>23,497</b>	24,112
Total operating expenses	633,488	421	(3,888)	<b>630,021</b>	621,728
Operating income	41,342	3,179	2,055	<b>46,576</b>	25,736
Nonoperating revenue (expenses)	12,658	(13,536)	(10,658)	<b>(11,536)</b>	(18,621)
Increase (decrease) in net position	54,000	(10,357)	(8,603)	<b>35,040</b>	7,115
Net position, beginning of year	240,292	12,158	27,597	<b>280,047</b>	272,932
Net position, end of year	<b>\$ 294,292</b>	<b>\$ 1,801</b>	<b>\$ 18,994</b>	<b>\$ 315,087</b>	<b>\$ 280,047</b>
Net cash provided by (used in)					
Operating activities	\$ 6,050	\$ 2,712	\$ 1,959	<b>\$ 10,721</b>	\$ (415)
Capital and related financing activities	(23,313)	-	(210)	<b>(23,523)</b>	(8,130)
Investing activities	16,352	(2,713)	(1,763)	<b>11,876</b>	37,245
(Decrease) increase in cash	(911)	(1)	(14)	<b>(926)</b>	28,700
Beginning cash	32,495	50	669	<b>33,214</b>	4,514
Ending cash	<b>\$ 31,584</b>	<b>\$ 49</b>	<b>\$ 655</b>	<b>\$ 32,288</b>	<b>\$ 33,214</b>

## The University of Arizona Health Network and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 18. Condensed Financial Information (Continued)

Following is the condensed balance sheet as of June 30, 2013, and the related condensed statements of revenues, expenses and changes in net position, and cash flows for the material subsidiaries of UPH for the year ended June 30, 2013 (in thousands)

	UPH	UPH Captive	UFC	Eliminations and Other	Total UPH	
					2013	2012
Current assets	\$ 1,427,954	\$ 3,210	\$ 9,817	\$ (1,337,728)	<b>\$ 103,253</b>	\$ 119,867
Capital assets	43,585	-	-	-	<b>43,585</b>	48,870
Other long-term assets	14,295	57,719	612	(2,500)	<b>70,126</b>	56,556
Total assets	<b>\$ 1,485,834</b>	<b>\$ 60,929</b>	<b>\$ 10,429</b>	<b>\$ (1,340,228)</b>	<b>\$ 216,964</b>	<b>\$ 225,293</b>
Current liabilities	\$ 1,409,284	\$ 11,399	\$ 24,683	\$ (1,337,728)	<b>\$ 107,638</b>	\$ 116,975
Long-term liabilities	51,367	13,143	(42,216)	-	<b>22,294</b>	16,702
Total liabilities	<b>1,460,651</b>	<b>24,542</b>	<b>(17,533)</b>	<b>(1,337,728)</b>	<b>129,932</b>	<b>133,677</b>
Net position						
Net investment in capital assets	13,164	-	-	-	<b>13,164</b>	22,137
Restricted for bonds payable	127	-	-	-	<b>127</b>	122
Restricted by donor and other	2,866	2,500	-	-	<b>5,366</b>	3,852
Unrestricted	9,026	33,887	27,962	(2,500)	<b>68,375</b>	65,505
Total net position	<b>25,183</b>	<b>36,387</b>	<b>27,962</b>	<b>(2,500)</b>	<b>87,032</b>	<b>91,616</b>
Total liabilities and net position	<b>\$ 1,485,834</b>	<b>\$ 60,929</b>	<b>\$ 10,429</b>	<b>\$ (1,340,228)</b>	<b>\$ 216,964</b>	<b>\$ 225,293</b>
Net patient service revenue	\$ 271,173	\$ -	\$ -	\$ (16,448)	<b>\$ 254,725</b>	\$ 237,122
Capitation revenue	81,325	-	197,203	-	<b>278,528</b>	288,677
Contract and other operating revenue	-	-	-	-	<b>-</b>	-
	69,850	4,914	-	(15,213)	<b>59,551</b>	65,503
Total operating revenues	<b>422,348</b>	<b>4,914</b>	<b>197,203</b>	<b>(31,661)</b>	<b>592,804</b>	<b>591,302</b>
Operating expenses	430,886	5,322	193,755	(31,661)	<b>598,302</b>	587,528
Depreciation	4,228	-	580	-	<b>4,808</b>	4,574
Total operating expenses	<b>435,114</b>	<b>5,322</b>	<b>194,335</b>	<b>(31,661)</b>	<b>603,110</b>	<b>592,102</b>
Operating income (loss)	<b>(12,766)</b>	<b>(408)</b>	<b>2,868</b>	<b>-</b>	<b>(10,306)</b>	<b>(800)</b>
Nonoperating revenue (expenses)	6,414	(692)	-	-	<b>5,722</b>	1,398
Increase (decrease) in net position	<b>(6,352)</b>	<b>(1,100)</b>	<b>2,868</b>	<b>-</b>	<b>(4,584)</b>	<b>598</b>
Net position, beginning of year	31,535	37,487	25,094	(2,500)	<b>91,616</b>	91,018
Net position, end of year	<b>\$ 25,183</b>	<b>\$ 36,387</b>	<b>\$ 27,962</b>	<b>\$ (2,500)</b>	<b>\$ 87,032</b>	<b>\$ 91,616</b>

# The University of Arizona Health Network and Subsidiaries

## Notes to Consolidated Financial Statements

### Note 18. Condensed Financial Information (Continued)

	UPH	UPH Captive	UFC	Eliminations and Other	Total UPH	
					2013	2012
Net cash provided by (used in)						
Operating activities	\$ (41,886)	\$ 5,132	\$ (137)	\$ -	<b>\$ (36,891)</b>	\$ (15,122)
Capital and related financing activities	16,351	-	-	-	<b>16,351</b>	(4,295)
Investing activities	8,043	(6,134)	137	-	<b>2,046</b>	30,360
Increase (decrease) in cash	(17,492)	(1,002)	-	-	<b>(18,494)</b>	10,943
Beginning cash	25,412	4,085	-	-	<b>29,497</b>	18,554
Ending cash	<u>\$ 7,920</u>	<u>\$ 3,083</u>	<u>\$ -</u>	<u>\$ -</u>	<u><b>\$ 11,003</b></u>	<u>\$ 29,497</u>



## **Supplementary Information**

# The University of Arizona Health Network and Subsidiaries

## Consolidating Balance Sheet

June 30, 2013 (With Comparative Totals for 2012)

(In Thousands)

Assets	UMC	UPH	UAHN	Other	Eliminations	Total	
						2013	2012
Current Assets							
Cash	\$ 32,288	\$ 11,003	\$ (11,568)	\$ 4	\$ -	\$ 31,727	\$ 62,715
Short-term investments	106,334	5,015	-	12,062	-	123,411	98,330
Patient accounts receivable, net	93,880	42,341	-	-	(7,104)	129,117	125,548
Capitation and contract receivable, net	-	13,302	-	-	-	13,302	14,283
Supplies inventory	16,328	3,729	-	-	-	20,057	17,416
Assets held by trustee, current portion	14,394	-	-	-	-	14,394	13,284
Prepaid expense and other	56,382	27,863	10,785	-	(8,185)	86,845	75,418
<b>Total current assets</b>	<b>319,606</b>	<b>103,253</b>	<b>(783)</b>	<b>12,066</b>	<b>(15,289)</b>	<b>418,853</b>	<b>406,994</b>
Assets Held by Trustee, net of current portion	22,674	127	2,725	505	-	26,031	26,571
Long-Term Investments, net of current portion	16,398	57,719	-	-	-	74,117	80,788
Capital Assets, net	301,043	43,585	59,108	2,738	-	406,474	385,561
Other Assets, net	11,937	12,280			(11,555)	12,662	12,598
<b>Total</b>	<b>\$ 671,658</b>	<b>\$ 216,964</b>	<b>\$ 61,050</b>	<b>\$ 15,309</b>	<b>\$ (26,844)</b>	<b>\$ 938,137</b>	<b>\$ 912,512</b>
<b>Liabilities and Net Position</b>							
Current Liabilities							
Accounts payable	\$ 21,059	\$ 19,213	\$ 19,903	\$ 81	\$ -	\$ 60,256	\$ 61,282
Accrued payroll and employee benefits	2,479	20,371	49,345	-	(5,167)	67,028	56,625
Accrued medical claims		25,260	-	-	(1,928)	23,332	25,169
Accrued professional liability	1,382	11,329	-	-	-	12,711	16,382
Other accrued liabilities	17,581	10,411	43	3,597	(8,194)	23,438	24,355
Current portion of long-term debt	6,149	21,054		270		27,473	27,715
<b>Total current liabilities</b>	<b>48,650</b>	<b>107,638</b>	<b>69,291</b>	<b>3,948</b>	<b>(15,289)</b>	<b>214,238</b>	<b>211,528</b>
Long-Term Debt, net of current portion	301,702	8,863	-	-	-	310,565	313,914
Other Long-Term Liabilities	6,219	13,431	3,390	-	-	23,040	26,560
<b>Total liabilities</b>	<b>356,571</b>	<b>129,932</b>	<b>72,681</b>	<b>3,948</b>	<b>(15,289)</b>	<b>547,843</b>	<b>552,002</b>
Net Position	315,087	87,032	(11,631)	11,361	(11,555)	390,294	360,510
<b>Total</b>	<b>\$ 671,658</b>	<b>\$ 216,964</b>	<b>\$ 61,050</b>	<b>\$ 15,309</b>	<b>\$ (26,844)</b>	<b>\$ 938,137</b>	<b>\$ 912,512</b>

