University of California, Los Angeles Medical Center

Financial Statements

For the Years Ended June 30, 2010 and 2009

University of California, Los Angeles Medical Center
Index
June 30, 2010 and 2009

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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 17 through 46 present fairly, in all material respects, the financial position of the University of California, Los Angeles Medical Center (the "Medical Center"), a division of the University of California (the "University"), at June 30, 2010 and 2009, 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, 2010 and 2009, 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.

As discussed in the significant accounting policies in the Notes to Financial Statements, the Medical Center adopted Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as of July 1, 2009.

The Management's Discussion and Analysis on pages 2 through 16 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 11, 2010

Introduction

The objective of Management's Discussion and Analysis is to help readers better understand the University of California, Los Angeles Medical Center's financial position and operating activities for the year ended June 30, 2010, with selected comparative information for the years ended June 30, 2009 and 2008. 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 (2008, 2009, 2010, 2011, etc.) in this discussion refer to the fiscal years ended June 30.

Overview

The University of California, Los Angeles Medical Center (the "Medical Center") is part of the University of California (the "University"). The Medical Center operates licensed beds facilities at the 456-bed Ronald Reagan UCLA Medical Center located in Westwood, the 315-bed Santa Monica – UCLA Medical Center and Orthopaedic Hospital located in Santa Monica, and the 74-bed Resnick Neuropsychiatric Hospital at UCLA located in Westwood. The financial statements also include the activities of Tiverton House, a 100-room hotel facility for patients and their families.

The Medical Center serves as the principal teaching site for the David Geffen School of Medicine at UCLA. The Medical Center's mission is to provide excellent patient care in support of the educational and scientific programs of the Schools of the UCLA Center for the Health Sciences, including the Schools of Medicine, Dentistry, Nursing and Public Health.

The Westwood campus opened in 1955 as a 320-bed hospital and expanded to 669 beds by 1967. On June 29, 2008 the construction of the Ronald Reagan 456-bed and Resnick Neuropsychiatric 74-bed state-of-the-art replacement hospital was completed and opened for patient care. The replacement hospital meets the State of California's SB 1953, *Hospital Facilities Seismic Safety Act.*

The Medical Center offers patients of all ages comprehensive care, from routine to highly specialized medical and surgical treatment. In addition, the Westwood Campus is known for the wide range of its tertiary/quaternary care offerings that include Level 1 trauma care, regional neonatal and pediatric intensive care units, Neurosurgery/Neurology and organ transplantation.

The Santa Monica – UCLA Medical Center and Orthopaedic Hospital also serves the University's teaching and research missions while meeting the healthcare needs of Los Angeles's west side community. The Santa Monica facility features several nationally recognized clinical programs located within its seven-acre campus. Most of this medical center also is being replaced with the work progressing in phases. It is expected to be completed in calendar year 2010 and occupied in summer/fall of 2011.

The Resnick Neuropsychiatric Hospital at UCLA is one of the leading centers for comprehensive patient care, research and education in the fields of mental and developmental disabilities. Located on the Westwood Campus, the hospital offers a full range of treatment options for patients needing inpatient, outpatient, or partial-day services.

The Tiverton House is a 100-room guest hotel for patients and their families.

Together, these sites enable the Medical Center to provide a full spectrum of services and attract the volume and diversity of patients necessary to meet its educational, clinical, research and community services missions.

For the year ended June 30, 2010, the Medical Center reported income before other changes in net assets of $212.1 million, generating a margin of 13.4 percent. The year ended with a cash position of $406.0 million. For 2009, income before other changes in net assets was $115.8 million, generating a margin of 7.9 percent.

Significant events during the year are highlighted below:

- *The Medical Center continues to maintain its outstanding national reputation*
  The latest *U.S.News and World Report* Best Hospitals survey ranks Ronald Reagan UCLA Medical Center as one of the top five American hospitals, and the best hospital in the western United States for the 21st consecutive year. According to this latest survey, UCLA ranked in the top 20 in 15 of the 16 specialty areas. In each of the following specialties, UCLA's national rankings are indicated: cancer at UCLA's Jonsson Comprehensive Cancer Center (10); diabetes and endocrine disorders (5); ear, nose and throat (11); gastroenterology (8); geriatrics (2); gynecology (13); heart and heart surgery (8); kidney disorders (7); neurology and neurosurgery (7); ophthalmology at UCLA's Jules Stein Eye Institute (5); orthopaedics (19); psychiatry at the Resnick Neuropsychiatric Hospital at UCLA (6); pulmonology (18); rheumatology (6); and urology (4).

