The University of Chicago Medical Center

Financial Statements

June 30, 2012 and 2011

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Report of Independent Auditors

To the Board of Trustees of
The University of Chicago Medical Center:

In our opinion, the accompanying balance sheets at June 30, 2012 and 2011 and the related statements of operations, of changes in net assets and of cash flows for the years then ended, present fairly, in all material respects, the financial position of The University of Chicago Medical Center at June 30, 2012 and 2011, and the results of its operations, its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of The University of Chicago Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the University of Chicago Medical Center adopted the new Financial Accounting Standards Board's ("FASB") presentation and disclosure guidance for patient service revenues and provision for doubtful accounts in 2012.

PricewaterhouseCoopers LLP

October 10, 2012

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The University of Chicago Medical Center
Balance Sheets
June 30, 2012 and 2011
(in thousands of dollars)

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 74,348	$ 148,207
Patient accounts receivable, less allowance for doubtful accounts for 2012 - $30,796 and 2011 - $26,653	209,006	138,601
Current portion of investments limited to use	27,033	151
Current portion of malpractice self-insurance receivable	17,629	-
Current portion of pledges receivable	4,799	5,765
Other current assets	23,627	44,357
Total current assets	356,442	337,081
Investments limited to use, less current portion	897,405	1,035,070
Property, plant and equipment, net	1,066,494	893,767
Pledges receivable, less current portion	5,634	8,260
Malpractice self-insurance receivable, less current portion	100,524	-
Other assets, net	27,349	27,131
Total assets	$ 2,453,848	$ 2,301,309
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 117,678	$ 105,728
Current portion of long-term debt	11,290	9,340
Current portion of other long-term liabilities	688	923
Current portion of estimated third-party payor settlements	27,379	36,001
Current portion of malpractice self-insurance liability	17,629	-
Due to University of Chicago	15,593	12,935
Total current liabilities	190,257	164,927
Other liabilities		
Worker's compensation self-insurance liabilities, less current portion	8,216	8,196
Malpractice self-insurance liability, less current portion	100,524	-
Long-term debt, less current portion	833,255	843,944
Interest rate swap liability	135,872	58,064
Other long-term liabilities, less current portion	56,370	61,203
Total liabilities	1,324,494	1,136,334
Net assets		
Unrestricted	1,027,917	1,064,924
Temporarily restricted	95,345	93,939
Permanently restricted	6,092	6,112
Total net assets	1,129,354	1,164,975
Total liabilities and net assets	$ 2,453,848	$ 2,301,309

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

The University of Chicago Medical Center
Statements of Operations
Years Ended June 30, 2012 and 2011
(in thousands of dollars)

	2012	2011
Operating revenues		
Net patient service revenue	$ 1,267,104	$ 1,158,990
Provision for doubtful accounts	45,133	45,300
Net patient service revenue after provision for doubtful accounts	1,221,971	1,113,690
Other operating revenues and net assets released from restrictions	67,914	68,776
Total operating revenues	1,289,885	1,182,466
Operating expenses		
Salaries, wages and benefits	532,949	526,045
Supplies and other	324,844	287,908
Physician services from the University of Chicago	185,026	166,984
Insurance	20,902	20,874
Interest	12,789	11,367
Medicaid provider tax	26,691	26,691
Depreciation and amortization	67,522	67,717
Total operating expenses	1,170,723	1,107,586
Total operating income	119,162	74,880
Nonoperating gains		
Investment income and unrestricted gifts, net	24,857	125,173
Derivative ineffectiveness gain (loss)	(3,679)	7,803
Gain on sale of dialysis units	-	23,533
Excess of revenues over expenses	140,340	231,389
Other changes in net assets		
Transfers to University of Chicago	(90,396)	(23,000)
Liability for pension benefits	(2,659)	3,381
Changes in valuation of derivativs	(85,079)	(4,014)
Other, net	787	55
Increase (decrease) in unrestricted net assets	$ (37,007)	$ 207,811

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

The University of Chicago Medical Center
Statements of Changes in Net Assets
Years Ended June 30, 2012 and 2011
(in thousands of dollars)

	2012	2011
Unrestricted net assets		
Excess of revenues over expenses	$ 140,340	$ 231,389
Transfers to University of Chicago	(90,396)	(23,000)
Liability for pension benefits	(2,659)	3,381
Changes in valuation of derivatives	(85,079)	(4,014)
Other, net	787	55
Increase (decrease) in unrestricted net assets	(37,007)	207,811
Temporarily restricted net assets		
Contributions	3,345	8,844
Net assets released from restrictions used for operating purposes	(4,539)	(4,882)
Investment Income	2,825	12,601
Net assets released for capital purchases	(225)	-
Increase in temporarily restricted net assets	1,406	16,563
Permanently restricted net assets		
Contributions and other	(20)	9
Increase (decrease) in net assets	(35,621)	224,383
Net assets at beginning of year	1,164,975	940,592
Net assets at end of year	$ 1,129,354	$ 1,164,975

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

The University of Chicago Medical Center
Statements of Cash Flows
Years Ended June 30, 2012 and 2011
(in thousands of dollars)

	2012	2011
Cash flows from operating activities		
Increase (decrease) in net assets	$ (35,621)	$ 224,383
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Net change in unrealized gains on investments	13,425	(88,827)
Transfers to University of Chicago	90,396	23,000
Restricted contributions and other changes	(3,344)	(8,853)
Realized gains on investments	(41,941)	(33,706)
Net change in valuation of derivatives	77,808	(3,789)
Pension and other changes in unrestricted net assets	2,566	(3,436)
Loss on disposal of assets	388	272
Loss on extinguishment of debt	2,891	-
Gain on sale of dialysis units	-	(23,533)
Depreciation and amortization	67,521	67,717
Increase (decrease) in cash resulting from a change in		
Patient accounts receivable, net	(69,641)	(11,627)
Other assets	(7,369)	(9,577)
Accounts payable and accrued expenses	12,072	(7,984)
Due to the University of Chicago	2,658	(8,771)
Estimated settlements with third-party payors	(8,622)	(10,755)
Self-insurance liabilities	20	834
Other liabilities	(6,758)	(4,121)
Net cash provided from operating activities	96,449	101,227
Cash flows from investing activities		
Purchases of property, plant and equipment	(240,736)	(244,876)
Deposits to construction/capitalized interest funds	-	(271,075)
Uses of construction/capitalized interest funds	125,620	192,058
Acquisition of business purchased	(2,607)	-
Proceeds on sale of dialysis units	-	27,589
Purchases of investments	(146,314)	(137,678)
Sales of investments	186,875	131,013
Net cash used in investing activities	(77,162)	(302,969)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	80,945	275,839
Payments on long-term obligations	(90,631)	(15,145)
Transfers paid to the University of Chicago, net	(90,396)	(23,000)
Restricted contributions	6,936	4,742
Net cash from financing activities	(93,146)	242,436
Net increase in cash and cash equivalents	(73,859)	40,694
Cash and cash equivalents		
Beginning of year	148,207	107,513
End of year	$ 74,348	$ 148,207

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

1. Organization and Basis of Presentation

The University of Chicago Medical Center ("UCMC" or the "Medical Center") is an Illinois not-for-profit corporation. UCMC operates the Bernard Mitchell Hospital, the Chicago Lying-In Hospital, the University of Chicago Comer Children's Hospital, the Duchossois Center for Advanced Medicine, and various other outpatient clinics and treatment areas.

The University of Chicago (the "University"), as the sole corporate member of UCMC, elects UCMC's Board of Trustees and approves its By-Laws. The UCMC President reports to the University's Executive Vice President for Medical Affairs. The relationship between UCMC and the University is defined in the Medical Center By-Laws, an Affiliation Agreement, an Operating Agreement, and several Leases. See Note 3 for agreements and transactions with the University.

UCMC is a tax-exempt organization under Section 501(c)3 of the Internal Revenue Code. Accordingly, no provision for income taxes related to these entities has been made.

2. Summary of Significant Accounting Policies

New Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2010-24, *Health Care Entities* (Topic 954): *Presentation of Insurance Claims and Related Insurance Recoveries* ("ASU 2010-24"). Under previous guidance, a health care entity could net its estimated liabilities from malpractice or similar claims against its estimated insurance recoveries. ASU 2010-24 now requires that health care entities present the full estimated liability in its financial statements, as well as an asset for the estimated receivable for the amount covered by insurance policies. The Medical Center adopted ASU 2010-24 as of July 1, 2011, retrospective application is not required.

In August 2010, the FASB issued ASU 2010-23, *Measuring Charity Care for Disclosure* (ASU 2010-23). The provisions of ASU 2010-23 are intended to reduce the diversity in how charity care is calculated and disclosed across healthcare entities that provide it. Charity care is required to be measured at cost, defined as the direct and indirect costs of providing the charity care. Funds received to offset or subsidize the cost of charity care provided, for example from gifts or grants restricted for charity care, should be separately disclosed. As a healthcare entity does not recognize revenue when charity care is provided, this update will only require enhanced disclosures and will have no effect on the statements of operations and changes in net assets. This new guidance is effective for fiscal years beginning after December 15, 2010, with retrospective application required and with early application permitted. The Medical Center adopted this guidance as of July 1, 2011.

During 2012, the Medical Center adopted the provisions of Accounting Standards Update 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision of Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* ("ASU 2011-07"). ASU 2011-07 requires health care entities to change the presentation of the statements of operations by reclassifying the provision for doubtful accounts from an operating expense to a deduction from patient service revenues.

In September 2011, the FASB issued guidance to expand the disclosures required for entities that participate in multiemployer pension and other postretirement benefit plans, but did not amend the accounting for multiemployer plans. The purpose of the expanded disclosures is to assist financial statement users in understanding the possible impact of an entity's participation in these plans on future cash flows. The amended guidance is effective for annual reporting periods ending after December 15, 2011 and accordingly, the Medical Center has adopted these expanded disclosure requirements as of July 1, 2011.

In January 2010, the Financial Accounting Standards Board ("FASB") issued amended fair value disclosure requirements. Under this amended guidance, entities are to separately disclose the amounts of significant transfers into and out of its financial assets or liabilities having a fair value hierarchy valuation of Level 1 and Level 2 along with the reasons for those transfers. The amended disclosure guidance also requires entities to separately present its financial assets or liabilities having a fair value hierarchy valuation based on unobservable inputs that reflect the reporting entity's own assumptions ("Level 3 hierarchy") in a reconciliation that includes: purchases, sales, issuances, and settlements on a gross basis. The Medical Center adopted this amended disclosure guidance as of June 30, 2011.

In May 2009, the FASB issued new guidance for not-for-profit entities regarding mergers and acquisitions. Under this guidance it establishes principles and requirements in determining whether a not-for-profit entity combination is a merger or acquisition, applies the carry-over method of accounting for mergers, applies the acquisition method of accounting for acquisitions, and requires enhanced disclosures about the merger or acquisition including identifying which of the combining entities is the acquirer. In addition, the guidance amended previous FASB guidance on goodwill and other intangible assets and the reporting of noncontrolling interests in consolidated financial statements that was previously only applicable to for-profit entities to be fully applicable to not-for-profit entities. The new standard impacted UCMC's financial statements as disclosed in Note 12, specifically related to goodwill, intangibles and amortization expense.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates are made in the areas of patient accounts receivable, accruals for settlements with third-party payors, malpractice liability, fair value of investments, goodwill, intangibles, and accrued compensation and benefits.

Community Benefits

UCMC's policy is to treat patients in immediate need of medical services without regard to their ability to pay for such services, including patients transferred from other hospitals under the provisions of the Emergency Medical Treatment and Active Labor Act (EMTALA). UCMC also accepts patients through the Perinatal and Pediatric Trauma Networks without regard to their ability to pay for services.

UCMC developed a Financial Assistance Policy (the "Policy") under which patients are offered discounts of up to 100% of charges on a sliding scale. The policy is based both on income as a percentage of the Federal Poverty Level guidelines and the charges for services rendered. The policy also contains provisions that are responsive to those patients subject to catastrophic healthcare expenses. Since UCMC does not pursue collection of these amounts, they are not reported as net patient service revenue. The cost of providing care under this policy, along with the unreimbursed cost of government sponsored indigent healthcare programs, unreimbursed cost to support education, clinical research and other community programs for the years ended June 30, 2012 and 2011, are reported in Note 4.

Fair Value of Financial Instruments
The fair value of financial instruments approximates the carrying amount reported in the combined balance sheets for cash and cash equivalents, patient accounts receivable, self-insurance receivable, accounts payable and long-term debt.

Cash and Cash Equivalents
Cash and cash equivalents represent money market and highly liquid debt instruments with an original maturity date of three months or less.

Inventory
UCMC values inventories at the lower of cost or market, using the first-in first-out method.

Investments
Investments are recorded at estimated fair value. If an investment is held directly by UCMC and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. Private equity, real assets, and absolute return (collectively "Alternative Investments"), are generally reported at the net asset value (NAV) reported by the fund managers, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2012 and 2011, UCMC had no plans to sell any Alternative Investments at amounts different from NAV. All changes in the value of these investments are included in the excess (deficit) of revenues over expenses.

A significant portion of UCMC's investments are part of the University's Total Return Investment Pool (TRIP). UCMC accounts for its investments in TRIP based on its share of the underlying securities and records the investment activity as if UCMC owned the investments directly.

Endowment Funds with Deficits
From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. As of June 30, 2012 and 2011, there were no endowments in a deficit position.

Investments Limited as to Use
Investments limited as to use primarily include assets held by trustees under debt and other agreements and designated assets set aside by the Board of Trustees for future capital improvements and other specific purposes, over which the Board retains control and may at their discretion subsequently use for other purposes.

Derivative Instruments
In August 2006, UCMC entered into a forward starting swap transaction against contemplated variable rate borrowing for a new hospital pavilion. This is a cash flow hedge against interest on the variable rate debt. The effective date of the swap was August 2011. In July 2011, UCMC

novated the original swap agreement to divide the original notional amount in two equal parts between financial institutions. The fair value of the terminated portion of the hedge on the date of the novation was recorded in net assets in the amount of $35,123 and will be amortized into interest expense over the life of the related debt. The new agreement entered into will be accounting for as a hedge going forward. The combined notional amount of this swaps are $325,000 and the effective start date was August 2011. The swap values are based on the London Interbank Rate ("LIBOR"). Management determined that the interest rate swaps are effective, and has qualified for hedge accounting. Management has recognized a net recovery (loss) of ineffectiveness of $(3,700) and $7,800 in 2012 and 2011. This movement reflects the spread between tax exempt interest rates and LIBOR during the period. The effective portion of these swaps are included in other changes in unrestricted net assets. The interest rate swaps terminate on February 1, 2044.

UCMC is required to provide collateral on one of the interest rate swap agreements when the liability of that swap exceeds $50,000. At June 30, 2012 approximately $26,400 was held as collateral and classified as current portion of investments limited to use.

Cash settlement payments related to the swaps for 2012 were $10,900, which began in fiscal year 2012, are being recorded to net assets since the new hospital pavilion continues to be classified as construction in progress. These payments will be accumulated in net assets during the construction period and will be amortized over the life of the building as depreciation expense when the asset is placed into service.

Property, Plant and Equipment
Property, plant and equipment are reported on the basis of cost less accumulated depreciation and amortization. Donated items are recorded at fair market value at the date of contribution. The carrying value of property, plant and equipment is reviewed if the facts and circumstances suggest that it may be impaired. Depreciation of property, plant and equipment is calculated by use of the straight-line method at rates intended to depreciate the cost of assets over their estimated useful lives, which generally range from three to forty years. Interest costs incurred on borrowed funds during the period of construction of capital assets, net of any interest earned, are capitalized as a component of the cost of acquiring those assets.

Asset Retirement Obligation
UCMC recognizes a liability for the fair value of a legal obligation to perform asset retirement activities that are conditional on a future event if the amount can be reasonably estimated. Upon recognition of a liability, the asset retirement cost is recorded as an increase in the carrying value of the related long-lived asset and then depreciated over the life of the asset. The UCMC asset retirement obligations arise primarily from regulations that specify how to dispose of asbestos if facilities are demolished or undergo major renovations or repairs. UCMC's obligation to remove asbestos was estimated using site-specific surveys where available and a per square foot estimate where surveys were unavailable.

Pledges Receivable
Pledges are recorded at fair value. Estimated future cash flows due after one year are discounted using interest rates commensurate with estimated collection risks.

Other Assets
Other assets include deferred financing costs, which are amortized over the term of the related obligations.

Net Assets
Permanently restricted net assets include the historical dollar amounts of gifts that are required by donors to be permanently retained. Temporarily restricted net assets include gifts, which can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (such as pledges to be paid in the future) or by interpretations of law. Unrestricted net assets include all the remaining net assets of UCMC. See Note 15 for further information on the composition of restricted net assets.

Realized gains and losses are classified as changes in unrestricted net assets unless they are restricted by the donor or law.

Gifts and Grants
Unconditional promises to give assets other than cash to UCMC are reported at fair value at the date the promise is received. Conditional promises to give are recognized when the conditions are substantially met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Donor-restricted contributions whose restrictions are met within the same year received are reported as unrestricted gifts in the accompanying financial statements.

Gifts of cash or other assets that must be used to acquire long-lived assets are reported as additions to temporarily restricted net assets until the assets are placed into service.

Statement of Operations
All activities of UCMC deemed by management to be ongoing, major and central to the provision of healthcare services are reported as operating revenues and expenses. Activities deemed to be nonoperating include certain investment income (including realized gains and losses).

UCMC recognizes changes in accounting estimates related to third-party payor settlements as more experience is acquired. Adjustments to prior year estimates for these items resulted in an increase in net patient service revenues of $6,000 in 2012 and $15,000 in 2011.

In addition, UCMC recognized a gain of $5,500 in 2012 as a result of a favorable settlement with Medicare relating to the rural floor budget neutrality adjustment for fiscal years 1999 through 2011. UCMC recognized a gain of $21,000 in 2012 relating to the flow through of the 1996 IME and GME FTE caps for years 2006 through 2011.

The statement of operations includes excess (deficit) of revenues over expenses. Changes in unrestricted net assets that are excluded from excess (deficit) of revenues over expenses include transfers to the University, contributions of long-lived assets released from restrictions (including assets acquired using contributions which by donor restriction were to be used for acquisition of UCMC assets), the effective portion of changes in the valuation of the interest rate swap, and pension benefit liabilities.

Net Patient Service Revenue, Accounts Receivable and Allowance for Doubtful Accounts
UCMC maintains agreements with the Social Security Administration under the Medicare Program, Blue Cross and Blue Shield of Illinois, Inc. (Blue Cross), and the State of Illinois under the Medicaid Program and various managed care payors that govern payment to UCMC for services rendered to patients covered by these agreements. The agreements generally provide for per case or per diem

rates or payments based on allowable costs, subject to certain limitations, for inpatient care and discounted charges or fee schedules for outpatient care.

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and UCMC estimates are adjusted in future periods as adjustments become known or as years are no longer subject to UCMC audits, reviews and investigations. Contracts, laws and regulations governing Medicare, Medicaid, and Blue Cross are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. A portion of the accrual for settlements with third-party payors has been classified as long-term because UCMC estimates they will not be paid within one year.

The process for estimating the ultimate collectability of receivables involves significant assumptions and judgment. UCMC has implemented a standardized approach to this estimation based on the payor classification and age of outstanding receivables. Account balances are written off against the allowance when management feels it is probable the receivable will not be recovered. The use of historical collection experience is an integral part of the estimation of the reserve for doubtful accounts. Revisions in the reserve for doubtful accounts are recorded as adjustments to the provision for doubtful accounts.

Hospital Assessment Program/Medicaid Provider Tax
In December 2008, the State of Illinois, after receiving approval by the federal government, implemented a hospital assessment program. The program assessed hospitals a provider tax based on occupied bed days and provided increases in hospitals' Medicaid payments. The program results in a net increase of $30,300 in income from operations, which represents $57,000 in additional Medicaid payments offset by $26,700 in Medicaid provider tax for 2012 and 2011.

Reclassifications
The provision for doubtful accounts was reclassified on the statements of operations related to the adoption of ASU 2011-07 for 2012 and 2011 presentation.

Subsequent Events
UCMC has performed an evaluation of subsequent events through October 10, 2012, which is that date the financial statements were issued.

3. Agreements and Transactions with the University

The Affiliation Agreement with the University provides, among other things, that all members of the medical staff will have academic appointments in the University. The Affiliation Agreement has an initial term of 40 years ending October 1, 2026 unless sooner terminated by mutual consent or as a result of a continuing breach of a material obligation therein or in the Operating Agreement. The Affiliation Agreement automatically renews for additional successive 10-year terms following expiration of the initial term, unless either party provides the other with at least two years' prior written notice of its election not to renew.

(in thousands of dollars)

The Operating Agreement, as amended, provides, among other things, that the University gives UCMC the right to use and operate certain facilities. The Operating Agreement is coterminous with the Affiliation Agreement.

The Lease Agreements provide, among other things, that UCMC will lease from the University certain of the health care facilities and land that UCMC operates and occupies. The Lease Agreements are coterminous with the Affiliation Agreement.

UCMC purchases various services from the University, including certain employee benefits, utilities, security, telecommunications and insurance. In addition, certain UCMC accounting records are maintained by the University. During the years ended June 30, 2012 and 2011, the University charged UCMC approximately $22,500 and $21,700, respectively, for utilities, security, telecommunications, insurance and overhead.

The University's Division of Biological Sciences ("BSD") provides physician services to UCMC. In 2012 and 2011, UCMC recorded approximately $185,000 and $166,900, respectively, in expense related to these services.

UCMC's Board of Trustees adopted a plan of support under which it would provide annual net asset transfers to the University for support of academic programs in biology and medicine. All commitments under this plan are subject to the approval of UCMC's Board of Trustees and do not represent legally binding commitments until that approval. Unpaid portions of commitments approved by the UCMC Board of Trustees are reflected as current liabilities. UCMC recorded net asset transfers of $63,000 in 2012 and $23,000 in 2011 for this support.

4. Community Benefits

The unreimbursed cost of providing care under the Financial Assistance Policy, along with the unreimbursed cost of government sponsored indigent healthcare programs, unreimbursed cost to support education, clinical research and other community programs for the years ended June 30, 2012 and 2011, are as follows:

	Years Ended June 30, 2012	2011
Uncompensated care:		
Medicaid sponsored indigent healthcare	$ 40,223	$ 33,754
Medicare sponsored indigent healthcare - Cost Report	38,520	39,707
Medicare sponsored indigent healthcare - Physician Services	11,431	7,683
Total uncompensated care	90,174	81,144
Provision for doubtful accounts	11,995	12,565
Charity care	20,310	17,142
	122,479	110,851
Unreimbursed education and research:		
Education	81,735	70,478
Research	48,000	23,000
Total unreimbursed education and research	129,735	93,478
Total community benefits	$ 252,214	$ 204,329

(in thousands of dollars)

The Medical Center determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries, wages, and benefits, supplies, and other operating expenses, based on data from its costing system to determine a cost-to-charge ratio. The cost to charge ratio is applied to the charity care charge to calculate the charity care amount reported above.

5. Investments Limited as to Use

The composition of investments limited as to use is as follows at June 30:

	Endowments				
	Separately Invested	TRIP	Other	Total	2011
Investments carried at fair value:					
Cash Equivalents	$ 6,126	$ 8,538	$ 759	$ 15,423	$ 22,926
Global Public Equities	148,778	86,666	-	235,444	248,861
Private Debt	-	22,848	-	22,848	23,717
Private Equity					
U.S. Venture Capital	5,804	28,114	-	33,918	35,108
U.S. Corporate Finance	-	33,196	-	33,196	31,918
International	429	39,804	-	40,233	41,370
Real Assets					
Real Estate	-	57,296	-	57,296	48,317
Natural Resources	-	59,953	-	59,953	55,127
Absolute Return					
Equity Oriented	-	28,983	-	28,983	24,281
Global Macro/Relative Value	-	40,235	-	40,235	13,875
Multi-Strategy	-	50,350	-	50,350	51,829
Credit-Oriented	-	11,214	-	11,214	7,180
Volatility-Oriented	-	9,975	-	9,975	-
Fixed Income					
U.S. Treasuries, including TIPS	84,749	64,916	-	149,665	151,341
Other Fixed Income	50,977	30,505	-	81,482	129,371
Funds in Trust	-	-	54,223	54,223	150,000
Total Investments	$ 296,863	$ 572,593	$ 54,982	$ 924,438	$ 1,035,221

Investments classified as other consist of construction and debt proceeds to pay interest, donor restricted, worker's compensation, self-insurance, and trustee-held funds. Investments are presented in the financials statements as follows:

	2012	2011
Current portion of investments limited to use	$ 27,033	$ 151
Investments limited to use, less current portion	897,405	1,035,070
Total investments limited to use	$ 924,438	$ 1,035,221

The composition of net investment income is as follows for the years ended June 30:

(in thousands of dollars)

	2012	2011
Interest and dividend income, net	$ 14,831	$ 12,808
Realized gains on sales of securities	23,970	31,544
Unrealized gains (losses) on securities	(13,944)	80,821
	$ 24,857	$ 125,173

Outside of TRIP, UCMC also invests in private equity limited partnerships. As of June 30, 2012, UCMC has commitments of $35,900 to fund private equity limited partnerships, approximately $34,200 of which have been funded.

Fair Value of Financial Instruments

Under the provisions of the Financial Accounting Standards Board (FASB) official pronouncements on Fair Value Measurements for financial instruments fair value is defined and a framework is established for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. Financial instruments categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Fair value is defined as the price that would be received upon selling an asset in an orderly transaction between market participants.

The hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of UCMC. Inputs refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs other than quoted prices that are observable including model based valuation techniques.
- Level 3 – Valuation techniques that use significant inputs that are unobservable because they trade infrequently or not at all.

To coincide with the FASB Fair Value Measurements pronouncement, UCMC also follows the FASB update for Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent) which permits, as a practical expedient, UCMC to measure the fair value of an asset that is within the scope of the update on the basis of the net asset value per share of the asset or its equivalent determined as of UCMC's fiscal year end. Under this approach, certain attributes of the asset such as restrictions on redemption and transaction prices from principal-to-principal or brokered transactions are not considered in measuring the fair value of an investment. The following is a summary of the inputs used as of June 30, 2012 and 2011 in valuing the assets and liabilities carried at fair value:

(in thousands of dollars)

Assets	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	2012 Total Fair Value
Cash & Short-term investments (including cash & cash equivalents)	$ -	$ -	$ -	$ -
Investments:				
Cash Equivalents	15,422	-	-	15,422
Global Public Equities	125,953	72,801	36,691	235,445
Private Debt	-	-	22,848	22,848
Private Equity				
U.S. Venture Capital	-	-	33,918	33,918
U.S. Corporate Finance	-	-	33,196	33,196
International	-	-	40,232	40,232
Real Assets				
Real Estate	-	-	57,296	57,296
Natural Resources	-	-	59,953	59,953
Absolute Return				
Equity Oriented	5,728	5,448	17,808	28,984
Global Macro/Relative Value	5,764	5,538	28,933	40,235
Multi-Strategy	-	-	50,350	50,350
Credit-Oriented	-	-	11,214	11,214
Volatility-Oriented	-	9,975	-	9,975
Fixed Income				
U.S. Treasuries, including TIPS	74,878	74,787	-	149,665
Other Fixed Income	81,482	-	-	81,482
Funds in Trust	54,223	-	-	54,223
Total investments	363,450	168,549	392,439	924,438
Other assets	$ 41,580	$ -	-	41,580
Total assets at fair value	$ 405,030	$ 168,549	$ 392,439	$ 966,018
Liabilities				
Interest rate swap payable	$ -	$ 135,872	$ -	135,872
Total liabilities at fair value	$ -	$ 135,872	$ -	$ 135,872

(in thousands of dollars)

Assets	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	2011 Total Fair Value
Cash & Short-term investments (including cash & cash equivalents)	$ 86,094	$ -	$ -	$ 86,094
Investments:				
Cash Equivalents	22,926	-	-	22,926
Global Public Equities	132,586	80,143	36,132	248,861
Private Debt	-	-	23,717	23,717
Private Equity				
U.S. Venture Capital	-	-	35,108	35,108
U.S. Corporate Finance	-	-	31,918	31,918
International	-	-	41,370	41,370
Real Assets				
Real Estate	-	-	48,317	48,317
Natural Resources	-	-	55,127	55,127
Absolute Return				
Equity Oriented	4,084	2,829	17,368	24,281
Global Macro/Relative Value	-	4,349	9,526	13,875
Multi-Strategy	-	-	51,829	51,829
Credit-Oriented	-	-	7,180	7,180
Fixed Income				
U.S. Treasuries, including TIPS	54,864	96,477	-	151,341
Other Fixed Income	113,376	-	15,995	129,371
Funds in Trust	150,000	-	-	150,000
Total investments	477,836	183,798	373,587	1,035,221
Other assets	$ 15,464	$ -	-	15,464
Total assets at fair value	$ 579,394	$ 183,798	$ 373,587	$ 1,136,779
Liabilities				
Interest rate swap payable	$ -	$ 58,064	$ -	58,064
Total liabilities at fair value	$ -	$ 58,064	$ -	$ 58,064

(in thousands of dollars)

During 2012 there were no transfers between investment Levels 1 and 2 which are considered material to the financial statements. Changes to the reported amounts of investments measured at fair value using unobservable inputs (Level 3) as of June 30, 2012 and 2011 are as follows:

	Separately Invested	Invested in TRIP	2012 Total
Fair value, July 1, 2011	$ 7,510	$ 366,077	$ 373,587
Realized gains	18	23,569	23,587
Unrealized gains	297	(3,815)	(3,518)
Purchases	80	48,080	48,160
Sales	(1,672)	(50,008)	(51,680)
Transfers	-	2,303	2,303
Fair value, June 30, 2012	$ 6,233	$ 386,206	$ 392,439

	Separately Invested	Invested in TRIP	2011 Total
Fair value, July 1, 2010	$ 10,157	$ 345,768	$ 355,925
Realized gains	-	24,680	24,680
Unrealized gains	751	36,727	37,478
Purchases	86	34,895	34,981
Sales	(3,484)	(89,754)	(93,238)
Transfers	-	13,761	13,761
Fair value, June 30, 2011	$ 7,510	$ 366,077	$ 373,587

The interest rate swap arrangement has inputs which can generally be corroborated by market data and is therefore classified within level 2.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while UCMC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The significant unobservable inputs used in the fair value measurement of UCMC’s long-lived partnership investments include a combination of cost, discounted cash flow analysis, industry comparables and outside appraisals. Significant increases (decreases) in any inputs used by investment managers in determining net asset values in isolation would result in a significantly lower (higher) fair value measurement.

(in thousands of dollars)

UCMC has made investments in various long-lived partnerships and, in other cases, has entered into contractual agreements that may limit its ability to initiate redemptions due to notice periods, lockups and gates. Details on typical redemption terms by asset class and type of investment are provided below:

	Remaining Life	Redemption Terms	Redemption Restrictions and terms	Redemption Restrictions in Place at June 30, 2012
Cash	N/A	Daily	None	None
Global Public Equity:				
Separate accounts	N/A	Daily	None	None
Commingled funds	N/A	Daily to monthly with notice periods of 1 to 14 days	None	None
Partnerships	N/A	Quarterly to annually with notice periods of 30 to 180 days	Lock-up provisions ranging from 0 to 5 years, some investments have a portion of capital in side pockets with no redemptions permitted	None
Private debt	1 to 10 years	Redemptions not permitted	N/A	N/A
Private equity	1 to 19 years	Redemptions not permitted	N/A	N/A
Real assets	1 to 18 years	Redemptions not permitted	N/A	N/A
Absolute return:				
Partnerships	N/A	Monthly to annually with varying notice periods	Lock-up provisions ranging from 0 to 5 investments have a portion of capital in side pockets with no redemptions permitted	Approximately $36.7 million of investments are in gated or liquidating funds
Drawdown partnerships	1 to 4 years	Redemptions not permitted	N/A	N/A
Fixed income:				
Separate accounts	N/A	Daily	None	None
Commingled funds	N/A	Daily	None	None
Partnerships	N/A	Quarterly with notice periods of 90 days	Only one-third capital available in any 12-month period	None
Funds held in trust	N/A	Daily	None	None

(in thousands of dollars)

6. Endowments

UCMC's endowment consists of individual donor restricted endowment funds and board-designated endowment funds for a variety of purposes plus the following where the assets have been designated for endowment: pledges receivable, split interest agreements, and other net assets. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The net assets associated with endowment funds including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

Illinois is governed by the "Uniform Prudent Management of Institutional Funds Act" (UPMIFA). The Board of Trustees of UCMC has interpreted UPMIFA as sustaining the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, UCMC classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by UCMC in a manner consistent with the standard of prudence prescribed by UPMIFA.

UCMC has the following donor-restricted endowment activities during the years ended June 30, 2012 and 2011 delineated by net asset class:

	Unrestricted Funds Functioning	Temporarily Restricted	Permanently Restricted	2012 Total
Endowment net assets, beginning of year	$ 810,184	$ 67,857	$ 6,072	$ 884,113
Investment return:				
Investment income	36,192	3,140	-	39,332
Net appreciation (realized and unrealized)	(11,335)	(305)	-	(11,640)
Total investment return	24,857	2,835	-	27,692
Appropriation of endowment assets for expenditure	(37,343)	(3,792)	-	(41,135)
Other	(1,593)	379	-	(1,214)
Endowment net assets, end of year	$ 796,105	$ 67,279	$ 6,072	$ 869,456

(in thousands of dollars)

	Unrestricted				
	Funds Functioning	**Other**	**Temporarily Restricted**	**Permanently Restricted**	**2011 Total**
Endowment net assets, beginning of year	$ 696,071	$ (5)	$ 58,844	$ 6,061	$ 760,971
Investment return:					
Investment income	39,348	-	4,594	-	43,942
Net appreciation (realized and unrealized)	85,825	-	8,007	-	93,832
Total investment return	125,173	-	12,601	-	137,774
Gifts and other additions	25,000	-	-	11	25,011
Appropriation of endowment assets for expenditure	(36,055)	-	(3,588)	-	(39,643)
Other	(5)	5	-	-	-
Endowment net assets, end of year	$ 810,184	$ -	$ 67,857	$ 6,072	$ 884,113

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (Endowments only) as of June 30, 2012 and 2011:

	Perpetual	**Time-Restricted by Donor**	**Time-Restricted by Law**	**2012 Total**
Restricted for pediatric health care	$ 1,835	$ -	$ 15,273	$ 17,108
Restricted for adult health care	1,925	-	49,751	51,676
Restricted for educational and scientific programs	2,312	-	2,255	4,567
	$ 6,072	$ -	$ 67,279	$ 73,351

	Perpetual	**Time-Restricted by Donor**	**Time-Restricted by Law**	**2011 Total**
Restricted for pediatric health care	$ 1,835	$ -	$ 15,073	$ 16,908
Restricted for adult health care	1,925	-	49,176	51,101
Restricted for educational and scientific programs	2,312	-	2,208	4,520
	$ 6,072	$ -	$ 66,457	$ 72,529

(in thousands of dollars)

Investment and Spending Policies
UCMC has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. UCMC expects its endowment funds over time, to provide an average rate of return of approximately 6% annually. To achieve its long-term rate of return objectives, UCMC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Actual returns in any given year may vary from this amount.

For endowments invested in TRIP, the Board of Trustees of UCMC has adopted the University's method to be used to appropriate endowment funds for expenditure, including following the University's payout formula. The University utilizes the total return concept in allocating endowment income. In accordance with the University's total return objective, between 4.5% and 5.5% of a 12-quarter moving average of the fair value of endowment investments, lagged by one year, is available each year for expenditure in the form of endowment payout. The exact payout percentage, which is set each year by the Board of Trustees with the objective of a 5% average payout over time, was 5% for the fiscal years ended June 30, 2012 and 2011. If endowment income received is not sufficient to support the total return objective, the balance is provided from capital gains. If income received is in excess of the objective, the balance is reinvested in the endowment.

For endowments invested apart from TRIP, UCMC calculates a payout of 4% annually on a rolling 24-month average market value. In establishing this policy, the Board considered the expected long term rate of return on its endowment.

7. Property, Plant and Equipment

The components of property, plant and equipment as of June 30 are as follows:

	2012	2011
Land and land rights	$ 36,008	$ 36,008
Buildings and improvements	649,565	645,336
Equipment	479,832	436,070
Construction in progress	610,211	425,488
	1,775,616	1,542,902
Less accumulated depreciation	(709,122)	(649,135)
Total property, plant and equipment, net	$ 1,066,494	$ 893,767

UCMC's net property, plant and equipment cost includes $11,100 representing assets under capital leases with the University, which are stated at the UCMC's historical cost. The cost of buildings that are jointly used by the University and UCMC is allocated based on the lease provisions. In addition, land and land rights includes $20,600, which represents the unamortized portion of initial lease payments made to the University. The New Hospital Pavilion is included in construction in progress at June 30, 2012 in the amount of $535,900; approximately $158,000 was spent in 2012 related to the building. In 2012 and 2011, approximately $16,800 and $12,000 were capitalized related to software implementation of an electronic medical records system.

Capitalized interest costs in 2012 and 2011 were $10,000 and $7,700, respectively.

(in thousands of dollars)

8. Long-Term Debt

Long-term debt as of June 30 consists of the following:

	Final fiscal year maturity	Interest rate	2012	2011
Fixed rate:				
Illinois Health Facilities Authority:				
Series 2001	2024	4.7	$ -	$ 27,570
Series 2001	2032	5.0	-	28,100
Series 2001	2037	5.1	-	24,065
Series 2003	2015	5.0	21,235	27,725
Illinois Finance Authority:				
Series 2009A and B	2027	4.9	152,350	153,670
Series 2009C	2037	5.4	85,000	85,000
Series 2009D-1 and 2 (synthetically fixed rate)	2044	3.9	70,000	70,000
Series 2009E-1 and 2 (synthetically fixed rate)	2044	3.9	70,000	70,000
Series 2010A (synthetically fixed rate)	2045	3.9	46,250	46,250
Series 2010B (synthetically fixed rate)	2045	3.9	46,250	46,250
Series 2011A (synthetically fixed rate)	2045	3.9	46,250	46,250
Series 2011B (synthetically fixed rate)	2045	3.9	46,250	46,250
Series 2011C	2042	5.5	90,000	90,000
Series 2012A	2037	4.5	75,155	-
Unamortized premium			12,528	7,088
Total fixed rate			761,268	768,218
Variable rate:				
Illinois Educational Facilities Authority (IEFA):	2038	0.1	83,277	85,066
Total variable rate			83,277	85,066
Total notes and bonds payable			844,545	853,284
Less current portion of long-term debt			(11,290)	(9,340)
Long-term portion of debt			$ 833,255	$ 843,944

The fair value of long-term debt is based on the pricing of fixed-rate bonds of market participants, including assumptions about the present value of current market interest rates, and loans of comparable quality and maturity. The fair value of long-term debt would be a Level 2 hierarchy. The carrying value of long-term debt is below the estimated fair value of the debt by $34,439 as of June 30, 2012 based on the quoted market prices for the same or similar issues. The carrying value of the long-term debt does not differ materially from its estimated fair value at June 30, 2011 based on the quoted market prices for the same or similar issues.

Scheduled annual repayments for the next five years are as follows at June 30:

Year	Amount
2013	$ 11,290
2014	10,385
2015	10,050
2016	11,535
2017	11,975

Under its various indebtedness agreements, the Medical Center is subject to certain financial covenants, including maintaining a minimum debt service coverage ratio, maintaining minimum levels of days cash on hand, maintaining debt to capitalization at certain levels; limitations on selling, leasing, or otherwise disposing of Medical Center property; and certain other nonfinancial covenants. Each of the bond series is collateralized by unrestricted receivables under a Master Trust Indenture and subject to certain restrictions. The Medical Center was in compliance with its debt covenants as of June 30, 2012 and 2011.

Recent Financing Activity

In June 2012, the IFA issued $75,155 of Series 2012A Revenue Refunding Bonds, allocated to the Medical Center for the purpose of refunding the Illinois Health Facilities Authority Revenue Bonds, Series 2001. The Series 2012A Bonds are secured by a Direct Note Obligation, Series 2012A of the Medical Center issued pursuant to the Master Trust Indenture. The extinguishment of the Series 2001 bonds resulted in a loss of $2,800 which was recorded to supplies and other expense in 2012.

Letters of Credit

Payment on each of the variable rate demand revenue bonds is also collateralized by a letter of credit. The letters of credit that support the Series 2009D and the Series 2009E bonds were due to expire in August 2012. The Medical Center replaced the letter of credit that supports the Series 2009D bonds with a new letter of credit in June 2012, which expires in June 2017. The letter of credit that supports the 2009E bonds was extended subsequent to June 30, 2012 and now expires in December 2014. The letters of credit that support the Series 2010A and Series 2010B bonds expire in November 2015 and the letters of credit that support the Series 2011A and Series 2011B bonds expire in May 2016. The letters of credit are subject to certain restrictions, which include financial ratio requirements and consent to future indebtedness. The most restrictive financial ratio is to maintain a debt service coverage ratio of 1.25:1. UCMC was in compliance with all applicable debt covenants at June 30, 2012.

Payment on each of the IEFA bonds is collateralized by a letter of credit maturing November 2014. The letter of credit is subject to certain restrictions, which include financial ratio requirements. The most restrictive financial ratio is to maintain a debt service coverage ratio of 1.75:1. UCMC was in compliance with all applicable debt covenants at June 30, 2012.

Included in UCMC's debt is $83,277 of commercial paper revenue notes and $325,000 of variable rate demand bonds. In the event that UCMC's remarketing agents are unable to remarket the bonds, the trustee of the bonds will tender them under the letters of credit. Scheduled repayments under the letters of credit are between 1 and 3 years, beginning after a grace period of at least one year, and bear interest rates different from those associated with the original bond issue. Any bonds tendered are still eligible to be remarketed. Bonds subsequently remarketed would be subject to the original bond repayment schedules.

UCMC paid interest, net of capitalized interest, of approximately $13,000 and $12,100 in 2012 and 2011, respectively.

UCMC has a $15,000 line of credit from a commercial bank. As of June 30, 2012 and 2011, no amount was outstanding under this line.

(in thousands of dollars)

9. Commitments

Leases

UCMC has capital and noncancelable operating leases for certain buildings and equipment. Future minimum payments required under noncancelable operating and capital leases as of June 30 are as follows:

	Operating	Capital
2013	$ 2,422	$ 442
2014	2,343	329
2015	2,193	172
2016	2,239	-
2017 and thereafter	8,203	-
Total minimum lease payments	$ 17,400	943
Less - Amount representing interest		35
Present value of net minimum capital lease payments		$ 908

The amount of total assets capitalized under these leases at June 30, 2012 and 2011, is $9,200 with related accumulated depreciation of $8,100 and $7,200, respectively. Rental expense was approximately $4,700 and $4,100 for the years ended June 30, 2012 and 2011, respectively, including a $500 annual rental of a parking garage from the University.

Construction Projects

UCMC is constructing the New Hospital Pavilion (NHP) that will include 240 beds, 23 operating rooms, 7 interventional suites, imaging scanners and other advanced diagnostic and treatment services. The total estimated cost of the NHP is approximately $687,500, and is expected to open in 2013. As of June 30, 2012, total outstanding commitments on the project amounted to approximately $616,400, of which approximately $522,100 has been paid or accrued and recorded in construction in progress.

10. Insurance

UCMC is included under certain of the University's insurance programs. Since 1977, UCMC, in conjunction with the University, has maintained a self-insurance program for its medical malpractice liability. This program is supplemented with commercial excess insurance above the University's self-insurance retention, which for the years ended June 30, 2012 and 2011 was $7,500 per claim and unlimited in the aggregate. Claims in excess of $7,500 are subject to an additional self-insurance retention limited to $12,500 per claim and $12,500 in aggregate.

The estimated liability for medical malpractice self-insurance is actuarially determined based upon estimated claim reserves and various assumptions, and represents the estimated present value of self-insurance claims that will be settled in the future. It considers anticipated payout patterns as well as interest to be earned on available assets prior to payment.

(in thousands of dollars)

A comparison of the estimated liability for incurred malpractice claims (filed and not filed) and net assets for the combined University and UCMC self-insurance program as of June 30, 2012 and 2011, is presented below:

	2012	2011
Actuarial present value of self-insurance liability for medical malpractice	$ 246,700	$ 245,861
Total assets available for claims	$ 330,431	$ 309,418

If the present-value method were not used, the ultimate liability for medical malpractice self-insurance claims would be approximately $39,600 higher at June 30, 2012. The interest rate assumed in determining the present value was 3.75% for 2012 and 5.25% for 2011. The Medical Center has recorded its prorate share of the malpractice self-insurance liability as required under ASU 2010-24 in the amount of $118,200 at June 30, 2012 with an offsetting receivable from the malpractice trust to cover any related claims.

The malpractice self-insurance trust assets consist primarily of funds held in TRIP.

UCMC recognizes as malpractice expense its negotiated pro-rata share of the actuarially determined normal contribution, with gains and losses amortized over six years, with no retroactive adjustments, as provided in the operating agreement. For fiscal year 2013, the Medical Center expense will be $18,400 related to malpractice.

UCMC designated $12,400 and $9,500 as of June 30, 2012 and 2011, respectively, as a workers' compensation self-insurance reserve trust fund. The self-insurance program investments consist of 65% bonds and 35% marketable equities. The specifically identified claim requirements and actuarially determined reserve requirements for unreported workers' compensation claims were $8,200 as of June 30, 2012 and 2011, respectively. The University also charges UCMC for its portion of other commercial insurance and self-insurance costs.

11. Pension Plans

Active Plans

A majority of UCMC's personnel participate in the University's defined benefit and contribution pension plan. Under the defined benefit portion of this plan, benefits are based on years of service and the employee's compensation for the five highest paid consecutive years within the last ten years of employment. UCMC and the University make annual contributions to this portion of the plan at a rate necessary to maintain plan funding on an actuarially recommended basis. UCMC recognizes its share of net periodic pension cost as expense and any remaining contribution as a reduction to unrestricted net assets. The reduction to net assets for 2012 was $27,400. Contributions of $52,700 and $42,600 were made in the fiscal years ended June 30, 2012 and 2011, respectively. UCMC expects to make contributions of $32,500 for the fiscal year ended June 30, 2013 that will be entirely expensed as net periodic pension costs.

Under the defined contribution portion of the plan, UCMC and plan participants make contributions that accrue to the benefit of the participants at retirement. UCMC's contributions, which are based on a percentage of each covered employee's salary, totaled approximately $6,100 and $5,700 for the years ended June 30, 2012 and 2011, respectively.

(in thousands of dollars)

Plan Name	EIN	Contributions of UCMC 2012	Contributions of UCMC 2011
University of Chicago Retirement Income Plan for Employees	36-2177139-002	$ 35,000	$ 17,700
University of Chicago Pension Plan for Staff Employees	36-2177139-003	17,700	24,900
		$ 52,700	$ 42,600

The benefit obligation, fair value of plan assets and funded status for the University's defined benefit plan included in the University's financial statements as of June 30, are shown below:

	2012	2011
Projected benefit obligation	$ 780,797	$ 651,244
Fair value of plan assets	496,657	385,578
Deficit of plan assets over benefit obligation	$ (284,140)	$ (265,666)

The weighted-average assumptions used in the accounting for the plan are shown below:

	2012	2011
Discount rate	4.5 %	5.5 %
Expected return on plan assets	7.1 %	7.1 %
Rate of compensation increase	3.5 %	3.5 %

The weighted average asset allocation for the plan is as follows:

	2012	2011
Domestic equities	27 %	27 %
International equity	16 %	16 %
Fixed income	57 %	57 %
	100 %	100 %

Total benefits and plan expenses paid by the plan were $32,200 and $26,200 for the fiscal years ended June 30, 2012 and 2011, respectively.

Expected future benefit payments excluding plan expenses are as follows:

Fiscal Year	
2013	31,125
2014	32,902
2015	35,008
2016	37,358
2017	39,846
2018-2022	235,874

Certain UCMC personnel participate in a contributory pension plan. Under this plan, UCMC and plan participants make annual contributions to purchase annuities equivalent to retirement benefits earned. UCMC's pension expense for this plan was $5,000 and $4,500 for the years ended June 30, 2012 and 2011, respectively.

(in thousands of dollars)

Curtailed and Frozen Plan
In June 2002, UCMC assumed sponsorship of the Louis A. Weiss Memorial Hospital Pension Plan (Employer Identification Number 36-3488183, Plan Number 003), which covers employees of a former affiliate. Participation and benefit accruals are frozen. All benefit accruals are fully vested.

Components of net periodic pension cost and other amounts recognized in unrestricted net assets include the following:

	Years Ended June 30, 2012	2011
Net periodic pension cost		
Interest cost	$ 2,719	$ 2,681
Expected return on plan assets	(2,921)	(2,363)
Amortization of unrecognized net actuarial loss	684	822
Net periodic pension cost	482	1,140
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
Liability for pension benefits	(2,659)	3,381
Total recognized in net periodic pension cost and unrestricted net assets	$ 3,141	$ (2,241)

The following tables set forth additional required pension disclosure information for this plan:

	Years Ended June 30, 2012	2011
Change in projected benefit obligation		
Benefit obligation at beginning of year	$ 55,219	$ 55,468
Interest cost	2,719	2,681
Net actuarial loss	3,425	193
Benefits paid	(3,264)	(3,123)
	58,099	55,219
Change in plan assets		
Fair value of plan assets at beginning of year	41,717	35,565
Actual return on plan assets	3,003	5,115
Employer contribution	6,240	4,160
Benefits paid	(3,264)	(3,123)
	47,696	41,717
Funded status at end of year	$ (10,403)	$ (13,502)

Amounts recognized in the balance sheet are included in noncurrent liabilities.

(in thousands of dollars)

Accumulated plan benefits equal projected plan benefits. Assumptions used in the accounting for the net periodic pension cost were as follows:

	2012	**2011**
Discount rate	4.2 %	5.1 %
Expected return on plan assets	6.0 %	6.6 %
Rate of compensation increase	N/A	N/A

Weighted average asset allocations for plan assets are as follows:

	2012	**2011**
Cash	8 %	4 %
Fixed income	53	50
Domestic equities	28	36
International equities	11	10
	100 %	100 %

All plan assets are valued using level 1 inputs. The target asset allocation is 40% equities and 60% fixed income. The expected return on plan assets is based on historical investment returns for similar investment portfolios.

UCMC expects to make contributions of $3,165 to the plan in the fiscal year ending June 30, 2013. Expected future benefit payments are:

Fiscal Year		
2013	$	3,420
2014		3,426
2015		3,428
2016		3,438
2017		3,461
2018-2022		17,809

12. Acquisitions

On September 30, 2011, the Medical Center entered into an Asset Purchase Agreement, whereby the Medical Center acquired the operations of Midwest Center for Hematology/Oncology, S.C. a professional service corporation that specializes in oncology. The purchase price was $2,607 and there are no earn-out provisions with the agreements. The acquisition is accounted for under the purchase method of accounting and, accordingly, the cost has been allocated on the basis of estimated fair value of assets acquired and liabilities assumed. This resulted in $766 of the purchase price being allocated to goodwill and $905 being allocated to non-compete agreements. The non-compete agreements are amortized over a 5 year period.

(in thousands of dollars)

The purchase price was allocated to the fair value of the assets acquired and liabilities assumed as follows:

Fair value of net assets acquired		
Accounts receivable, net	$	764
Property and equipment		172
Goodwill		766
Non-compete agreements		905
	$	2,607

13. Concentration of Credit Risk

As a hospital, UCMC is potentially subject to concentration of credit risk from patient accounts receivable and certain investments. Investments, which include government and agency securities, stocks, corporate bonds, real assets, absolute return, and private equities, are not concentrated in any corporation or industry or with any single counter-party. UCMC receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payors, including Medicare, Medicaid, and Blue Cross. For 2012 and 2011, Medicaid approximated 17% and 15% of the Medical Center's net revenue for the year. Medicaid represented 28.9% and 11.9% of UCMC's net accounts receivable at June 30, 2012 and 2011, respectively. Management does not anticipate any collection risk related to the Medicaid accounts receivable at June 30, 2012. UCMC has not historically incurred any significant credit losses outside the normal course of business.

14. Pledges

Pledges receivable at June 30 are shown below:

	2012	2011
Unconditional promises expected to be collected in:		
Less than one year	$ 4,959	$ 5,765
One year to five years	6,001	8,985
More than five years	-	144
	10,960	14,894
Less unamortized discount (discount rate 5.5%)	(527)	(869)
Total	$ 10,433	$ 14,025

(in thousands of dollars)

15. Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30:

	2012	2011
Pediatric health care	$ 17,751	$ 17,690
Adult health care	50,743	50,962
Educational and scientific programs	4,187	3,629
Capital and other purposes	22,664	21,658
Total	$ 95,345	$ 93,939

Income from permanently restricted net assets is restricted for:

	2012	2011
Pediatric health care	$ 1,845	$ 1,875
Adult health care	1,935	1,925
Educational and scientific programs	2,312	2,312
Total	$ 6,092	$ 6,112

16. Functional Expenses

Total operating expenses by function are as follows for the years ended June 30:

	2012	2011
Health care services	$ 1,103,904	$ 1,046,520
General and administrative	66,819	61,066
Total	$ 1,170,723	$ 1,107,586

17. Contingencies

UCMC is subject to complaints, claims and litigation which have risen in the normal course of business. In addition, UCMC is subject to reviews by various federal and state government agencies to assure compliance with applicable laws, some of which are subject to different interpretations. While the outcome of these suits cannot be determined at this time, management, based on advice from legal counsel, believes that any loss which may arise from these actions will not have a material adverse effect on the financial position or results of operations of UCMC.

18. Friend Family Health Center (FFHC)

FFHC was incorporated in June 1997 to provide primary care to economically challenged and medically high-risk populations on Chicago's South Side, and was designated a Federally Qualified Health Center in October 1998. FFHC is a separate not-for-profit Illinois corporation which is not controlled by UCMC.

UCMC subleases facilities to FFHC in the Friend Building located near its main facilities, and provides security and information services to FFHC. Certain members of UCMC's medical staff provide physician services at FFHC.

UCMC has provided $10,300 of cumulative support to offset FFHC operating losses, towards which $3,000 has been provided by the Emanuel Friend Trust, a charitable trust established in Chicago in the 1930s. Support from the Trust is provided under a 1994 agreement with UCMC.