# University Medical Center Corporation and Subsidiaries

## Consolidating Balance Sheet June 30, 2013 (With Comparative Totals for 2012) (In Thousands)

<b>Assets</b>	University Campus	Other	Eliminations	Totals	
				2013	2012
<b>Current Assets</b>					
Cash	\$ 31,584	\$ 704	\$ -	\$ 32,288	\$ 33,214
Short-term investments	94,367	11,967	-	106,334	91,790
Patient accounts receivable, net	93,880	-	-	93,880	91,830
Supplies inventory	16,328	-	-	16,328	13,909
Assets held by trustee, current portion	14,394	-	-	14,394	13,284
Prepaid expenses and other	68,678	4,489	(16,785)	56,382	56,709
<b>Total current assets</b>	319,231	17,160	(16,785)	319,606	300,736
Assets Held by Trustee, net of current portion	22,674	-	-	22,674	22,668
Long-Term Investments	47	16,351	-	16,398	24,958
Capital Assets, net	300,954	89	-	301,043	313,006
Other Assets, net	5,359	7,303	(725)	11,937	11,801
<b>Total</b>	<b>\$ 648,265</b>	<b>\$ 40,903</b>	<b>\$ (17,510)</b>	<b>\$ 671,658</b>	<b>\$ 673,169</b>
<b>Liabilities and Net Position</b>					
<b>Current Liabilities</b>					
Accounts payable	\$ 20,952	\$ 107	\$ -	\$ 21,059	\$ 32,993
Accrued payroll and employee benefits	2,479	-	-	2,479	15,443
Accrued professional liability	-	1,382	-	1,382	4,827
Other accrued liabilities	20,162	14,204	(16,785)	17,581	14,038
Current portion of long-term debt	6,149	-	-	6,149	5,105
<b>Total current liabilities</b>	49,742	15,693	(16,785)	48,650	72,406
Long-Term Debt, net of current portion	301,702	-	-	301,702	308,050
Other Long-Term Liabilities	2,529	3,690	-	6,219	12,666
<b>Total liabilities</b>	353,973	19,383	(16,785)	356,571	393,122
Net Position	294,292	21,520	(725)	315,087	280,047
<b>Total</b>	<b>\$ 648,265</b>	<b>\$ 40,903</b>	<b>\$ (17,510)</b>	<b>\$ 671,658</b>	<b>\$ 673,169</b>

## University Physicians Healthcare and Subsidiaries

### Consolidating Balance Sheet June 30, 2013 (With Comparative Totals for 2012) (In Thousands)

Assets	UAP	South Campus	UAHP	Capital and Other	UPH Captive	Eliminations	Totals	
							2013	2012
Current Assets								
Cash	\$ 3,189	\$ (85,772)	\$ 5,795	\$ 84,708	\$ 3,083	\$ -	\$ 11,003	\$ 29,497
Short-term investments	-	5,015	-	-	-	-	5,015	6,540
Patient accounts receivable, net	23,853	19,925	-	(2)	-	(1,435)	42,341	38,281
Capitation and contract receivable, net	2,359	118	10,823	2	-	-	13,302	14,283
Supplies inventory	-	3,729	-	-	-	-	3,729	3,507
Assets held by trustee, current portion	-	-	-	-	-	-	-	-
Prepaid expense and other	287,156	249,327	161,114	666,432	127	(1,336,293)	27,863	27,759
<b>Total current assets</b>	<b>316,557</b>	<b>192,342</b>	<b>177,732</b>	<b>751,140</b>	<b>3,210</b>	<b>(1,337,728)</b>	<b>103,253</b>	<b>119,867</b>
Assets Held by Trustee, net of current portion	-	-	-	127	-	-	127	1,155
Long-Term Investments	-	-	-	-	57,719	-	57,719	55,830
Capital Assets, net	837	15,416	8,232	19,100	-	-	43,585	48,870
Other Assets, net	(240)	-	452	14,568	-	(2,500)	12,280	(429)
<b>Total</b>	<b>\$ 317,154</b>	<b>\$ 207,758</b>	<b>\$ 186,416</b>	<b>\$ 784,935</b>	<b>\$ 60,929</b>	<b>\$ (1,340,228)</b>	<b>\$ 216,964</b>	<b>\$ 225,293</b>
<b>Liabilities and Net Position</b>								
Current Liabilities								
Accounts payable	\$ 3,599	\$ 10,732	\$ 2,637	\$ 2,245	\$ -	\$ -	\$ 19,213	\$ 23,350
Accrued payroll and employee benefits	10,896	453	480	8,542	-	-	20,371	29,812
Accrued medical claims	-	-	26,695	-	-	(1,435)	25,260	25,169
Accrued professional liability	-	-	-	-	11,329	-	11,329	11,555
Other accrued liabilities	289,105	212,308	99,692	745,529	70	(1,336,293)	10,411	5,912
Current portion of long- term debt	-	20,567	-	487	-	-	21,054	21,177
<b>Total current liabilities</b>	<b>303,600</b>	<b>244,060</b>	<b>129,504</b>	<b>756,803</b>	<b>11,399</b>	<b>(1,337,728)</b>	<b>107,638</b>	<b>116,975</b>
Long-Term Debt, net of current portion and discounts	-	538	-	8,325	-	-	8,863	5,707
Other Long-Term Liabilities	-	288	-	-	13,143	-	13,431	10,995
<b>Total liabilities</b>	<b>303,600</b>	<b>244,886</b>	<b>129,504</b>	<b>765,128</b>	<b>24,542</b>	<b>(1,337,728)</b>	<b>129,932</b>	<b>133,677</b>
Net Position	13,554	(37,128)	56,912	19,807	36,387	(2,500)	87,032	91,616
<b>Total</b>	<b>\$ 317,154</b>	<b>\$ 207,758</b>	<b>\$ 186,416</b>	<b>\$ 784,935</b>	<b>\$ 60,929</b>	<b>\$ (1,340,228)</b>	<b>\$ 216,964</b>	<b>\$ 225,293</b>

## The University of Arizona Health Network and Subsidiaries

### Consolidating Statement of Revenues, Expenses and Changes in Net Position Year Ended June 30, 2013 (With Comparative Totals for 2012) (In Thousands)

	UMC	UPH	UAHN	Other	Eliminations	Totals	
						2013	2012
Operating revenues							
Net patient service revenue	\$ 647,090	\$ 254,725	\$ 210	\$ -	\$ (65,451)	\$ 836,574	\$ 814,399
Capitation revenue	-	278,528	-	-	-	278,528	288,677
Contract and other operating revenue	29,507	59,551	924	3,346	(35,348)	57,980	59,702
<b>Total operating revenues</b>	<b>676,597</b>	<b>592,804</b>	<b>1,134</b>	<b>3,346</b>	<b>(100,799)</b>	<b>1,173,082</b>	<b>1,162,778</b>
Operating expenses							
Salaries and wages	212,667	205,317	43,756	-	(37)	461,703	451,440
Employee benefits	49,827	43,221	9,013	-	(27,123)	74,938	70,664
Supplies	156,602	26,971	937	1	-	184,511	177,711
Purchased services	23,535	9,224	7,215	169	(208)	39,935	36,793
Professional services, medical	60,329	10,462	1,192	-	(41,015)	30,968	43,779
Professional services, nonmedical	624	3,051	10,438	46	(37)	14,122	24,732
Medical claims expense	-	217,106	-	-	(28,338)	188,768	194,707
Utilities	8,701	1,990	2,694	129	-	13,514	12,417
Other	94,239	80,960	(84,137)	2,799	(4,041)	89,820	97,514
Depreciation and amortization	23,497	4,808	10,426	559	-	39,290	39,220
<b>Total operating expenses</b>	<b>630,021</b>	<b>603,110</b>	<b>1,534</b>	<b>3,703</b>	<b>(100,799)</b>	<b>1,137,569</b>	<b>1,148,977</b>
<b>Operating income (loss)</b>	<b>46,576</b>	<b>(10,306)</b>	<b>(400)</b>	<b>(357)</b>	<b>-</b>	<b>35,513</b>	<b>13,801</b>
Nonoperating revenues and expenses							
Nonoperating revenues and expenses	(48)	-	-	-	-	(48)	-
Investment income	5,002	6,473	120	26	-	11,621	730
Interest expense	(16,490)	(751)	(11)	(50)	-	(17,302)	(17,971)
<b>Total nonoperating revenues and expenses</b>	<b>(11,536)</b>	<b>5,722</b>	<b>109</b>	<b>(24)</b>	<b>-</b>	<b>(5,729)</b>	<b>(17,241)</b>
<b>Increase (decrease) in net position</b>	<b>\$ 35,040</b>	<b>\$ (4,584)</b>	<b>\$ (291)</b>	<b>\$ (381)</b>	<b>\$ -</b>	<b>\$ 29,784</b>	<b>\$ (3,440)</b>

# University Medical Center Corporation and Subsidiaries

## Consolidating Statement of Revenues, Expenses and Changes in Net Position Year Ended June 30, 2013 (With Comparative Totals for 2012) (In Thousands)

	University Campus	Other	Eliminations	Totals	
				2013	2012
Operating revenues					
Net patient service revenue	\$ 647,090	\$ -	\$ -	\$ 647,090	\$ 619,283
Contract and other operating revenue	27,740	7,615	(5,848)	29,507	28,181
<b>Total operating revenues</b>	<b>674,830</b>	<b>7,615</b>	<b>(5,848)</b>	<b>676,597</b>	<b>647,464</b>
Operating expenses					
Salaries and wages	211,757	910	-	212,667	217,590
Employee benefits	49,691	136	-	49,827	34,443
Supplies	156,564	38	-	156,602	150,415
Purchased services	23,490	45	-	23,535	24,784
Professional services, medical	62,437	140	(2,248)	60,329	68,768
Professional services, nonmedical	564	60	-	624	1,214
Utilities	8,701	-	-	8,701	7,006
Other	96,788	12,257	(14,806)	94,239	93,396
Depreciation and amortization	23,496	1	-	23,497	24,112
<b>Total operating expenses</b>	<b>633,488</b>	<b>13,587</b>	<b>(17,054)</b>	<b>630,021</b>	<b>621,728</b>
<b>Operating income (loss)</b>	<b>41,342</b>	<b>(5,972)</b>	<b>11,206</b>	<b>46,576</b>	<b>25,736</b>
Nonoperating revenues and expenses					
Other non-operating	24,991	(13,833)	(11,206)	(48)	-
Investment income (loss)	4,157	845	-	5,002	(1,757)
Interest expense	(16,490)	-	-	(16,490)	(16,864)
<b>Total nonoperating revenues and expenses</b>	<b>12,658</b>	<b>(12,988)</b>	<b>(11,206)</b>	<b>(11,536)</b>	<b>(18,621)</b>
<b>Increase (decrease) in net position</b>	<b>\$ 54,000</b>	<b>\$ (18,960)</b>	<b>\$ -</b>	<b>\$ 35,040</b>	<b>\$ 7,115</b>

# University Physicians Healthcare and Subsidiaries

## Consolidating Statement of Revenues, Expenses and Changes in Net Position Year Ended June 30, 2013 (With Comparative Totals for 2012) (In Thousands)

	UAP	South Campus	UAHP	Capital and Other	UPH Captive	Eliminations	Totals	
							2013	2012
Operating revenues								
Net patient service revenue	\$ 145,208	\$ 125,965	\$ -	\$ -	\$ -	\$ (16,448)	\$ 254,725	\$ 237,122
Capitation revenue	-	-	278,528	-	-	-	278,528	288,677
Contract and other operating revenue	53,728	15,544	-	578	4,914	(15,213)	59,551	65,503
<b>Total operating revenues</b>	<b>198,936</b>	<b>141,509</b>	<b>278,528</b>	<b>578</b>	<b>4,914</b>	<b>(31,661)</b>	<b>592,804</b>	<b>591,302</b>
Operating expenses								
Salaries and wages	136,762	50,660	17,890	8	-	(3)	205,317	190,351
Employee benefits	27,518	11,442	4,247	14	-	-	43,221	34,689
Supplies	2,610	24,176	161	24	-	-	26,971	25,453
Purchased services	1,857	3,641	3,584	142	-	-	9,224	6,146
Professional services, medical	656	20,040	17	22	-	(10,273)	10,462	10,899
Professional services, nonmedical	927	1,217	888	19	-	-	3,051	7,220
Medical claim expense	3	-	233,551	-	-	(16,448)	217,106	223,868
Utilities	255	1,621	24	90	-	-	1,990	2,183
Other	45,570	21,138	13,184	683	5,322	(4,937)	80,960	86,719
Depreciation and amortization	432	2,932	1,422	22	-	-	4,808	4,574
<b>Total operating expenses</b>	<b>216,590</b>	<b>136,867</b>	<b>274,968</b>	<b>1,024</b>	<b>5,322</b>	<b>(31,661)</b>	<b>603,110</b>	<b>592,102</b>
<b>Operating income (loss)</b>	<b>(17,654)</b>	<b>4,642</b>	<b>3,560</b>	<b>(446)</b>	<b>(408)</b>	<b>-</b>	<b>(10,306)</b>	<b>(800)</b>
Nonoperating revenues and expenses								
Investment income (loss)	382	12	(53)	6,824	(692)	-	6,473	2,352
Interest expense	-	(303)	(37)	(411)	-	-	(751)	(954)
<b>Total nonoperating revenues and expenses</b>	<b>382</b>	<b>(291)</b>	<b>(90)</b>	<b>6,413</b>	<b>(692)</b>	<b>-</b>	<b>5,722</b>	<b>1,398</b>
<b>Increase (decrease) in net position</b>	<b>\$ (17,272)</b>	<b>\$ 4,351</b>	<b>\$ 3,470</b>	<b>\$ 5,967</b>	<b>\$ (1,100)</b>	<b>\$ -</b>	<b>\$ (4,584)</b>	<b>\$ 598</b>

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

**Balance Sheets**

**June 30, 2013 and 2012**

**(In Thousands)**

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Current Assets		
Incentive receivable	\$ 280	\$ 306
Current due from affiliates and intercompany receivables	19,632	17,580
Other current assets	150	79
<b>Total current assets</b>	<b>\$ 20,062</b>	<b>\$ 17,965</b>
<b>Liabilities and Net Position</b>		
Current Liabilities		
Accounts payable	\$ 40	\$ -
Accrued administrative costs	-	129
Medical claims payable	720	903
Other current liabilities	280	316
<b>Total current liabilities</b>	<b>1,040</b>	<b>1,348</b>
Unrestricted Net Position	19,022	16,617
<b>Total</b>	<b>\$ 20,062</b>	<b>\$ 17,965</b>



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

**Statements of Revenues, Expenses and Changes in Net Position**

**Years Ended June 30, 2013 and 2012**

**(In Thousands)**

	2013	2012
Revenues		
Capitation premiums	\$ 12,299	\$ 13,158
Reconciliation	280	360
<b>Total revenues</b>	<b>12,579</b>	<b>13,518</b>
Health care expenses		
Hospitalization expenses		
Hospital inpatient	1,149	1,968
<b>Total hospitalization expenses</b>	<b>1,149</b>	<b>1,968</b>
Medical compensation		
Primary care physician services	384	439
Referral physician services	1,537	1,759
Other professional services	176	197
<b>Total medical compensation expenses</b>	<b>2,097</b>	<b>2,395</b>
Other medical expenses		
Emergency services	452	431
Pharmacy	2,107	2,353
Lab, x-ray and medical imaging	482	335
Outpatient facility	1,544	1,391
Durable medical equipment	20	23
Transportation	525	269
NF, home health care	61	23
Physical therapy	(5)	(8)
Miscellaneous medical expenses	-	2
<b>Total other medical expenses</b>	<b>5,186</b>	<b>4,819</b>
<b>Total health care expenses</b>	<b>8,432</b>	<b>9,182</b>
Less		
Reinsurance	-	12
Third-party liability	(16)	(61)
<b>Total net health care expenses</b>	<b>8,416</b>	<b>9,133</b>
Administrative expenses		
Compensation	1,419	1,543
Data processing	86	66
Management fees	36	42
Occupancy	7	10
Depreciation	33	26
Other administrative expenses	177	197
<b>Total administrative expenses</b>	<b>1,758</b>	<b>1,884</b>
<b>Total expenses</b>	<b>10,174</b>	<b>11,017</b>
<b>Increase in unrestricted net position</b>	<b>2,405</b>	<b>2,501</b>
Unrestricted net position, beginning of year	16,617	14,116
Unrestricted net position, end of year	\$ 19,022	\$ 16,617

**University Physicians Healthcare**  
**Health Care Group (an Operating Division of University Physicians Healthcare)**  
**Claims Lag Report**  
**June 30, 2013**

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	112 497	389 267	60 399	469	2 929	9 121	23 394	144	2 509								600 731
1st Prior		192 426	340 134	87 310	15 741	7 155	9 437	1 529	2 076	15 116							670 924
2nd Prior			262 759	294 976	86 991	69 697	11 561	11 304	14 667	1 594	5 852						759 400
3rd Prior				204 761	309 457	136 878	36 785	8 420	6 143	4 196	16 983	26 485					750 108
4th Prior					140 652	323 409	55 481	15 406	15 390	8 487	9 115	2 265	29 987				600 191
5th Prior						154 155	334 166	34 806	5 960	8 768	(244)	4 569	11 306	13 925			567 411
6th Prior							225 194	402 177	163 180	49 288	47 710	6 095	(5 775)	1 131	55 098		944 098
7th Prior								181 748	332 535	98 335	71 055	5 085	3 682	462	2 667	20 823	716 393
8th Prior									242 485	397 539	197 940	49 836	9 860	29 645	2 762	6 498	909 886
9th Prior										157 528	388 540	73 513	9 651	2 714	11 979	6 225	650 150
10th Prior											215 207	375 194	61 178	40 174	2 571	25 083	719 406
11th Prior												211 187	393 621	47 690	22 779	50 303	725 580
12th Prior													160 796	301 435	77 580	47 441	587 252
13th Prior														209 371	345 649	144 095	699 115
14th Prior															147 689	442 008	589 697
15th & Prior*																159 924 199	159 924 199
Totals	112 497	581 693	663 292	587 516	555 770	700 415	696 020	655 534	784 945	740 850	952 159	754 229	674 306	619 866	668 774	160 666 676	170 414 542
Expense	568 947	656 959	510 199	735 485	743 488	619 445	778 551	688 907	800 718	807 213	864 099	657 313	632 745	414 390	229 777	161 426 104	171 134 339
Adjustment	29 350	6 734	248 093	(124 969)	(173 718)	90 970	(79 531)	(31 372)	(13 773)	(65 362)	89 060	97 916	41 561	205 476	438 997	(759 428)	-
Remaining	485 800	82 000	95 000	23 000	14 000	10 000	3 000	2 000	2 000	1 000	1 000	1 000	-	-	-	-	719 800

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