- *The Medical Center continued to excel in areas of quality, safety, and service*
  Ronald Reagan UCLA Medical Center received re-accreditation as a Level 1 trauma center by the American College of Surgeons. Quality improvement efforts have led to reductions in central line blood stream infection rates. Clinical care quality improvements continued, supporting adherence to evidence-based best practices for the management of patients with stroke, heart attack, and heart failure. To improve patient safety and reduce the chance for medication errors, projects were launched to roll out new "smart" infusion pumps, and a new medication bar-coding system. The Medical Center shined in its efforts to deliver compassionate, patient-centered care. Patient satisfaction scores at the Ronald Reagan UCLA Medical center reached the 97th percentile in Medicare's Hospital Consumer Assessment of Healthcare Providers and Systems ("HCAHPS") patient satisfaction survey, compared with all hospitals in the nation. The Ronald Reagan UCLA Medical Center reached a #1 ranking compared with all U.S. academic medical centers. Satisfaction scores continued to rise in Santa Monica and in the Neuropsychiatric hospital as well. Operations improvement efforts resulted in smoother workflows across multiple hospital system departments. Operating Room first case on-time starts improved, allowing for greater efficiency and service levels. Emergency Department patient turnaround times were reduced, supporting new heights in patient satisfaction scores in Westwood and Santa Monica. Support service areas continue to achieve benchmark performance in service levels and throughput, evidence by responsive turnaround times for patient escort, and dietary room service. These efforts and others further supported delivery of outstanding quality and patient satisfaction.

- *Continued Development of Santa Monica-UCLA Medical Center and Orthopaedic Hospital*
  Development of the Santa Monica campus progressed during the year, with significant exterior and interior completion of the north-central and orthopedic wing. Construction is scheduled for completion at the end of calendar 2010 with occupancy in summer/fall of 2011. Patient services continue to move from Westwood to Santa Monica, part of the ongoing process of reallocating services appropriately across the health system.

- *Changes in Payor Mix and Volume*
  The Medical Center did not experience any adverse payor mix change despite the negative state and national economic downturn. Medicare patient days increased by 1.7 percent over prior year and Contract patient days increased by 0.1 percent over prior year. Medicare and Contract are the highest-margin payors. Medi-Cal patient days increased by 1.2 percent. Medi-Cal is one of the lowest-margin payors but only represents 18.6 percent of the Medical Center's total patient days. Uninsured and Capitation days declined from prior year by 7.2 percent and 0.3 percent respectively. Uninsured and Capitation are also low-margin payors.

- *The Medical Center Renegotiated Major Third-Party Contracts*
  The Medical Center renegotiated two of its largest contracts resulting in double digit increases and bringing significant new revenue to the system. Also renegotiated, with very strong results, were three of the health systems top seven payor Transplant Center of Excellence contracts. In addition, a new nationwide Transplant Center of Excellence contract was established. This contract provides transplant coverage to purchasers of specialized healthcare coverage (e.g. self insured employers). Four hospital system contracts were terminated because of low volume and poor financial results.

- *Revenue Cycle Initiatives and Cash Collections*
  During 2010, the Medical Center continued to work on ways to improve its revenue and cash position through various revenue cycle initiatives. The revenue cycle consulting services that began in 2009 continued on into 2010 with great success. This engagement significantly improved revenue and cash collections. Cash collected on patient accounts increased by $186.2 million, or 15.0 percent, over 2009.

- *The Medical Center issued New Debt*
  In December 2009, Medical Center Pooled Revenue Bonds totaling $146.0 million were issued as taxable "Build America Bonds" specifically for the Medical Center to finance certain improvements. Proceeds were used to pay for project construction.

Operating Statistics

The following table presents utilization statistics for the Medical Center for 2010, 2009 and 2008:

Statistics	2010	2009	2008
Licensed beds	845	845	1,120
Admissions	40,220	40,342	40,574
Average daily census	718	715	711
Discharges	40,211	40,258	40,741
Average length of stay	6.5	6.5	6.4
Case mix index	1.90	1.92	1.81
Patient days:			
Medicare (non-risk)	73,282	72,038	71,268
Medi-Cal (non-risk/County)	48,884	48,295	45,766
Commercial	1,731	2,191	2,048
Contracts (discounted/per diem)	122,107	122,017	123,836
Contracts (capitated)*	7,271	7,835	8,003
Non-sponsored/self-pay (Uninsured)	8,620	8,645	9,234
Total Patient Days	261,895	261,021	260,155
Outpatient visits:			
Hospital clinics	788,287	773,078	767,039
Home health/hospice	–	44,850	55,424
Emergency visits	81,383	76,739	66,626
Total visits	869,670	894,667	889,089

* includes Medicare (risk)

Total admissions decreased by 0.3 percent in 2010 compared to 2009, due to a decrease in surgery and orthopedic cases. Total admissions decreased by 0.6 percent in 2009 compared to 2008, due to a decrease in surgery, pediatrics, neurosurgery and orthopedic cases.

Total patient days in 2010 increased by 874, or 0.3 percent, over 2009 due to an increase in Medicare days. Total patient days in 2009 increased by 866, or 0.3 percent, over 2008 due to an increase in Medi-Cal and Commercial days. However, Capitated and Uninsured patient days decreased by 7.2 percent and 0.3 percent respectively.

Total outpatient visits decreased in 2010 by 24,997, or 2.8 percent compared to 2009. This decrease was primarily due to Home health and hospice. The Medical Center closed its Home Health business at the beginning of the year. Total outpatient visits increased in 2009 by 5,578, or 0.6 percent compared to 2008. This increase was primarily in Hospital Clinics and Emergency visits.

Statements of Revenues, Expenses and Changes in Net Assets

This statement shows the revenues, expenses and changes in net assets for the Medical Center for 2010 compared to the prior two years.

The following table summarizes the operating results for the Medical Center for fiscal years 2010, 2009 and 2008 (dollars in thousands):

	2010	2009	2008
Net patient service revenue	$ 1,527,157	$ 1,401,847	$ 1,162,561
Other operating revenue	60,326	64,068	64,557
Total operating revenue	1,587,483	1,465,915	1,227,118
Total operating expenses	1,363,893	1,331,930	1,169,260
Income from operations	223,590	133,985	57,858
Total non-operating expenses	(11,508)	(18,213)	(24,564)
Income before other changes in net assets	$ 212,082	$ 115,772	$ 33,294
Margin	13.4 percent	7.9 percent	2.7 percent
Other changes in net assets	(78,833)	43,160	64,606
Increase in net assets	133,249	158,932	97,900
Net assets – beginning of year	1,349,543	1,190,611	1,092,711
Net assets – end of year	$ 1,482,792	$ 1,349,543	$ 1,190,611

Revenues

Total operating revenues for the year ended June 30, 2010 were $1,587.5 million, an increase of $121.6 million, or 8.3 percent, over 2009. Operating revenues for 2009 of $1,465.9 million increased by $238.8 million, or 19.5 percent, over 2008.

Net patient service revenue for 2010 increased by $125.3 million, or 8.9 percent, over 2009. The increase in 2010 was due to contract rate increases, improvement in the revenue cycle, higher number of Medicare cases, additional funding under the State's Medi-Cal program and outpatient volume. Patient service revenues are net of bad debts and 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.

Net patient service revenue for 2009 increased by $239.3 million, or 20.6 percent, over 2008. The increase in 2009 was due to contract rate increases, clinical documentation improvements, consultant revenue cycle engagement, additional funding from the State for Medi-Cal patients and an increase in outpatient volume.

Other operating revenue consisted primarily of State Clinical Teaching Support Funds ("CTS") and other non-patient services such as contributions, cafeteria and campus revenues. The decrease in 2010 in other operating revenue was mainly in Clinical Teaching Support Funds due to the State's budget reductions. The decrease in 2009 in other operating revenue was mainly due to investment losses in the Foundation assets.

The following table summarizes net patient service revenue for 2010, 2009 and 2008 (dollars in thousands):

Payor	2010	2009	2008
Medicare (non-risk)	$ 358,954	$ 327,054	$ 297,443
Medi-Cal (non-risk/County)	151,669	139,954	114,606
Commercial	11,247	13,130	14,283
Contracts (discounted/per diem)	955,050	865,966	686,839
Contracts (capitated)*	33,283	35,146	33,234
Non-sponsored/self-pay (Uninsured)	16,954	20,597	16,156
Total	$ 1,527,157	$ 1,401,847	$ 1,162,561

* includes Medicare (risk)

Net revenues for Medicare represent payments for services provided to patients under Title XVIII of the Social Security Act. 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 area labor costs. The Medical Center also receives additional payments for direct and indirect costs for graduate medical education, disproportionate share of indigent patients, capital reimbursement, and outlier payments on cases with unusually high costs of care. Hospital outpatient care is reimbursed under a prospective payment system. Medicare reimburses the Medical Center for allowable costs 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. Settlements with the Medicare program for prior years' cost reports are recognized in the year the settlement is resolved. Net patient revenue for Medicare increased by $31.9 million over the prior fiscal year. This increase is primarily due to increase in utilization and adjustment to reserves for favorable cost report settlements. In 2009, net patient revenue for Medicare increased by $29.6 million over 2008. This increase is primarily due to volume, rate increase and favorable settlements.

Payments for Medi-Cal patients are made on a per-diem basis for inpatient services while outpatient services are paid on a fixed-fee schedule. In 2006, California implemented a new Medi-Cal Fee-For-Service ("FFS") inpatient hospital payment system. In FY 2010, the Medical Center recorded additional Medi-Cal net funding of $10.3 million. In FY 2009, the Medical Center recorded additional Medi-Cal funding of $22.4 million of which $10.6 million is related to the prior year. The Medi-Cal revenue includes funding for covered outpatient services pursuant to California Assembly Bill 915. Also included are Medi-Cal patients referred by county facilities and reimbursed to the Medical Center at Medi-Cal rates.

In 2010, contract net patient revenue (discounted/per-diem) increased by $89.1 million, or 10.3 percent, due to rate increases and revenue cycle improvements. In 2009, contract net patient revenue (discounted/per-diem) increased by $179.2 million, or 26 percent, due to rate increases, revenue cycle improvements and outpatient volume increases.

The net patient service revenue for contracts that are full-risk capitation decreased by $1.9 million, or 5.3 percent in 2010 and by $1.9 million, or 5.8 percent, in 2009.

In 2010, commercial net patient revenue decreased by $1.9 million, or 14.3 percent, due to a decrease in volume. In 2009, commercial net patient revenue decreased by $1.2 million, or 8.1 percent, due to a decrease in volume.

The non-sponsored/self-pay net revenue decreased from the prior year by $3.6 million. This category fluctuates from year to year depending on the volume and type of patients.

Operating Expenses

The following table summarizes the operating expenses for the Medical Center for fiscal years 2010, 2009 and 2008 (dollars in thousands):

	2010	2009	2008
Salaries and wages	$ 606,069	$ 597,706	$ 550,608
Employee benefits	152,195	137,402	122,716
Professional services	51,717	43,847	24,618
Medical supplies	203,004	204,800	184,419
Other supplies and purchased services	255,917	256,741	227,152
Depreciation and amortization	85,873	81,921	51,680
Insurance	9,118	9,513	8,067
Total operating expenses	$ 1,363,893	$ 1,331,930	$ 1,169,260

Total operating expenses for 2010 were $1,363.9 million, an increase of $31.9 million, or 2.4 percent, over 2009. This change was primarily due to an increase in salaries and employee benefits. Total operating expenses for 2009 increased by $162.7 million, or 13.9 percent, over 2008 due to increased salary and employee benefits, professional services, increases in medical supplies and purchased services and increase in depreciation costs for the replacement hospital.

In 2010, salaries and wages grew by $8.4 million, or 1.4 percent, over the prior year due to an increase in union and non-represented salary rate increases by $26 million that was offset by a reduction in full time equivalents by $17.6 million. Temporary labor costs decreased by $14.4 million, or 66.2 percent, over 2009. In 2009, salaries and wages grew by $47.1 million, or 8.6 percent, over the prior year due to increased volume and union negotiated salary rate increases. Temporary labor costs increased by $415.0 thousand, or 1.9 percent, over 2008.

In 2010, increases in total benefit costs were $14.8 million, with health insurance benefits higher by $8.9 million, workers' compensation insurance premiums up $855 thousand, and all other benefit costs higher by $5.0 million over 2009. Increases in total benefit costs in 2009 were $14.7 million, with health insurance benefits higher by $7.7 million, workers' compensation insurance premiums down $1.6 million and all other benefit costs higher by $8.5 million over 2008.

Payments for professional services increased by $7.9 million, or 17.9 percent, in 2010 from 2009. The increases were due to an increase in legal fees by $15.2 million for the replacement hospital that was offset by a decrease of $7.3 million in consulting fee due to the completion of the revenue cycle engagement. In 2009, payments for professional services increased by $19.2 million, or 78.1 percent due to the fees paid for the new revenue cycle consulting engagement.

Medical supply expense decreased by $1.8 million or 0.9 percent due to various cost reduction initiatives achieved during the fiscal year and a decrease in pharmaceuticals due to a change in pricing structure. Medical supply expense increased in 2009 by $20.4 million, or 11.1 percent over 2008, due to an increase in prosthesis expenses for ventricle assist devices, increase in pharmaceutical expenses due to inflation of 7.0 percent and increases in supply cost in the operating room and Cath Labs due to volume and inflation.

Other supplies and purchased services decreased by $824 thousand, or 0.3 percent, over the prior year. The decrease was primarily in the utility expense due to reduced consumption and the decommissioning of spaces in the old hospital. Other supplies and purchased services increased $29.6 million, or 13.0 percent, in 2009 over 2008 due to higher food expense in the new hospital, increased outside provider costs, increased utility expense in the new hospital and an increase in building and equipment rentals.

Depreciation and amortization expense increased by $4.0 million, or 4.8 percent, over 2009 due an increase in equipment depreciation. In 2009, depreciation and amortization expense increased by $30.2 million, or 36.9 percent, over 2008 due to depreciation costs on the replacement hospital.

Insurance expense of $9.1 million in 2010 and $9.5 million in 2009 was primarily the Medical Center's contribution to the University of California self-insured malpractice fund. In 2010, this expense decreased by $395 thousand, or 4.2 percent, over 2009. In 2009, insurance expense increased by $1.4 million, or 17.9 percent, over 2008.

Non-operating Revenues (Expenses)
Total non-operating revenues (expenses) were $(11.5) million for 2010 compared to $(18.2) million in the prior year. The majority of this decrease was primarily due to an increase in short-term investment pool interest income (STIP).

In 2009, total non-operating revenue (expenses) were $(18.2) million compared to $(24.6) million in 2008. The majority of this decrease was primarily due to transition costs related to the replacement hospital.

Income before Other Changes in Net Assets
The Medical Center's income before other changes in net assets was $212.1 million for 2010 compared to $115.8 million for 2009 and $33.3 million in 2008. The Medical Center's net income increased in 2010 and 2009 mainly due to increases in net patient service revenues.

Other Changes in Net Assets
The lower section of the statements of revenues, expenses and changes in net assets shows the other changes to net assets in addition to the income or loss. Net assets are the difference between the total assets and total liabilities. The other changes in net assets represent additional funds the Medical Center receives and cash outflow for support and transfers to other university entities.

Included in the other changes in net assets for 2010 are the following:

- Proceeds received and receivable from the Federal Emergency Management Agency ("FEMA") for the hospitals' replacement projects were $626 thousand in 2010 and $110 thousand in 2009. The total anticipated funding from FEMA for the replacement hospitals' project is $556 million. The total received to date from FEMA is $523 million.

  In 2010, contributions from the University for the building program of $21.5 million are related to the hospitals' replacement projects and represent funding from the line of credit. In 2009, contributions from the University for the building program of $40.8 million are related to the hospitals' replacement projects and represent funding from the State Public Works Board Bonds totaling $0.2 million, state matching funds of $0.8 million and funding from the line of credit of $39.8 million.

- Donated assets represent gift funds that have been used for the hospitals' replacement. The gift funds are only recorded on the Medical Center's financial statements when an expenditure for the project has been incurred. In prior years, gift funds were used for the replacement hospital and increased the equity of the Medical Center. The Medical Center recorded $14.3 million and $40.2 million of gift funds in 2010 and 2009, respectively.

- Health system support represents transfers to the School of Medicine for academic and clinical support including the Primary Care Network. The Medical Center transferred $56.2 million in 2010 and $37.9 million in 2009.

- Transfer to University for building program of $(59.0) million in 2010 represents the Medical Center replenishing borrowed funds to the gift accounts and the Chancellor's contingency funds from the bond proceeds.

In total, the net assets increased in 2010 by $133.2 million to $1,482.8 million. The majority of this increase was due an increase in cash balance. In 2009, net assets increased by $158.9 million to $1,349.5 million. The majority of this increase was due to an increase in the overall cash balance and an increase in capital assets for the Santa Monica replacement hospital.

Statements of Net Assets

The following table is an abbreviated statement of net assets at June 30, 2010, 2009 and 2008 (dollars in thousands):

	2010	2009	2008
Current assets:			
Cash	$ 406,034	$ 219,604	$ 124,596
Patient accounts receivable (net)	246,961	247,723	217,973
Other current assets	81,652	64,147	51,341
Total current assets	734,647	531,474	393,910
Capital assets (net)	1,692,645	1,625,852	1,567,561
Other assets	144,446	68,940	60,022
Total assets	2,571,738	2,226,266	2,021,493
Current liabilities	249,216	193,061	191,397
Long-term debt	787,066	643,731	639,485
Other liabilites	52,664	39,931	–
Total liabilities	1,088,946	876,723	830,882
Net assets:			
Invested in capital assets (net)	916,942	1,046,892	988,051
Restricted	81,247	19,427	51,822
Unrestricted	484,603	283,224	150,738
Total net assets	$ 1,482,792	$ 1,349,543	$ 1,190,611

Total current assets increased in 2010 by $203.2 million, or 38.2 percent, compared to 2009 due an increase in cash and other current assets. In 2009, total current assets increased by $137.6 million, or 34.9 percent, compared to 2008 due to an increase in cash and net patient accounts receivable.

Cash increased by $186.4 million in 2010. This increase was mainly due to an increase in operating income as well as improved cash collections due to the efforts from the revenue cycle engagement. Cash increased by $95.0 million in 2009 due mainly to an increase in operating income and cash collections.

Net patient accounts receivable decreased by $762 thousand from 2009 due to cash collection efforts. Net patient accounts receivable increased by $29.8 million in 2009 due to contract rate increases and inpatient price increases. Cash collections increased by $186.2 million or 15.0 percent in 2010 and by $193.5 million or 18.5 percent in 2009.

In 2010, other current assets, including non-patient receivables, inventory and prepaid expenses, increased by $17.5 million over the prior fiscal year. The increase was primarily related to a receivable from the State for Medi-Cal Waiver funding and outpatient funding under AB915. In 2009, other current assets increased by $12.8 million over 2008 due primarily to a receivable from the state for Medi-Cal waiver revenue.

Capital assets increased by $66.8 million over 2009 due to the construction of the Santa Monica replacement hospital. Capital assets increased in 2009 by $58.3 million over 2008 with the majority of this increase related to the Santa Monica replacement hospital.

Other assets, including the long-term portion of cash held by trustees, the Santa Monica Hospital Foundation assets, the restricted funds for the hospitals' replacement building projects and the bond issuance costs increased by $75.5 million and $8.9 million in 2010 and 2009, respectively. The increase in 2010 is primarily due to the increase in restricted cash for the building program and the bond interest swap fair value.

Current liabilities increased by $56.2 million in 2010 due to an increase in accrued salaries and wages, accounts payable and accrued liabilities of $48.0 million due to the final settlement of the construction costs of the Reagan building. Current liabilities increased by $1.7 million in 2009 due to an increase in accrued salaries and wages and a reduction in third party payor settlements.

Long-term debt includes the 2004 Series A and Series B Hospital Revenue Bonds, 2003 General Revenue Bonds, 2002 Hospital Revenue Bonds, 2007 Hospital Revenue Bonds, and long-term capital leases. The Medical Center also financed $8.8 million and $8.4 million of capital equipment through leases during 2010 and 2009, respectively. The note payable to campus is for long-term operating capital needs.

Liquidity and Capital Resources

The Medical Center generated $293.8 million and $178.4 million from operating activities in 2010 and 2009, respectively.

In 2010, cash flows from non-capital financing activities show the Medical Center's cash was decreased by $16.1 million over 2009 due to transfers to the University for health system support and general support. In 2009, cash flows from non-capital financing activities show the Medical Center's cash was increased by $11.5 million over 2008 for transfers to the University for health system support and general support and $5.6 million for the replacement hospital transition costs.

In 2010 and 2009, cash flows from capital and related financing activities included the proceeds from State funds of $378 thousand and $0 thousand, contributions from the University for funding from the State Public Works Board Bonds $21.5 million and $40.8 million, purchase of capital assets (including construction in process for replacement hospitals) $90.3 million and $132.7 million, proceeds from new debt of $146 million and $0 million, bond costs of $1.2 million and $0 million, principal payments on long-term debt and capital leases of $11.1 million and $15.2 million, interest payments of $18.8 million and $17.9 million, and replenishment of campus gift funds of $14.3 million and $40.2 million, respectively.

Cash flows from investing activities in 2010 and 2009 show that $10.2 million and $6.5 million was provided by interest income, $(57.0) million and $21.9 million from a change in restricted assets, primarily proceeds from debt for the building project, and $(4.9) million and $10.5 million from the Santa Monica Foundation, respectively.

Overall cash increased to $406.0 million in 2010 from $219.6 million in 2009.

The following table shows key liquidity and capital ratios for 2010, 2009 and 2008:

	2010	2009	2008
Days cash on hand	116	64	41
Days of revenue in accounts receivable	55	58	67
Capital investment ($ in millions)	$90.3	$132.7	$225.4
Debt service coverage ratio	5.9	5.7	2.2

Days cash on hand increased to 116 days in 2010 from 64.1 days in 2009 and 40.8 days in 2008. 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 2010, days in accounts receivable decreased to 55. The main reason for this decrease was due to the ongoing efforts of the revenue cycle engagement and cash collection efforts. In 2009, days in accounts receivable decreased to 58. The main reason for this decrease was due to increased cash collections and revenue cycle improvements.

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 2010 is 5.9 versus 5.7 in 2009. The increase was due to the increase in net income for the year. In 2009, the Medical Center's ratio is 5.7 versus 2.2 in 2008. The increase was due to the increase in net income for the year. This ratio is higher than the 1.1 required by the Bond Indenture.

Looking Forward

The Hospital Facilities Seismic Safety Act ("SB 1953")
During 2010, the UCLA Medical Center's capital program continued to address the requirements in State of California Senate Bill 1953 ("SB 1953"). The projected cost for the Santa Monica-UCLA Medical Center and Orthopaedic Hospital, which will be compliant with the requirements by 2011, is $565 million. The capital cost of compliance will be financed through the use of state lease revenue bond funds, FEMA funds, Hospital Reserves, gift funds and debt. In 2010, $61.5 million was spent on these requirements.

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 2005, California enacted Senate Bill 1100 ("SB 1100") to implement a federal Medicaid hospital financing waiver ("waiver") that governs fee-for-service inpatient hospital payments for its public hospitals, which include the Medical Center. 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 federal economic stimulus package enacted in 2009, which increases California's federal DSH allotment and the federal matching rate for FFS payments, will increase the net payment amounts under the waiver to the Medical Centers for the period October 2008 through December 2010. The current waiver expired in August 2010 and plans for a renewal are under discussion between the Center for Medicare and Medicaid Services ("CMS") and the state, the outcome of which cannot be determined. Although the federal inpatient hospital financing waiver and SB 1100 are designed to ensure a predictable Medicaid supplemental payment funding level and provide growth funding, the full financial impact of these changes in the future cannot be determined.

Hospital Fee Program
AB 1383 of 2009, as amended by AB 1653 on September 8, 2010, establishes a series of Medicaid supplemental payments funded through a "Quality Assurance Fee" and a "Hospital Fee Program", which are imposed on certain California hospitals. The effective date of the Hospital Fee Program is April 1, 2009 through December 31, 2010 and is predicated in part on the enhanced Federal Medicaid Assistance Percentage ("FMAP") contained in the American Reinvestment and Recovery Act ("ARRA"). The Hospital Fee Program would make supplemental payments to hospitals for various health care services and support the State's effort to maintain health care coverage for children. Supplemental payments are anticipated to be made by California Department of Health Care Services ("CDHS") before December 31, 2010. The University's medical centers, as designated public hospitals, are exempt from paying the "Quality Assurance Fee"; however, the University's medical centers are eligible to receive supplemental payments under the Hospital Fee Program.

Children's Hospital Bond Act of 2008
In 2008, California voters passed Proposition 3 that enables the state of California to issue $980 million in General Obligation bonds to fund capital improvement projects for children's hospitals. The Medical Center is eligible for $39 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, 2018.

Health Care Reform Bill
On March 23, 2010, the Patient Protection and Affordable Care Act ("PPACA") was signed into law. On March 30, 2010 the Health Care and Education Reconciliation Act of 2010 was signed, amending the PPACA (collectively the "Affordable Care Act"). The Affordable Care Act addresses a broad range of topics affecting the health care industry, including a significant expansion of healthcare coverage. The coverage expansion is accomplished primarily through incentives for individuals to obtain and employers to provide health care coverage and an expansion in Medicaid eligibility. The Affordable Care Act also includes incentives for medical research and the use of electronic health records, changes designed to curb fraud, waste and abuse, and creates new agencies and demonstration projects to promote the innovation and efficiency in the healthcare delivery system. Some provisions of the health care reform legislation are effective immediately; others will be phased in through 2014. Further legislative policies are required for several provisions that will be effective in future years. The impact of this legislation will likely affect the Medical Center; the effect of the changes that will be required in future years are not determinable at this time.

University of California Retirement and Other Post Employment Benefit Plans
UCRP costs are funded by a combination of investment earnings, employee member and employer contributions. The unfunded liability for the campuses and medical centers as of July 1, 2009 actuarial valuation was $1.9 billion or 94.8 percent funded. For the July 1, 2010, the funded ratio is expected to decrease to approximately 85 percent. The funding policy contributions related to campuses and medical centers in the July 1, 2009 actuarial valuation for 2010 are $1.6 billion, which represents 20.4 percent of covered compensation. Employer contributions for 2010 were $65 million. For 2011 the Regents authorized increasing the employer and employee contribution rates to UCRP. Contributions by employees will be increased to 3.5 percent of covered compensation in July 2011 and 5 percent in July 2012 and contributions by the University would be increased to 7 percent of covered compensation in July 2011 and 10 percent in July 2012. These proposed changes would be subject to collective bargaining for union-represented employees. The Regents are scheduled to consider modifications to benefit design for pension benefits at meetings during the Fall 2010. The modifications to be considered include recommendations by the Post-Employment Benefits Task Force, which submitted its report to the University President in August 2010.

Currently, the University does not pre-fund retiree health benefits and provides for benefits on a pay-as-you-go basis. The unfunded liability for the campuses and medical centers as of July 1, 2009 actuarial valuation was $14.5 billion. The Regents are scheduled to consider modifications to eligibility and the University's share of contributions for retiree health care at meetings during the Fall 2010. The modifications to be considered include recommendations by the Post-Employment Benefits Task Force, which submitted its report to the University President in August 2010.

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, Los Angeles Medical Center
Statements of Net Assets
June 30, 2010 and 2009
(Dollars in thousands)

	2010	2009
Assets		
Current assets:		
Cash	$ 406,034	$ 219,604
Patient accounts receivable, net of estimated uncollectibles of $93,523 and $85,518, respectively	246,961	247,723
Other receivables, net of estimated uncollectibles of $93 and $93, respectively	43,506	27,438
Inventory	23,016	22,582
Prepaid expenses and other assets	15,130	14,127
Total current assets	734,647	531,474
Restricted assets:		
Cash restricted for replacement hospital	62,651	5,684
Donor funds	18,596	13,743
Capital assets, net	1,692,645	1,625,852
Deferred costs of issuance	6,329	5,343
Other assets	56,870	44,170
Total assets	2,571,738	2,226,266
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	124,065	78,030
Accrued salaries and benefits	95,915	86,354
Third-party payor settlements	13,021	13,554
Current portion of long-term debt and capital leases	10,972	10,227
Other liabilities	5,243	4,896
Total current liabilities	249,216	193,061
Note payable to campus	75,000	75,000
Long-term debt and capital leases, net of current portion	712,066	568,731
Other liabilities	52,664	39,931
Total liabilities	1,088,946	876,723
Net Assets		
Invested in capital assets, net of related debt	916,943	1,046,892
Restricted:		
Nonexpendable:		
Endowments	337	337
Expendable:		
Capital projects	67,806	6,698
Other	13,104	12,392
Unrestricted	484,602	283,224
Total net assets	$ 1,482,792	$ 1,349,543

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

University of California, Los Angeles Medical Center
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2010 and 2009
(Dollars in thousands)

	2010	2009
Net patient service revenue, net of provision for doubtful accounts of $38,844 and $34,055, respectively	$ 1,527,157	$ 1,401,847
Other operating revenue:		
Clinical teaching support	12,981	21,635
Other	47,345	42,433
Total other operating revenue	60,326	64,068
Total operating revenue	1,587,483	1,465,915
Operating expenses:		
Salaries and wages	606,069	597,706
UCRP, retiree health and other employee benefits	152,195	137,402
Professional services	51,717	43,847
Medical supplies	203,004	204,800
Other supplies and purchased services	255,917	256,741
Depreciation and amortization	85,873	81,921
Insurance	9,118	9,513
Total operating expenses	1,363,893	1,331,930
Income from operations	223,590	133,985
Non-operating revenues (expenses):		
Interest income	10,178	6,467
Interest expense	(19,275)	(18,581)
Replacement hospital transition expense/equipment transfer to University	(2,923)	(5,085)
Build America bonds federal interest subsidies	1,627	–
Loss on disposal of capital assets	(1,115)	(1,014)
Total non-operating expenses	(11,508)	(18,213)
Income before other changes in net assets	212,082	115,772
Other changes in net assets:		
Proceeds received or receivable from FEMA	626	110
Contributions from University for building program	21,483	40,819
Donated assets	14,299	40,203
Health system support	(56,217)	(37,932)
Transfer to University for building program	(59,024)	(40)
Total other changes in net assets	(78,833)	43,160
Increase in net assets	133,249	158,932
Net assets – beginning of year	1,349,543	1,190,611
Net assets – end of year	$ 1,482,792	$ 1,349,543

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

University of California, Los Angeles Medical Center
Statements of Cash Flows
For the Years Ended June 30, 2010 and 2009
(Dollars in thousands)

	2010	2009
Cash flows from operating activities:		
Receipts from patients and third-party payors	$ 1,527,697	$ 1,359,312
Payments to employees	(601,838)	(596,745)
Payments to suppliers	(520,329)	(500,492)
Payments for benefits	(146,865)	(126,669)
Other receipts, net	35,140	43,024
Net cash provided by operating activities	293,805	178,430
Cash flows from noncapital financing activities:		
Health system support	(56,217)	(37,932)
Replacement hospital transition costs	(2,923)	(5,125)
Net cash used for noncapital financing activities	(59,140)	(43,057)
Cash flows from capital and related financing activities:		
Proceeds from State funds	378	–
Proceeds from contributions from University for building program	21,483	40,819
Proceeds from debt issuance	146,000	–
Bond issuance cost	(1,164)	–
Proceeds received from interest rate swap	–	31,348
Payment for interest rate swap	–	(25,336)
Interest rate swap fee	–	(434)
Build America bonds federal interest subsidies	1,627	–
Purchases of capital assets	(90,333)	(132,682)
Principal paid on long-term debt and capital leases	(11,058)	(15,196)
Interest paid on long-term debt and capital leases	(18,801)	(17,949)
Transfer to University for building program	(59,024)	–
Gifts and donated funds	14,299	40,203
Net cash provided by (used for) capital and related financing activities	3,407	(79,227)
Cash flows from investing activities:		
Interest income received	10,178	6,467
Change in restricted assets, held by trustee	(56,967)	21,886
Change in Foundation investments	(4,853)	10,509
Net cash (used for) provided by investing activities	(51,642)	38,862
Net increase in cash	186,430	95,008
Cash – beginning of year	219,604	124,596
Cash – end of year	$ 406,034	$ 219,604

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

University of California, Los Angeles Medical Center
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2010 and 2009
(Dollars in thousands)

	2010	2009
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	$ 223,590	$ 133,985
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization expense	85,873	81,921
Provision for doubtful accounts	38,844	34,055
Changes in operating assets and liabilities:		
Patient accounts receivable	(38,082)	(63,805)
Other receivables	(16,068)	(11,531)
Inventory	(434)	92
Prepaid expenses and other assets	(970)	(2,749)
Accounts payable and accrued expenses	(8,323)	10,371
Accrued salaries and benefits	9,561	11,695
Third-party payor settlements	(533)	(12,498)
Other liabilities	347	(3,106)
Net cash provided by operating activities	$ 293,805	$ 178,430
Supplemental noncash activities information:		
Capitalized interest	$ 14,453	$ 10,996
Capital assets acquired through capital lease obligations	8,842	8,434
Reimbursement pending from FEMA	248	(110)
Change in fair value of interest rate swaps classified as hedging derivatives	(12,733)	(8,583)
Amortization of deferred financing costs	387	289
Amortization of bond premium	91	91
Amortization of deferred cost of issuance	178	144
Payables for property and equipment	54,358	–

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

1. Organization

The University of California, Los Angeles 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 Vice Chancellor, Medical Sciences by the Chancellor of the Los Angeles campus. The Medical Center operates licensed bed facilities including the 456-bed Ronald Reagan UCLA Medical Center, the 315-bed Santa Monica – UCLA Medical Center and Orthopaedic Hospital, and the 74-bed Resnick Neuropsychiatric Hospital at UCLA. The financial statements also include the activities of Tiverton House, a 100-room facility for patients and their families.

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 Entities,* to the extent that these principles do not contradict GASB standards.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, was adopted by the Medical Center during the fiscal year ended June 30, 2010. This Statement requires capitalization of identifiable intangible assets in the statements of net assets and provides guidance for amortization of intangible assets unless they are considered to have an indefinite useful life. Implementation of Statement No. 51 had no effect on the Medical Center's net assets for the years ended June 30, 2010 and 2009.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, was also adopted during the fiscal year ended June 30, 2010. GASB Statement No. 53 requires the Medical Center to report its derivative instruments at fair value. Changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferrals in the statements of net assets. Derivative instruments that either do not meet the criteria for an effective hedge or are associated with investments that are already reported at fair value are to be classified as investment derivative instruments. Changes in fair value of those derivative instruments are to be reported as investment revenue.

(Dollars in thousands)

2. