University of California, San Francisco Medical Center

Report on Audits of Financial Statements
For the Years Ended June 30, 2007 and 2006

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Report on Audits of Financial Statements

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Report of Independent Auditors

The Regents of the University of California
Oakland, California

In our opinion, the accompanying financial statements, as shown on pages 15 through 39, present fairly, in all material respects, the financial position of the University of California, San Francisco Medical Center (the "Medical Center"), a division of the University of California ("University"), at June 30, 2007 and 2006, and changes in its financial position and 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 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. These 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 1, the financial statements of the Medical Center are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the University that is attributable to the transactions of the Medical Center. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2007 and 2006, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

October 10, 2007

Introduction

The objective of the Management's Discussion and Analysis is to help readers better understand the University of California, San Francisco Medical Center's financial position and operating activities for the year ended June 30, 2007, with selected comparative information for the years ended June 30, 2006 and 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2005, 2006, 2007, 2008, etc.) in this discussion refer to the fiscal years ended June 30.

Overview

The University of California, San Francisco Medical Center (the "Medical Center") is a part of the University of California (the "University"), a California public corporation under Article IX, Section 9 of the California Constitution. The University is administered by The Regents of the University of California ("The Regents"). The Medical Center's activities are monitored by The Regents' Committee on Health Services, with direct management authority delegated to the Medical Center Director by the Chancellor of the San Francisco campus.

The Medical Center serves as the principal clinical teaching site for the University of California San Francisco ("UCSF") School of Medicine, affiliated with the University of California since 1873. The mission of the Medical Center is Caring, Healing, Teaching and Discovering.

The Medical Center is licensed to provide inpatient care at Moffitt-Long hospital on the 107-acre Parnassus campus and at UCSF Mount Zion, outpatient hospital care at the two hospital sites, and physician clinical care at those hospitals and other locations primarily in San Francisco. The Moffitt-Long hospital includes UCSF Children's Hospital, a "hospital within a hospital" with more than 150 pediatric specialists practicing in more than 50 areas of medicine. The Medical Center is licensed to operate 706 beds. At June 30, 2007, the Medical Center had 642 available beds.

The Medical Center's financial statements include the activities of the UCSF Medical Group – the faculty practice plan for UCSF faculty physicians. The net revenues from clinical practice are recorded in net patient service revenue; the direct expenses of non-physician staff and non-labor expenses are included in operating expenses. Payments to the faculty for their professional services are classified as purchased services.

The Medical Center continues to maintain an outstanding national reputation. The 2007 *US News and World Report* survey ranked UCSF Medical Center as the seventh best hospital in the nation. The results also placed UCSF Children's Hospital as one of the top twenty in the nation.

According to the latest *US News & World Report* survey, UCSF Medical Center now ranks among the nation's top 10 programs in the following specialties: endocrinology, neurology and neurosurgery, gynecology, respiratory disorders, rheumatology, ophthalmology, and urology. UCSF Medical Center ranks among the top 20 programs in digestive disorders, ear, nose and throat, psychiatry, geriatrics, kidney disease, orthopedics, heart and heart surgery, and cancer.

In 2002, the Medical Center completed a Strategic Plan for the balance of the decade and has been executing against this plan. A core strategy to reach this objective is growth in inpatient and outpatient clinical operations over the next five years. Accommodating this growth will mean significant challenges around capacity and site planning at Moffitt/Long Hospital.

UCSF Medical Center's six strategies, as outlined in the 2002 Strategic Plan are: (1) create capacity for growth, (2) grow targeted services, (3) plan for the development of a mothers' and children's hospital, (4) increase patient satisfaction, (5) continue to improve operating performance, and (6) launch workforce development initiatives. Patient care quality remains an overarching priority.

Strategies to monitor and enhance care quality include JCAHO core measure compliance, establishment of a clinical performance executive council, and development of a robust quality and safety database and reporting capability. Tactics to address growth include executing the long-range development plan, assessing alternative uses of Mount Zion facilities, completing plans to increase beds over the next five years, facilitating ambulatory growth in support of inpatient expansion, and expanding surgical services in neurosciences, cardiovascular and transplant areas. During fiscal year 2007, the Medical Center opened a new 32-bed unit, increasing licensed and available beds.

The Mothers' and Children's Hospital is, and will continue to be, a focus for the Medical Center, with an expanded marketing plan, attainment of California Children's Services certification, and increasing referrals for tertiary business. Planning is underway for the Mission Bay hospital, serving mothers, children and cancer patients.

The Medical Center has further enhanced the patient satisfaction/customer service program by establishing Medical Center-wide and department-specific training, including fundamentals of communication. Concierge and greeter programs have been implemented to assist patients and visitors. The Medical Center surveys patients, reviews survey results and acts on such results.

Operating and financial performance improvements have included completion of several revenue cycle initiatives and continued supply chain savings programs. Improvements in perioperative services have included inventory control over implants, emphasis on first case start times, and improved operating room turn-around times. Patient flow initiatives have focused on timely patient placements from perioperative services and the emergency department and redesign of the care coordination model. The Medical Center has committed significant funds to the development of a Clinical Information System, which is being installed in phases beginning in 2006.

The Workforce Development plan continues to address results of an annual employee satisfaction survey, reduce workers' compensation loss days, expand employee reward and recognition programs, and continue management training and leadership programs. During fiscal year 2007 the Medical Center launched a workforce planning task force to address short- and long-term staffing needs.

UCSF Medical Center continues to work with the Medicare fiscal intermediary to resolve open cost report issues. In addition to known Medicare receivables and payables, the Medical Center's financial statements include loss contingencies related to these open cost report issues, as required by generally accepted accounting principles. It is anticipated that the Medical Center will make significant cash payments related to third-party payor settlements and loss contingencies during 2007 and 2008.

For 2007, the UCSF Medical Center reported income before other changes in net assets in excess of $110.8 million, well ahead of budget and better than the previous year's results. Cash balances at June 30, 2007 were $183 million. Cash increased $27 million in 2007 and $11 million in 2006.

Operating Statistics

The following table presents utilization statistics for the Medical Center for 2007, 2006 and 2005:

Statistics	2007	2006	2005
Admissions	27,892	28,064	26,545
Average daily census	489	486	460
Average length of stay	6.3	6.4	6.2
Patient days	178,544	177,551	167,822
Case mix index	1.84	1.79	1.75
Outpatient visits:			
Hospital clinic visits	695,640	679,341	649,124
Home health visits	16,001	21,520	26,293
Emergency visits	38,486	36,703	35,815
Total visits	750,127	737,564	711,232

Patient service revenue depends on inpatient occupancy levels, the complexity of the care provided, the volume of outpatient visits, and the charges or negotiated payment rates for services provided. Patient days increased by 993, or .6 percent, in 2007 and by 9,729, or 5.8 percent, in 2006 as demand for patient services continues to be strong. In 2007, the Medical Center opened 32 additional beds, while in 2006, the Medical Center opened 13 additional beds. The Medical Center's case mix index, a measure of the acuity of care, has continued to be above 1.70 the past three years reflecting growth in surgical volumes as well as growth in the organ transplant programs. Hospital outpatient visits have also increased in each of the last two years: an increase of 12,563 and 26,332 visits in 2007 and 2006, respectively, from the previous year.

In addition to increased volumes, the Medical Center's rates – net revenue per patient day and net revenue per outpatient procedure or visit – improved from 2005 to 2006 and from 2006 to 2007.

Statements of Revenues, Expenses and Changes in Net Assets

This statement shows the revenue, expenses and changes in net assets for the Medical Center for 2007 compared to the prior two years.

The following table summarizes the operating results for the Medical Center for fiscal years 2007, 2006 and 2005 (dollars in thousands):

	2007	2006	2005
Net patient service revenue	$ 1,363,149	$ 1,244,462	$ 1,081,628
Other operating revenue	23,207	24,588	24,059
Total operating revenue	1,386,356	1,269,050	1,105,687
Total operating expenses	1,273,844	1,155,308	1,030,467
Income from operations	112,512	113,742	75,220
Total non-operating expenses	(1,670)	(18,099)	(2,702)
Income before other changes in net assets	$ 110,842	$ 95,643	$ 72,518
Margin	8.1 percent	9.0 percent	6.8 percent
Other changes in net assets	27	(21,899)	(27,702)
Net assets – beginning of year	564,272	490,528	445,712
Net assets – end of year	$ 675,141	$ 564,272	$ 490,528

Revenues

Total operating revenues for the year ended June 30, 2007 were $1,386 million, an increase of $117 million, or 9.2 percent, over 2006. Operating revenues for 2006 of $1.3 billion increased by $163.4 million, or 14.8 percent, over 2005.

Net patient service revenue for 2007 increased by $119 million, or 9.5 percent, over 2006. Net patient service revenue in 2006 increased by $162.8 million, or 15.1 percent, over 2005. The increase in 2007 was primarily due to increased patient volumes and an improvement in reimbursement rates. Patient service revenues are net of estimated allowances from contractual arrangements with Medicare, Medi-Cal and other third-party payors and have been estimated based on the terms of reimbursement and contracts currently in effect.

Other operating revenue consisted primarily of State Clinical Teaching Support Funds ("CTS") and other non-patient services such as contributions, cafeteria and vendor rebates.

The following table summarizes net patient service revenue for 2007, 2006 and 2005 (dollars in thousands):

Payor	2007	2006	2005
Medicare (non-risk)	$ 293,670	$ 266,458	$ 240,742
Medi-Cal (non-risk)	157,275	133,739	119,812
Contracts – commercial	861,100	791,920	672,845
Contracts (capitated)*	8,533	7,088	6,058
County/Uninsured	42,571	45,257	42,171
Total	$ 1,363,149	$ 1,244,462	$ 1,081,628

*Includes Medicare and Medi-Cal risk

The Medical Center receives most of its net patient service revenue from commercial contracts. Medicare and Medi-Cal together represent about a third of net patient service revenue.

Net revenue for Medicare beneficiaries increased $27.2 million, or 10.2 percent, from 2006 to 2007 and $25.7 million, or 10.7 percent, from 2005 to 2006. Payments for inpatient services provided to Medicare beneficiaries are paid on a per-discharge basis at rates set at the national level with adjustments for prevailing labor costs. The Medical Center also receives additional payments to reimburse for the direct and indirect costs for graduate medical education, capital reimbursement, and outlier payments on cases with unusually high costs of care. Hospital outpatient care is reimbursed under a prospective payment system.

Laws and regulations governing the Medicare program are complex and subject to interpretation. As a result, actual amounts could differ from the recorded estimates. During 2007, the Medical Center decreased its liability related to prior year third party settlements and loss contingencies by $29.2 million with a corresponding increase to net patient service revenue in the statements of revenues, expenses and changes in net assets. During 2006, the Medical Center decreased its liability related to prior year third party settlements and loss contingencies by $13.5 million with a corresponding increase to net patient service revenue in the statements of revenues, expenses and changes in net assets.

Net revenue for Medi-Cal patients increased $23.5 million, or 17.6 percent, from 2006 to 2007 and $13.9 million or 11.6 percent from 2005 to 2006. Effective July 1, 2005 Medi-Cal fee-for-service (FFS) inpatient hospital payments are made in accordance with the federal Medicaid hospital financing waiver and State of California Senate Bill 1100 (SB 1100). Medi-Cal Outpatient FFS services are reimbursed based on a fee schedule. SB 1100 is designed to protect baseline Medicaid funding for the Medical Center over the next five years – at a minimum the Medical Center will receive the Medicaid inpatient hospital payments received in 2005 adjusted for future utilization changes. SB 1100 also allows the Medical Center to receive additional waiver growth funding subject to the availability of funds. The total payments made to the Medical Center under SB 1100 will include a combination of Medi-Cal inpatient FFS payments, Medi-Cal Disproportionate Share (DSH) payments, and Safety Net Care Pool (SNCP). The SNCP is a new federal allotment available under the waiver.

In 2005, payments for Medi-Cal patients were made on a per-diem basis for inpatient services and paid based on a fixed fee schedule for outpatient services. Net revenue for Medi-Cal also included supplemental medical education funding in recognition of the Medical Center's teaching activities.

The increase in net revenue for Medi-Cal was due to increased inpatient days year to year, improved reimbursement rates and increased supplemental funding. For 2005, the Medical Center received additional revenue of $22.5 million for both direct and indirect medical education costs associated with inpatient health care services rendered to Medi-Cal beneficiaries. Medi-Cal net revenues in 2007 and 2006 also include supplemental reimbursement for a portion of unreimbursed facility costs under the State of California Assembly Bill (AB 915). The Medical Center recorded $13.4 million in 2007 and $6.8 million in 2006 under AB 915.

Net revenue earned on commercial contracts increased $69.2 million, or 8.7 percent, from 2006 to 2007 and $119.1 million, or 17.7 percent, from 2005 to 2006. HMO's and PPO's usually reimburse the Medical Center at contracted discounts or per-diem rates. Net revenue from commercial contracts represented about 63.2 percent of total net patient service revenue in 2007, down from 63.6 percent in 2006 and up from 62.2 percent in 2005. Commercial inpatient days as well as the average yield – net revenue per inpatient day – increased in both 2007 and 2006. Commercial contract revenue for hospital clinic visits also increased in 2007 compared to 2006 and 2005.

Net revenue from capitation, which was exclusively for outpatient services, increased $1.4 million, or about 20.4 percent, in 2007 and increased $.1 million, or about 3.8 percent, in 2006. Net revenue from non-sponsored patients and from the County decreased $2.7 million, or 5.9 percent, from 2006 to 2007 and increased $3.1 million, or 7.3 percent, from 2005 to 2006.

Operating Expenses

Total operating expenses were $1,274 million in 2007, up $119 million, or 10.3 percent, from 2006. In 2006 operating expenses increased $124.8 million, or 12.1 percent, from 2005. Operating expenses in both years increased primarily due to increased patient volumes, the impact on labor costs of the continued nursing shortage, and inflationary pressures on pharmaceuticals and medical supplies.

Salaries and employee benefits totaled $623 million for 2007, up $76 million, or 14.0 percent, over the prior year. As a percentage of total operating revenue, salaries and employee benefits were 45.0 percent in 2007, 43.1 percent in 2006 and 43.0 percent in 2005.

Salaries and employee benefits include wages paid to Medical Center employees, holiday and sick pay, payroll taxes, workers' compensation costs, health insurance premiums and other employee benefits. About half of the Medical Center workforce, including nurses and employees providing ancillary services, expands or contracts with patient volumes. Increases in patient days and clinic visits resulted in increased salaries and employee benefits. In addition, the nationwide shortage of skilled healthcare workers had a significant impact on both the salary costs of hospital-employed nurses as well as the rates charged for nurses employed from nurse registry agencies. The passage of Assembly Bill 394, which established licensed nurse to patient ratios added to the nursing shortage. The new required ratios became effective January 1, 2004, with additional requirements effective January 1, 2005. Overall, labor costs per hospital-paid employee increased by 6.9 percent in 2007 over 2006 and increased 8.5 percent in 2006 over 2005.

Payments for professional services, primarily consulting services and collection agency fees were flat from 2006 to 2007 and increased $3.1 million from 2005 to 2006.

Medical supply expense, including pharmaceuticals, totaled $187.3 million in 2007, up $9.4 million, or 5.3 percent, from the prior year. In 2006, medical supplies, including pharmaceuticals, totaled $177.9 million, up $14.8 million, or 9.1 percent, from the prior year. Medical supplies increased partly due to higher inpatient and clinic volumes. Medical supplies are subject to significant inflationary pressures, due to escalating pharmaceutical costs and continued innovation in implants, prosthetics, and other medical supplies. As a percentage of total operating revenue, medical supplies were 13.5 percent in 2007, down from 14.0 percent in 2006 and 14.8 percent 2005, primarily due to successful supply chain improvement initiatives.

Other supplies and purchased services totaled $331.2 million in 2007, up $25.5 million, or 8.4 percent, from 2006. In 2006, these costs totaled $305.7 million, up $32.1 million, or 11.7 percent, from 2005. Purchased services, including medical services, repairs and maintenance, administrative, treasury and insurance services, are reported net of services provided to affiliates, including physician office rentals, pharmaceuticals, billing services, medical supplies, and cafeteria services. Most of the cost of purchased services represents payments for professional services to faculty physicians for clinic operations. Purchased services increased primarily due to improved collection of professional fee billings which were passed through to the Medical Group.

Depreciation and amortization totaled $56.0 million in 2007, an increase of $3.8 million, or 7.3 percent, from the prior year, due to capital investment in facilitites and equipment. In 2006, depreciation and amortization increased $0.7 million, or 1.4 percent, from the prior year.

Insurance expense totaled $4.6 million in 2007, down from $4.7 and $4.6 million in 2006 and 2005, respectively. The Medical Center is insured through the University's malpractice and general liability programs.

The Medical Center reported an operating margin of 8.1 percent in 2007 compared to an operating margin of 9.0 percent in 2006 and 6.8 percent in 2005. Excluding the adjustments related to developments in the Medicare cost reporting process, the Medical Center had operating margins of 5.7 percent, 7.9 percent and 6.6 percent in 2007, 2006 and 2005, respectively. Expense inflation, primarily related to labor costs, outpaced increases in patient volumes and revenue rates.

Non-operating Revenues (Expenses)
Non-operating expenses, net of non-operating revenues, totaled $1.7 million in 2007, down from $18.1 million in 2006 and $2.7 million in 2005. Non-operating revenues and expenses include interest income and expense, and loss on disposals of capital assets. Also included as a non-operating expense in 2006 was expense associated with the Medical Center's obligation for infrastructure to be dedicated (see Note 7). Interest income increased, primarily reflecting higher invested cash balances. Interest expense increased due to an increase in the balance of long term debt and capital lease obligations.

Income before Other Changes in Net Assets
The Medical Center reported income before other changes in net assets of $110.8 million in 2007, compared to $95.6 million in 2006, and $72.5 million in 2005, an improvement of $15.2 million and $23.1 million, respectively.

Other Changes in Net Assets

Items directly charged or credited to equity in 2007 include State and Federal capital appropriations of $19.9 million; donations of $2.4 million – down from $2.9 million in 2006 and from $5.3 million in 2005 – and net strategic support transfers to the University of $22.2 million – down from $24.8 and up from $33.0 million in 2006 and 2005, respectively. The resulting total change in net assets was an increase of $27 thousand in 2007 and a decrease of $21.9 million in 2006.

Statement of Net Assets

The Statement of Net Assets provides information on the resources and commitments of the Medical Center at the end of the year.

The following table summarizes the statements of net assets as of June 30, 2007, 2006 and 2005 (dollars in thousands):

	2007	2006	2005
Current assets			
Cash	$ 182,839	$ 155,555	$ 144,248
Patient accounts receivable (net)	262,011	229,842	200,933
Other current assets	39,344	34,209	36,790
Total current assets	484,194	419,606	381,971
Capital assets (net)	601,542	502,826	415,640
Other assets	12,404	11,235	11,295
Total assets	1,098,140	933,667	808,906
Current liabilities	173,669	146,778	119,212
Long term debt and other liabilities	249,330	222,617	199,166
Total liabilities	422,999	369,395	318,378
Net assets			
Invested in capital assets (net)	366,727	323,018	281,336
Restricted	7,124	6,790	6,704
Unrestricted	301,290	234,464	202,488
Total net assets	$ 675,141	$ 564,272	$ 490,528

Total current assets increased $64.6 million, or 15.4 percent, from 2006 to 2007 primarily due to an increase in net patient receivables resulting from higher net patient revenues and an increase in cash.

Cash increased $27.3 million, or 17.5 percent, during 2007 and $11.3 million, or 7.8 percent, during 2006. The increase was provided by income from operations, partially offset by increased investment in capital net of related financing activities.

Net patient account receivables represented 54.1 percent of current assets at June 30, 2007, down from 54.8 percent of current assets at June 30, 2006 and up from 52.6 percent at June 30, 2005. Net patient account receivables increased by $32.2 million from the prior year. This increase was due to higher patient volumes and rates.

Net capital assets increased by $98.7 million from 2006 to 2007. The Medical Center purchased additional land at Mission Bay, contiguous to the leased land (see Note 7).

Current liabilities increased by $26.9 million from 2006 to 2007 primarily due to an increase of net third-party payor settlements and loss contingencies as amounts expected to be paid or settled in 2007 were reclassified from non-current to current liabilities.

Long-term liabilities of $249.3 million at June 30, 2007, increased $26.7 million from June 30, 2006. Long term debt increased as the Medical Center secured additional land at Mission Bay. Capital leases increased as additional borrowings exceeded payments. Third party payor settlements and loss contingencies decreased as the Medical Center reclassified certain amounts to current liabilities and decreased its liability related to prior year third-party settlements and loss contingencies by $29.2 million. Long-term liabilities of $222.6 million at June 30, 2006, increased $23.5 million from June 30, 2005, due to a net increase of capital leases partially offset by the reclassification of net third-party settlements and loss contingencies to current liabilities.

Net assets increased $110.9 million, or 19.6 percent, during 2007 and $73.7 million, or 15.0 percent, during 2006. Income for 2007 and 2006 totaled $110.8 and $95.6 million, respectively. Health systems support, representing amounts paid by the Medical Center to fund other health system expenses such as School of Medicine operating activities, payments to support clinical research, and transfers to faculty practice plans, reduced net assets by $22.2 and $24.8 million in 2007 and 2006, respectively. Donations and State and Federal appropriations added $22.3 million and $2.9 million to net assets during 2007 and 2006, respectively.

Liquidity and Capital Resources

During 2007, the Medical Center generated $130.0 million from operating activities. This represented a decrease of $15.3 million, or 10.5 percent, during 2007 and an increase of $12.1 million, or 9.1 percent, during 2006. Cash received from patients and third-party payors totaled $1.3 billion in 2007, up $103.6 million, or 8.6 percent, from 2006. This amount totaled $1.2 billion in fiscal year 2006, up $142.2 million, or 13.3 percent, from 2005.

Cash flows from non-capital financing activities shows the Medical Center's cash was reduced by $22.2 million for transfers to the University for health system support and infrastructure to be dedicated (see Note 7).

Cash used by capital and related financing activities totaled $88.5 million in 2007, compared to $99.3 million in 2006 and $77.1 million in 2005.

Cash used for capital and related financing activities decreased by $10.8 million from 2006 to 2007 and by $22.2 million from 2005 to 2006. Included in cash flows from capital and related financing activities are purchases of capital assets of $148.0 million and gifts and donated funds of $22.3 million. Principal payments on long-term debt and capital leases were $15.3 million and interest paid was $10.1 million. In addition, the Medical Center borrowed $6.7 million in 2007 to purchase capital assets under capital leases compared to $59.0 million in 2006 and $18.4 million in 2005. These non-cash transactions are disclosed as supplemental non-cash activities in the Statement of Cash Flows.

Cash flows from investment activities show that $8.4 million was provided by interest income. Overall cash increased to $182.8 million in 2007 from $155.6 million in 2006.

The following table shows key liquidity and capital ratios for 2007, 2006 and 2005:

	2007	2006	2005
Days cash on hand	54.8	51.5	53.8
Days of revenue in accounts receivables, net	70.2	67.4	67.8
Debt service coverage ratio	7.0	7.2	7.3

Days cash on hand increased to 54.8 days in 2007 from 51.5 days in 2006. Days cash on hand measures the average number of days' expenses the Medical Center maintains in cash. The goal set by the University of California Office of the President is 60 days.

The days of revenue in accounts receivable measures the average number of days it takes to collect patient accounts receivable. In 2007, net days in receivables increased 2.8 days to 70.2.

Debt service coverage ratio measures the amount of funds available to cover the principal and interest on long-term debt. The Medical Center's ratio for 2007 is 7.0 versus 7.2 in 2006. The slight decrease was due to an increased level of debt primarily related to additional capital leases that were entered into. This ratio is higher than the 1.1 required by the Bond Indenture.

The Medical Center's increased cash position is the result of improved operating results partially offset by an increase in capital investment.

During 2007, cash increased by $27.3 million, or 17.5 percent, to $182.8 million. During 2006, cash increased by $11.3 million, or 7.8 percent, to $155.6 million.

Looking Forward

The Hospital Facilities Seismic Safety Act (SB 1953)
During fiscal year 2007, the UCSF Medical Center's capital program continued to address the requirements in the State of California Senate Bill 1953 (SB 1953). The projected cost for the UCSF Medical Center at Parnassus, which will be compliant with the statutory requirements by January 1, 2008, is $33 million. The capital cost of compliance will be financed primarily through the use of State lease revenue bond funds and FEMA funds. The Medical Center is reviewing compliance and strategic options for UCSF Medical Center at Mount Zion.

Payments from Federal and State Health Care Programs
Entities doing business with governmental payors, including Medicare and Medicaid (Medi-Cal in California), are subject to risks unique to the government-contracting environment that are difficult to anticipate and quantify. Revenues are subject to adjustment as a result of examination by government agencies as well as auditors, contractors, and intermediaries retained by the federal, state, or local governments (collectively "Government Agents"). Resolution of such audits or reviews often extends (and in some cases does not even commence until) several years beyond the year in which services were rendered and/or fees received.

Moreover, different Government Agents frequently interpret government regulations and other requirements differently. For example, Government Agents might disagree on a patient's principal medical diagnosis, the appropriate code for a clinical procedure, or many other matters. Such disagreements might have a significant effect on the ultimate payout due from the government to fully recoup sums already paid. Governmental agencies may make changes in program interpretations, requirements, or "conditions of participation," some of which may have implications for amounts previously estimated. In addition to varying interpretation and evolving codification of the regulations, standards of supporting documentation and required data are subject to wide variation.

In accordance with generally accepted accounting principles, to account for the uncertainty around Medicare and Medicaid revenues, the Medical Center estimates the amount of revenue that will ultimately be received under the Medicare and Medi-Cal programs. Amounts ultimately received or paid may vary significantly from these estimates.

Medicaid Reform
In 2006, California implemented a new Medicaid fee-for-service (FFS) inpatient hospital payment system. The new payment system is the result of a new federal Medicaid hospital financing waiver ("waiver") that will govern Medicaid FFS inpatient hospital payments through fiscal year 2010. In September 2005, the California state legislature enacted Senate Bill 1100 (SB 1100) to implement the new waiver. SB 1100 is designed to protect baseline Medicaid funding for the University's medical centers from 2006 through 2010 – at a minimum medical centers will receive the Medicaid inpatient hospital payments they received in 2005 adjusted for yearly changes in costs. SB 1100 also allows the University's medical centers to receive additional waiver growth funding subject to the availability of funds. Payments to the University's medical centers under SB 1100 include a combination of Medi-Cal inpatient FFS payments, Medi-Cal Disproportionate Share (DSH) payments and Safety Net Care Pool (SNCP) payments. The SNCP is a new federal allotment available under the waiver. The combination of these payments effectively replaces the Medi-Cal inpatient per diem payments, Medi-Cal DSH payments, Medi-Cal SB 1255 supplemental payments, and the Medi-Cal Medical Education supplemental payments, which were in effect in 2005. Although the new federal inpatient hospital financing waiver and SB 1100 are designed to ensure a predictable funding Medicaid supplemental payment funding level and provide growth funding, the full financial impact of these changes cannot be fully assessed at this time.

Children's Hospital Bond Act of 2004
California voters passed Proposition 61 that enables the state of California to issue $750 million in General Obligation bonds to fund capital improvement projects for children's hospitals. Each of the University medical centers is eligible for $30 million of grant funding from this pool of funds. Grant funds must be used for capital projects associated with the care of children and must be used prior to June 30, 2014.

University of California Retirement Plan
The University of California Retirement Plan ("UCRP") costs are funded by a combination of investment earnings, employee member and employer contributions. Since 1990, the Medical Center's contribution rate to the UCRP has been zero. In addition, since 1990, the required employee member contributions to the UCRP are being redirected to the separate defined contribution plan maintained by the University.

In 2006, The Regents updated the funding policy for UCRP to provide for a targeted funding level of 100 percent over the long term, and for University and UCRP member contributions at rates necessary to maintain that level within a range of 95 percent to 110 percent. The University will implement a multi-year contribution strategy under which shared employer and employee contribution rates will increase gradually over time to 16 percent of covered compensation, based upon UCRP's current normal cost. The Regents have not yet authorized the initial resumption of shared employer and employee contributions.

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by the Medical Center, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that the Medical Center expects or anticipates will or may occur in the future contain forward-looking information.

In reviewing such information it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. The Medical Center does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

University of California, San Francisco Medical Center
Statements of Net Assets
June 30, 2007 and 2006
(Dollars in thousands)

	2007	2006
Assets		
Current assets:		
Cash	$ 182,839	$ 155,555
Patient accounts receivable, net of estimated uncollectibles of $63,866 and $53,430 respectively	262,011	229,842
Other receivables	306	1,301
Inventory	20,409	20,099
Prepaid expenses and other assets	18,629	12,809
Total current assets	484,194	419,606
Restricted assets:		
Donor funds	7,124	6,790
Capital assets, net	601,542	502,826
Deferred costs of issuance	5,280	4,445
Total assets	1,098,140	933,667
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	79,315	53,563
Accrued salaries and benefits	45,193	55,745
Third-party payor settlements, net	30,738	19,584
Current portion of long-term debt and capital leases	14,880	12,491
Other liabilities	3,543	5,395
Total current liabilities	173,669	146,778
Long-term debt and capital leases, net of current portion	219,935	167,317
Third-party payor settlements, net	29,395	55,300
Total liabilities	422,999	369,395
Net Assets		
Invested in capital assets, net of related debt	366,727	323,018
Restricted:		
Expendable:		
Capital projects	1,621	1,605
Other	5,503	5,185
Unrestricted	301,290	234,464
Total net assets	$ 675,141	$ 564,272

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

University of California, San Francisco Medical Center
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2007 and 2006
(Dollars in thousands)

	2007	2006
Net patient service revenue, net of provision for doubtful accounts of $89,471 and $62,322, respectively	$ 1,363,149	$ 1,244,462
Other operating revenue:		
Clinical teaching support	9,276	9,276
Other	13,931	15,312
Total other operating revenue	23,207	24,588
Total operating revenue	1,386,356	1,269,050
Operating expenses:		
Salaries and employee benefits	623,352	546,978
Professional services	20,394	20,401
Medical supplies	187,262	177,894
Other supplies and purchased services	331,273	305,737
Depreciation and amortization	55,968	52,171
Insurance	4,643	4,705
Other	50,952	47,422
Total operating expenses	1,273,844	1,155,308
Income from operations	112,512	113,742
Non-operating revenues (expenses):		
Interest income	8,405	5,929
Interest expense	(10,075)	(8,012)
Infrastructure to be dedicated (see Note 7)	–	(15,726)
Loss on disposal of capital assets	–	(290)
Total non-operating expenses	(1,670)	(18,099)
Income before other changes in net assets	110,842	95,643
Other changes in net assets:		
State and Federal capital appropriations	20,373	–
Donated assets	1,886	2,854
Health system support	(22,232)	(24,753)
Total other changes in net assets	27	(21,899)
Increase in net assets	110,869	73,744
Net assets – beginning of year	564,272	490,528
Net assets – end of year	$ 675,141	$ 564,272

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

University of California, San Francisco Medical Center
Statements of Cash Flows
For the Years Ended June 30, 2007 and 2006
(Dollars in thousands)

	2007	2006
Cash flows from operating activities:		
Receipts from patients and third-party payors	$ 1,315,529	$ 1,211,881
Payments to employees	(528,890)	(437,764)
Payments to suppliers	(569,082)	(556,058)
Payments for benefits	(105,014)	(102,207)
Other receipts, net	17,421	29,392
Net cash provided by operating activities	129,964	145,244
Cash flows from noncapital financing activities:		
Infrastructure to be dedicated (see Note 7)	–	(15,726)
Health systems support	(22,232)	(24,753)
Net cash used by noncapital financing activities	(22,232)	(40,479)
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	5	30
Purchases of capital assets	(148,001)	(80,643)
Proceeds from debt issuance	155,651	–
Principal paid on long-term debt and capital leases	(15,348)	(13,530)
Defeasance of 1998 hospital revenue bonds	(93,010)	–
Interest paid on long-term debt and capital leases	(10,075)	(8,012)
Gifts and donated funds	22,259	2,854
Net cash used by capital and related financing activities	(88,519)	(99,301)
Cash flows from investing activities:		
Interest income received	8,405	5,929
Change in restricted cash	(334)	(86)
Net cash provided by investing activities	8,071	5,843
Net increase in cash	27,284	11,307
Cash – beginning of year	155,555	144,248
Cash – end of year	$ 182,839	$ 155,555

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

University of California, San Francisco Medical Center
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2007 and 2006
(Dollars in thousands)

	2007	2006
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	$ 112,512	$ 113,742
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization expense	55,968	52,171
Provision for doubtful accounts	89,471	62,322
Changes in operating assets and liabilities:		
Patient accounts receivable	(121,640)	(91,231)
Other receivables	995	282
Inventory	(310)	(2,400)
Prepaid expenses and other assets	(5,629)	(2,120)
Accounts payable and accrued expenses	25,752	101
Accrued salaries and benefits	(10,552)	7,007
Third-party payor settlements and loss contingencies	(14,751)	4,495
Other liabilities	(1,852)	875
Net cash provided by operating activities	$ 129,964	$ 145,244
Supplemental noncash activities information:		
Capital assets acquired through capital lease obligations	$ 6,687	$ 59,034
Amortization of deferred financing costs	49	–
Amortization of bond premium	8	–

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

1. Organization

The University of California, San Francisco Medical Center (the "Medical Center") is a part of the University of California (the "University"), a California public corporation established under Article IX, Section 9 of the California Constitution. The University is administered by The Regents of the University of California ("The Regents"), an independent board composed of 26 members. The Medical Center's activities are monitored by The Regents' Committee on Health Services, with direct management authority being delegated to the Medical Center Director by the Chancellor of the San Francisco campus. The Medical Center principally consists of inpatient (706 licensed beds and 642 available beds) and outpatient hospital operations, conducted at the Moffitt-Long Hospital and the Mount Zion Hospital.

The University of California San Francisco (UCSF) Medical Group faculty practice utilizes the hospital-based clinic model. Accordingly, the Medical Center's financial statements include the activities of the UCSF Medical Group. The net revenues from clinical practice are recorded in net patient service revenue; the direct expenses of non-physician staff and non-labor expenses are included in operating expenses. Payments to the faculty for their professional services are classified as purchased services.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Medical Center have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable statements of the Governmental Accounting Standards Board ("GASB"), and all statements of the Financial Accounting Standards Board through November 30, 1989. The proprietary fund method of accounting is followed and uses the economic resources measurement focus and the accrual basis of accounting. In addition, these statements follow generally accepted accounting principles applicable to the health care industry, which are included in the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Organizations*, to the extent that these principles do not contradict GASB.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, was adopted during the year ended June 30, 2007. Statement No. 48 establishes criteria to ascertain whether certain transactions should be recorded as a sale or collateralized borrowing.

GASB Statement No. 50, *Pension Disclosures*, was also adopted during the year ended June 30, 2007. Statement No. 50 enhances information disclosed in notes to financial statements or presented as required supplementary information by employers who provide pension benefits.

The implementation of GASB Statement No. 48 and Statement No. 50 had no effect on the Medical Center's net assets or changes in net assets for the years ended June 30, 2007 or 2006.

2. Summary of Significant Accounting Policies (Continued)

Cash

All University operating entities maximize the returns on their cash balances by investing in a short-term investment pool ("STIP") managed by the Treasurer of The Regents. The Regents are responsible for managing the University's STIP and establishing investment policy, which is carried out by the Treasurer of The Regents.

Substantially all of the Medical Center's cash is deposited into the STIP. All Medical Center deposits into the STIP are considered demand deposits. Unrealized gains and losses associated with the fluctuation in the fair value of the investments included in the STIP (and predominately held to maturity) are not recorded by each operating entity but are absorbed by the University, as the manager of the pool.

The Medical Center's cash at June 30, 2007 and 2006 was $182,839 and $155,555, respectively. None of these amounts are insured by the Federal Deposit Insurance Corporation.

Interest income is reported as non-operating revenue in the statements of revenues, expenses and changes in net assets.

Additional information on cash and investments can be obtained from the 2007 annual report of the University.

Restricted Assets, Donor Funds

Funds are held and invested by the Treasurer of The Regents for use by the Medical Center for certain donor-restricted purposes. The amounts held at June 30, 2007 and 2006 by the Treasurer's Office were $7,124 and $6,790, respectively.

Inventory

The Medical Center's inventory consists primarily of pharmaceuticals, medical supplies and printed forms, which are stated on a first-in, first-out basis at the lower of cost or market.

Prepaid Expenses and Other Assets

The Medical Center's prepaid expenses and other assets are primarily prepayments for pharmaceutical and medical supplies, rent, equipment and maintenance contracts.

2. Summary of Significant Accounting Policies (Continued)

Capital Assets

The Medical Center's capital assets are reported at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets. Equipment under capital lease is amortized over the shorter period of the lease term or the estimated useful life of the equipment. Lease amortization is included in depreciation and amortization expense. The range of the estimated useful lives for buildings and land improvements is 10 to 40 years and for equipment is 3 to 20 years. Interest on borrowings to finance facilities is capitalized during construction. University guidelines mandate that land purchased with Medical Center funds be recorded as an asset of the Medical Center. Land utilized by the Medical Center but purchased with other sources of funds is recorded as an asset of the University. Incremental costs, including salaries and employee benefits, directly related to the acquisition, development and installation of major software projects are included in the cost of the capital assets.

Deferred Costs of Issuance

Costs incurred in the issuance of long-term debt, including legal fees, bank fees, and accounting and consulting costs have been capitalized and are amortized as interest expense on the straight-line basis over the term of the related long-term debt, which approximates the effective interest method.

Bond Premium

The premium received in the issuance of long-term debt is amortized as a reduction to interest expense over the term of the related long-term debt.

Deferred Financing Costs

Refinancing or defeasance of previously outstanding debt has resulted in deferred financing costs comprised of the difference between the reacquisition price and the net carrying amount of the old debt. This is reflected as unamortized deferred financing costs which are included as an offset to the current and noncurrent portion of long-term debt, as appropriate, in the Medical Center's statement of net assets. These costs are being amortized as interest expense over the remaining life of the defeased or refinanced bonds, whichever is shorter.

Net Assets

Net assets are required to be classified for accounting and reporting purposes in the following categories:

- Invested in capital assets, net of related debt – Capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

2. Summary of Significant Accounting Policies (Continued)

Net Assets (Continued)

- Restricted – The Medical Center classifies net assets resulting from transactions with purpose restrictions as restricted net assets until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact.

  - Nonexpendable – Net assets subject to externally imposed restrictions that must be retained in perpetuity by the Medical Center.

  - Expendable – Net assets whose use by the Medical Center is subject to externally imposed restrictions that can be fulfilled by actions of the Medical Center pursuant to those restrictions or that expire by the passage of time.

- Unrestricted – Net assets that are neither restricted nor invested in capital assets, net of related debt. Unrestricted net assets may be designated for specific purposes by management or The Regents. Substantially all unrestricted net assets are allocated for operating initiatives or programs, or for capital programs.

Revenues and Expenses

Revenues received in conducting the programs and services of the Medical Center are presented in the financial statements as operating revenue. Revenues include professional fees earned by the faculty physicians practicing as the UCSF Medical Group.

Operating revenue includes net patient service revenue reported at the estimated net realizable amounts from patients, third-party payors including Medicare and Medi-Cal, and others for services rendered, including estimated retroactive audit 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. Laws and regulations governing the Medicare and Medi-Cal programs are extremely 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.

Substantially all of the Medical Center's operating expenses are directly or indirectly related to patient care activities.

Non-operating revenue and expense includes interest income and expense, the gain or loss on the disposal of capital assets, and infrastructure to be dedicated (see Note 7).

State capital appropriations, health system support, donated assets and other transactions with the University are classified as other changes in net assets.

2. Summary of Significant Accounting Policies (Continued)

Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as net patient service revenue. The Medical Center also provides services to other indigent patients under publicly sponsored programs, which may reimburse at amounts less than the cost of the services provided to the recipients. The difference between the cost of services provided to these indigent persons and the expected reimbursement is included in the estimated cost of charity care.

Transactions with the University and University Affiliates

The Medical Center has various transactions with the University and University affiliates. The University, as the primary reporting entity, has at its discretion the ability to transfer cash from the Medical Center at will (subject to certain restrictive covenants or bond indentures) and use that cash at its discretion. The Medical Center records expense transactions where direct and incremental economic benefits are received by the Medical Center. Payments, which constitute subsidies or payments for which the Medical Center does not receive direct and incremental economic benefit, are recorded as health system support in the statements of revenues, expenses and changes in net assets.

Certain expenses are allocated from the University to the Medical Center. Allocated expenses reported as operating expenses in the statements of revenues, expenses, and changes in net assets are management's best estimates of the Medical Center's arms-length payment of such amounts for its market specific circumstances. To the extent that payments to the University exceed an arms-length estimated amount relative to the benefit received by the Medical Center, they are recorded as health system support.

Compensated Absences

The Medical Center accrues annual leave for employees at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked.

Interest Rate Swap Agreements

The Medical Center has entered into interest rate swap agreements to limit the exposure of its variable rate debt to changes in market interest rates. Interest rate swap agreements involve the exchange with a counterparty of fixed and variable rate interest payments periodically over the life of the agreement without exchange of the underlying notional principal amounts. The difference to be paid or received is recognized over the life of the agreements as an adjustment to interest expense. The Medical Center's counterparties are major financial institutions.

In accordance with GASB standards, the fair value of the interest rate swap agreements is not recognized in the Medical Center's statements of net assets and changes in fair value are not recognized in the statements of revenues, expenses and changes in net assets.

2. Summary of Significant Accounting Policies (Continued)

Tax Exemption
The Regents of the University of California is a California public corporation qualified as a tax-exempt organization under the provisions of Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income.

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Although management believes these estimates and assumptions are reasonable, they are based upon information available at the time of the estimate or judgment is made and actual amounts could differ from those estimates.

New Accounting Pronouncements
In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the Medical Center's fiscal year beginning July 1, 2007. The Medical Center's participation in the University's postemployment benefit program is effectively as a cost-sharing employer participating in a plan administered as a trust. As a result, the Medical Center will recognize as an expense in the statement of revenues, expenses and changes in net assets the amount associated with the University's common assessment rate on an accrual basis. Accordingly, implementation of Statement No. 45 will not have any significant effect on its financial statements other than to the extent the University may change the common assessment rate each year.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for the Medical Center's fiscal year beginning July 1, 2008. This Statement establishes criteria to ascertain whether certain events result in a requirement for the University to estimate the components of any expected pollution remediation costs and determine whether these costs should be accrued as a liability or, if appropriate, capitalized.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for the University's fiscal year beginning June 30, 2009. This statement requires capitalization of identifiable intangible assets in the statement of net assets and provides guidance for amortization of intangible assets unless they are considered to have an indefinite useful life.

The Medical Center is currently evaluating the effect, if any, that Statements No. 49 and 51 will have on its financial statements.

3. Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments at amounts different from the Medical Center's established rates. A summary of the payment arrangements with major third-party payors follows:

- ***Medicare*** – Medicare patient revenues include traditional reimbursement under Title XVIII of the Social Security Act (non-risk) or Medicare capitated contract revenue (risk).

  Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient non-acute services, certain outpatient services and medical education costs related to Medicare beneficiaries are paid based, in part, on a cost reimbursement methodology. Medicare reimburses hospitals for covered outpatient services rendered to its beneficiaries by way of an outpatient prospective payment system based on ambulatory payment classifications. Professional services are reimbursed based on a fee schedule. The Medical Center does not believe that there are significant credit risks associated with this government agency.

  The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement of such items determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2001. The fiscal intermediary is in the process of performing a review of the Medical Center's June 30, 1997 (re-opening), and is conducting their audits of the 2002 and subsequent cost reports. The results of these audits have yet to be finalized and any amounts due to or from Medicare have not been determined. Estimated receivables and payables related to all open cost reporting periods are included on the statements of net assets as third-party payor settlements.

- ***Medi-Cal*** – The federal Medicaid program is referred to as Medi-Cal in California. Medi-Cal fee-for-service (FFS) inpatient hospital payments are made in accordance with the federal Medicaid hospital financing waiver and State of California Senate Bill 1100 (SB 1100). Medi-Cal Outpatient FFS services are reimbursed based on a fee schedule. SB 1100 allows the Medical Center to receive additional waiver growth funding subject to the availability of funds. The total payments made to the Medical Center under SB 1100 will include a combination of Medi-Cal inpatient FFS payments, Medi-Cal Disproportionate Share (DSH) payments, and Safety Net Care Pool (SNCP). The SNCP is a new federal allotment available under the waiver. For the year ended June 30, 2007 and 2006, the Medical Center recorded total Medi-Cal revenue of $157,275 and $133,739, respectively.

3. Net Patient Service Revenue (Continued)

- ***Assembly Bill 915*** – State of California Assembly Bill ("AB") 915, *Public Hospital Outpatient Services Supplemental Reimbursement Program*, provides for supplemental reimbursement equal to the federal share of unreimbursed facility costs incurred by public hospital outpatient departments. This supplemental payment covers only Medi-Cal fee-for-service outpatient services. The supplemental payment is based on each eligible hospital's certified public expenditures ("CPE"), which are matched with federal Medicaid funds. For the years ended June 30, 2007 and 2006, the Medical Center recorded revenue of $7,349 and $6,790, respectively.

- ***Other*** – The Medical Center has entered into agreements with numerous non-government third-party payors to provide patient care to beneficiaries under a variety of payment arrangements. These include arrangements with:

  - Commercial insurance companies that reimburse the Medical Center for reasonable and customary charges. Workers' compensation plans pay negotiated rates and are reported as contract (discounted or per-diem) revenue.

  - Managed care contracts, such as those with HMO's and PPO's, that reimburse the Medical Center at contracted or per-diem rates which are usually less than full charges.

  - Capitated contracts with health plans that reimburse the Medical Center primarily for professional services on a per-member-per-month basis, regardless of whether services are actually rendered. The Medical Center assumes a certain financial risk as the contract requires patient treatment for all covered services. Expected losses on capitated agreements are accrued when probable and can be reasonably estimated.

  - Certain health plans that have established a shared-risk pool where the Medical Center shares in any surplus associated with health care utilization as defined in the related contracts. Additionally, the Medical Center may assume the risk of certain health care utilization costs, as determined in the related agreements. Differences between the final contract settlement and the amount estimated as receivable or payable relating to the shared-risk arrangements are recorded in the year of final settlement.

  - Counties in the state of California that reimburse the Medical Center for certain indigent patients covered under county contracts.

The most common payment arrangement for inpatient services is a prospectively determined per-diem rate, with stop loss provision if the charges exceed a negotiated amount. The most common payment arrangements for outpatient care are a negotiated discount from charges, and a prospectively determined fee schedule.

(Dollars in thousands)

3. Net Patient Service Revenue (Continued)

Amounts due from Medicare and Medi-Cal represent 22.1 percent and 22.8 percent of net patient accounts receivable at June 30, 2007 and 2006, respectively.

For the years ended June 30, 2007 and 2006, net patient service revenue included $33,347 and $13,541, respectively, due to favorable cost report settlements with Medicare and Medi-Cal.

Net patient service revenue by major payor for the years ended June 30 is as follows:

	2007	2006
Medicare (non-risk)	$ 293,670	$ 266,458
Medicare (risk)	4,505	3,102
Medi-Cal (non-risk)	157,275	133,739
Commercial	42,288	42,859
Contract (discounted or per diem)	818,812	749,061
Contract (capitated)	4,028	3,986
County	15,264	13,732
Non-sponsored/self-pay	27,307	31,525
Total	$ 1,363,149	$ 1,244,462

4. Charity Care

Information related to the Medical Center's charity care for the years ended June 30 is as follows:

	2007	2006
Charity care at established rates	$ 24,839	$ 17,887
Estimated cost of charity care	$ 7,049	$ 5,210

Estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs was $72,244 and $75,900 for the years ended June 30, 2007 and 2006, respectively.

5. Restricted Assets, Donor Funds

Restricted assets due to donor restrictions are invested and remitted to the Medical Center in accordance with the donor's wishes. Securities are held by the trustee in the name of the University. The trust agreements permit trustees to invest in equity and fixed income securities, in addition to real property.

(Dollars in thousands)

5. Restricted Assets, Donor Funds (Continued)

Donor funds are comprised of cash and are restricted for the following purposes:

	2007	2006
Capital projects	$ 1,621	$ 1,605
General	5,503	5,185
Total	$ 7,124	$ 6,790

6. Capital Assets

The Medical Center's capital asset activity for the years ended June 30 is as follows:

	2005	Additions	Disposals	2006	Additions	Disposals	2007
Original Cost							
Land	$ 1,038	$ 54,174	$ –	$ 55,212	$ 43,920	$ –	$ 99,132
Buildings and improvements	545,514	70,682	–	616,196	35,943	–	652,139
Equipment	258,205	59,675	(18,241)	299,639	36,325	(30,102)	305,862
Construction in progress	81,816	(44,840)	(119)	36,857	38,500	–	75,357
Capital assets, at cost	$ 886,573	$ 139,691	$ (18,360)	$ 1,007,904	$ 154,688	$ (30,102)	$ 1,132,490

	2005	Depreciation	Disposals	2006	Depreciation	Disposals	2007
Accumulated Depreciation and Amortization							
Buildings and improvements	$ 295,906	$ 24,099	$ –	$ 320,005	$ 27,116	$ –	$ 347,121
Equipment	175,027	28,072	(18,026)	185,073	28,852	(30,097)	183,828
Accumulated depreciation and amortization	$ 470,933	$ 52,171	$ (18,026)	$ 505,078	$ 55,968	$ (30,097)	$ 530,949
Capital assets, net	$ 415,640			$ 502,826			$ 601,542

Equipment under capital lease obligations and related accumulated depreciation is $53,958 and $20,915 in 2007, respectively, and $38,058 and $16,157 in 2006, respectively.

The Medical Center is currently making seismic improvements in order to be in compliance with Senate Bill 1953, the *Hospital Facilities Seismic Safety Act*. A portion of the improvements will be financed under a lease revenue bond with the State of California Public Works Board. No amounts were received in 2007 and 2006.

(Dollars in thousands)

7. Long-term Debt and Capital Leases

The Medical Center's outstanding debt at June 30 is as follows:

	2007	2006
University of California Medical Center Pooled Revenue Bonds 2007 Series A, interest rates ranging from 4.5 percent to 5.0 percent, payable semi-annually, with annual principle payments beginning in 2012 through 2047	$ 44,020	$ –
University of California Medical Center Pooled Revenue Bonds 2007 Series B, variable rate bonds, with annual principal payments through 2032	96,155	–
Revenue bonds (California Health Facilities Financing Authority – 1998 Series A), interest rates from 4.45 percent to 5.25 percent, payable semi-annually, with annual principal payments through 2032	–	94,895
Capital lease obligations, primarily for land, computer equipment, medical equipment and leasehold improvements with fixed interest rates of 2.27 percent to 5.28 percent, payable through 2019, collateralized by underlying equipment	95,652	84,913
Unamortized deferred financing costs	(1,750)	–
Unamortized bond premium	738	–
Total debt and capital leases	234,815	179,808
Less: Current portion of debt and capital leases	(14,880)	(12,491)
Noncurrent portion of debt and capital leases	$ 219,935	$ 167,317

(Dollars in thousands)

7. Long-term Debt and Capital Leases (Continued)

The activity with respect to current and noncurrent debt for the years ended June 30 is as follows:

	Revenue Bonds	Capital Lease Obligations	Total
Year Ended June 30, 2007			
Current portion at June 30, 2006	$ 1,885	$ 10,606	$ 12,491
Reclassification from noncurrent	95,296	15,410	110,706
Defeased 1998 revenue bonds	(93,010)	–	(93,010)
Principal payments	(1,885)	(13,463)	(15,348)
Amortization of bond premium	(8)	–	(8)
Amortization of deferred financing costs	49	–	49
Current portion at June 30, 2007	$ 2,327	$ 12,553	$ 14,880
Noncurrent portion at June 30, 2006	$ 93,010	$ 74,307	$ 167,317
New obligations	140,175	24,202	164,377
Bond premium	746	–	746
Deferred financing costs	(1,799)	–	(1,799)
Reclassification to current	(95,296)	(15,410)	(110,706)
Noncurrent portion at June 30, 2007	$ 136,836	$ 83,099	$ 219,935
Year Ended June 30, 2006			
Current portion at June 30, 2005	$ 1,805	$ 10,687	$ 12,492
Reclassification from noncurrent	1,885	11,644	13,529
Principal payments	(1,805)	(11,725)	(13,530)
Current portion at June 30, 2006	$ 1,885	$ 10,606	$ 12,491
Noncurrent portion at June 30, 2005	$ 94,895	$ 26,917	$ 121,812
New obligations	–	59,034	59,034
Reclassification to current	(1,885)	(11,644)	(13,529)
Noncurrent portion at June 30, 2006	$ 93,010	$ 74,307	$ 167,317

Medical Center Pooled Revenue Bonds are issued to finance the University’s medical centers and are collateralized by a joint and several pledge of the operating revenues, as defined in the Indenture, of all five of the University’s medical centers. The Medical Center Pooled Revenue Bond indenture requires the medical centers to set rates, charges and fees each year sufficient for the medical center operating revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. Total Medical Center Pooled Revenue Bonds outstanding at June 30, 2007 are $537,325 of which $140,175 are specifically for capital projects at the Medical Center. Combined operating revenues of the University’s five medical centers for the years ended June 30, 2007 and 2006 were $4.6 and $4.3 billion, respectively.

7. Long-term Debt and Capital Leases (Continued)

The $140,175 of Medical Center Pooled Revenue Bonds specifically for the Medical Center, $44,020 with a fixed interest rate and $96,155 with a variable interest rate, were issued in January 2007 to refinance outstanding debt and to purchase land. The bonds with a fixed interest rate require interest only payments through May 2012. Proceeds, including a bond premium of $746, together with certain Medical Center funds, were used to refund $93,010 of outstanding revenue bonds. The bonds mature at various dates through 2047. The fixed rate bonds have a weighted average interest rate of 4.55 percent.

During 2006, the Medical Center entered into a land lease for approximately 10 acres of undeveloped land at Mission Bay, the site of a proposed new hospital campus. The lease includes base rent payments of $3,000 per year through 2013, after which the base rent will be $2,800 per year, escalated starting in 2015 by the changes in the Consumer Price Index (CPI) with a minimum increase of 2 percent and a maximum increase of 5 percent. The lease expires on December 31, 2103.

The Medical Center anticipates that it will purchase the land on January 1, 2014. As a result, the Medical Center has accounted for the lease as a capital lease by recording an increase in capital assets and an obligation for the present value of annual lease payments for the period until the first option to purchase.

The lease requires the Medical Center to pay for certain infrastructure to develop the land, including streets, sewers and sidewalks. The Medical Center paid $10,000 at the inception of the lease and is required to pay $7,000 through December 2013, in monthly installments of $65. Title to such required infrastructure will be conveyed or dedicated to the City and County of San Francisco upon completion. The Medical Center accounted for the present value of the resulting obligation as Infrastructure to be dedicated, a non-operating expense in the 2006 statement of revenues, expenses and changes in net assets.

The University also acquired a 1.6-acre site in Mission Bay for $5,000 to be used for a 160-unit affordable housing project to be developed with first priority rentals to eligible UCSF staff, residents and post-doctoral fellows. The Medical Center accounted for the affordable housing payment as Health System Support in the 2006 statement of revenues, expenses and changes in net assets since UCSF campus will own and develop the housing.

The University has an internal working capital program which allows the Medical Center to receive internal advances up to 60 percent of the Medical Center's accounts receivable for any working capital needs. Interest on any such advance is based upon the earnings rate on the Short Term Investment Pool. Repayment of any advances made to the Medical Center under the working capital program is not collateralized by a pledge of revenues. Currently, there are no advances to the Medical Center. The University may cancel or change the terms of the working capital program at its sole discretion. However, the University has historically provided working capital advances under informal or formal programs for the Medical Center.

7. Long-term Debt and Capital Leases (Continued)

Interest Rate Swap Agreements

As a means to lower the Medical Center's borrowing costs when compared against fixed-rate bonds at the time of issuance of the variable interest rate Medical Center Pooled Revenue Bonds, the Medical Center entered into interest rate swap agreements with two financial institutions. The intention of the swap transactions was to effectively change the variable interest rate on the bonds to a fixed rate of 3.6 percent.

The bonds and the related swap agreements mature on November 15, 2031. The swap agreements contain scheduled reductions to outstanding notional amounts that match scheduled reductions in the bonds. Under the swaps, the Medical Center pays the swap counterparty a fixed payment of 3.5897 percent and receives a variable payment computed as 58 percent of the 30 day London Interbank Offered Rate (LIBOR), plus .48 percent. The Medical Center believes that over time the variable interest rates it pays on the bonds will approximate the variable payments it receives on the interest rate swaps, leaving the fixed interest rate payment on the swaps as the net payment obligation for the transaction.

Because swap interest rates have decreased since execution of the swaps, the swaps have an estimated negative fair value of $1.7 million as of June 30, 2007. The fair value of the interest rate swap is the estimated amount the Medical Center would have paid if the swap agreement was terminated on June 30, 2007 and was estimated by a financial institution using quoted market prices when available or a forecast of expected discounted future net cash flows.

The swaps expose the Medical Center to basis risk whenever the interest rates on the bonds are reset. The interest rate on the bonds is a tax-exempt interest rate, while the basis of the variable receipt on the interest rate swaps is taxable. Tax-exempt interest rates can change without a corresponding change in the 30 day LIBOR rate due to factors affecting the tax-exempt market which do not have a similar effect on the taxable market. For example, the swaps expose the Medical Center to risk if reductions in the federal personal income tax cause the relationship between the variable interest rate on the bonds to be greater than 58 percent of the 30 day LIBOR, plus .48 percent.

Although the Medical Center has the interest rate swaps with credit worthy financial institutions, there is credit and termination risk to losses in the event of non-performance by counterparties or unfavorable interest rate movements. Swap contracts with positive fair values are exposed to credit risk. The Medical Center faces a maximum possible loss equivalent to the amount of the swaps' fair value. Swap contracts with negative fair value are not exposed to credit risk. The swaps may be terminated if the insurer's credit quality rating falls below "A –" as issued by Fitch Ratings or Standard & Poor's, thereby canceling the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. At termination, the Medical Center may also owe a termination payment if there is a realized loss based on the fair value of the swaps.

(Dollars in thousands)

7. Long-term Debt and Capital Leases (Continued)

Interest Rate Swap Agreements (Continued)

As rates vary, variable rate bond interest payments and net swap payments will vary. Although not a prediction by the Medical Center of the future interest cost of the variable rate bonds or the impact of the interest rate swaps, using rates as of June 30, 2007, debt service requirements of the variable rate debt and net swap payments are as follows:

	Variable-Rate Bond			
Year Ending June 30,	Principal	Interest	Interest Rate Swap, Net	Total
2008	$ 2,425	$ 3,403	$ 23	$ 5,851
2009	2,515	3,311	23	5,849
2010	2,605	3,221	22	5,848
2011	2,695	3,129	21	5,845
2012	2,800	3,033	21	5,854
2013 – 2017	15,575	13,602	93	29,270
2018 – 2022	18,635	10,672	72	29,334
2023 – 2027	22,280	7,069	48	29,397
2028 – 2032	26,625	2,824	19	29,468
Total	$ 96,155	$ 50,219	$ 342	$ 146,716

(Dollars in thousands)

7. Long-term Debt and Capital Leases (Continued)

Future Debt Service

Future debt service payments for each of the next five fiscal years subsequent to June 30, 2007 and thereafter are as follows:

Year Ending June 30,	Revenue Bonds	Capital Leases	Total Payments	Principal	Interest
2008	$ 7,885	$ 17,239	$ 25,124	$ 14,978	$ 10,146
2009	7,888	14,398	22,286	12,675	9,611
2010	7,888	11,162	19,050	9,889	9,161
2011	7,884	9,769	17,653	8,857	8,796
2012	8,378	7,349	15,727	7,249	8,478
2013 – 2017	41,892	58,554	100,446	71,257	29,189
2018 – 2022	41,943	2,803	44,746	24,877	19,869
2023 – 2027	42,001	–	42,001	26,795	15,206
2028 – 2032	42,055	–	42,055	32,290	9,766
2033 – 2037	12,550	–	12,550	7,095	5,455
2038 – 2042	12,554	–	12,554	8,845	3,709
2043 – 2047	12,551	–	12,551	11,020	1,531
Total future debt service	245,470	121,274	366,744	$ 235,827	$ 130,917
Less: Interest component of future payments	(105,295)	(25,622)	(130,917)		
Principal portion of future payments	140,175	95,652	235,827		
Adjusted by:					
Unamortized deferred financing costs	(1,750)	–	(1,750)		
Unamortized bond premium	738	–	738		
Total debt	$ 139,163	$ 95,652	$ 234,815		

Additional information on the revenue bonds can be obtained from the 2007 annual report of the University.

(Dollars in thousands)

8. Operating Leases

The Medical Center leases certain buildings and equipment under agreements recorded as operating leases. Operating lease expense for the years ended June 30, 2007 and 2006 was $17,259 and $18,217, respectively. As of June 30, 2007, amounts payable under noncancelable operating leases are as follows:

Year Ending June 30,	Minimum Annual Lease Payments
2008	$ 12,454
2009	9,452
2010	7,516
2011	5,283
2012	4,028
2013 – 2017	6,634
2018 – 2070	10,527
Total	$ 55,894

Operating leases include a long-term lease with a term of 75 years expiring in the year 2070, with an annual lease cost of approximately $163. Amounts payable under this lease are reflected above and represent the total lease payments for the year ending June 30, 2013 through 2070.

9. Retirement Plans

Substantially all full-time employees of the Medical Center participate in the University of California Retirement System ("UCRS") that is administered by the University. The UCRS consists of The University of California Retirement Plan ("UCRP"), a single employer defined benefit plan, and the University of California Retirement Savings Program ("UCRSP") that includes three defined contribution plans with several investment portfolios generally funded with employee non-elective and elective contributions.

The UCRP provides lifetime retirement income, disability protection, and survivor benefits to eligible employees. Benefits are based on average highest three years compensation, age, and years of service and are subject to limited cost-of-living increases.

Contributions to the UCRP may be made by the University and the employees. The University's policy is to provide for a targeted funding level of 100 percent over the long-term, and for University and UCRP member contributions to be set at rates necessary to maintain that level within a range of 95 percent to 110 percent. The rates for employer and employee contributions as a percentage of payroll are determined annually pursuant to The Regents' funding policy based upon recommendations of the consulting actuary. Employee contributions are subject to collective bargaining.

9. Retirement Plans (Continued)

The actuarial value of UCRP assets and the actuarial accrued liability using the entry age normal cost method as of June 30, 2007 were $43.4 billion and $41.4 billion, respectively. The net assets held in trust for pension benefits on the UCRP Statement of Plan's Fiduciary Net assets were $48.1billion at June 30, 2007. For the years ended June 30, 2007 and 2006, there was no employer contribution, annual pension cost or net pension obligation for the University. The annual pension cost was equal to the actuarially determined contributions.

The UCRSP plans (Defined Contribution Plan, 403(b) Plan and 457(b) Plan) provide savings incentives and additional retirement security for all eligible employees. The DC Plan accepts both pre-tax and after-tax employee contributions. The 403(b) and 457(b) plans accept pre-tax employee contributions. The Medical Center may also make contributions on behalf of certain members of management. Benefits from the plans are based on participants' mandatory and voluntary contributions, plus earnings, and are immediately vested.

Information related to contributions made, plan assets and liabilities, as they relate to Medical Center employees, is not readily available. Additional information on the retirement plans can be obtained from the 2006-2007 annual reports of the University of California Retirement plan, the University of California Retirement Savings Plan and the University of California PERS-VERIP.

10. University Self-insurance

The Medical Center is insured through the University's malpractice, general liability, workers' compensation, and health and welfare self-insurance programs. All operating departments of the University are charged premiums to finance the workers' compensation and health and welfare programs. The University's medical centers are charged premiums to finance the malpractice insurance. All claims and related expenses are paid from the University's self-insurance funds. Such risks are subject to various per claim and aggregate limits, with excess liability coverage provided by an independent insurer. The Medical Center is contingently liable for the obligations under these self-insurance programs.

Workers' compensation premiums, included as salaries and employee benefits expense in the statements of revenues, expenses and changes in net assets, were $12,109 and $16,579 for the years ended June 30, 2007 and 2006, respectively. During 2007, as a result of an actuarial analysis, the Medical Center received a refund of premiums from the University of $5,802 that reduced the overall workers' compensation cost for the year.

Combined malpractice and general liability premiums, recorded as insurance expense in the statements of revenues, expenses and changes in net assets, were $4,643 and $4,705 for the years ended June 30, 2007 and 2006, respectively.

(Dollars in thousands)

11. Transactions with Other University Entities

Services purchased from the University include office and medical supplies, building maintenance, repairs and maintenance, administrative, treasury, medical services, and insurance. Services provided to the University include physician office rentals, pharmaceuticals, billing services, medical supplies, and cafeteria services. Such amounts are netted and included in the statements of revenues, expenses and changes in net assets for the years ended June 30, as follows:

	2007	2006
Salaries and employee benefits	$ (2,232)	$ (3,222)
Medical supplies	(5,466)	(4,951)
Other supplies and purchased services	256,856	237,789
Interest income (net)	(8,405)	(5,929)
Insurance	4,643	4,705
Total	$ 245,396	$ 228,392

As presented in Note 1, the Medical Center Financial Statements include the activities of the UCSF Medical Group faculty practice. Payments to the School of Medicine for faculty clinical time comprise the largest component of inter-entity purchased services. Payments represent cash collected less certain cost allocations. Other services purchased from the School of Medicine include physician services that benefit the Medical Center, such as emergency room coverage, physicians providing medical direction to the Medical Center, and the Medical Center's allocation of malpractice insurance. Such expenses are reported as operating expenses in the statements of revenues, expenses and changes in net assets. Health system support includes amounts paid by the Medical Center to fund School of Medicine operating activities, payments to support clinical research, as well as other payments made to support various School of Medicine programs.

The total net payments made by the Medical Center to the University were $267,628 and $253,145 in fiscal years 2007 and 2006, respectively. Of these amounts, $245,396 and $228,392 are reported as operating expenses for fiscal years 2007 and 2006, respectively, and $22,232 and $24,753 are reported as health system support for fiscal years 2007 and 2006, respectively.

(Dollars in thousands)

12. Segment Information

As discussed in Footnote 1, the Medical Center's financial statements include the activities of the UCSF Medical Group. Condensed financial statement information related to the faculty practices of the UCSF Medical Group and the Medical Center Hospital Practice for the years ended June 20, 2007 and 2006 is as follows:

Year Ended June 30, 2007

	Medical Center	UCSF Medical Group	Total
Operating revenues	$ 1,099,721	$ 286,635	$ 1,386,356
Operating expenses	990,616	283,228	1,273,844
Net non-operating expenses	1,670	–	1,670
Income before other changes in net assets	$ 107,435	$ 3,407	$ 110,842

Year Ended June 30, 2006

	Medical Center	UCSF Medical Group	Total
Operating revenues	$ 1,009,054	$ 259,996	$ 1,269,050
Operating expenses	894,588	260,720	1,155,308
Net non-operating expenses	18,099	–	18,099
Income before other changes in net assets	$ 96,367	$ (724)	$ 95,643

13. Commitments and Contingencies

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations is subject to periodic government review, interpretation and audits, as well as regulatory actions unknown and unasserted at this time.

The University is contingently liable in connection with certain claims and contracts, including those currently in litigation, arising out of the normal course of its activities. Management and General Counsel are of the opinion that the outcome of such matters will not have a material effect on the financial statements.

13. Commitments and Contingencies (Continued)

State of California Senate Bill 1953, *Hospital Facilities Seismic Safety Act*, specifies certain requirements that must be met within a specified time in order to increase the probability that the hospital could maintain uninterrupted operations following major earthquakes.

By January 1, 2008, all general acute care inpatient buildings (subject to limited hardship exceptions) must be life safe. By January 1, 2030, all general acute care inpatient buildings must be operational after an earthquake. Previously, the state of California's budget authorized the University to use $600,000 in lease-revenue bond funds for earthquake safety renovations. The Regents have approved the allocation of the $600 million among the University's medical centers, of which $25 million was allocated to the Medical Center. The Medical Center spent $12,162 and $2,432 of its allocation during the years ended June 30, 2007 and 2006, respectively. During fiscal year 2007, the Medical Center received $17,481 of its allocation and is recorded in the statement of revenues, expenses and changes in net assets as a component of State and Federal capital appropriations. As of June 30, 2007, any repayment the Medical Center may be obligated for under these financing arrangements is still being determined.

The Medical Center has entered into various construction contracts. The remaining cost of these Medical Center projects is estimated to be approximately $27.9 million, excluding interest, as of June 30, 2007.

Subsequent to June 30, 2007, one of the medical centers issued additional debt under the Medical Center Pooled Revenue Bonds totaling $197.0 million to refinance certain improvements. These bonds were not specifically for the Medical Center. The Medical Center's revenues, consistent with the original issuance, have been collectively pledged as collateral for this additional debt.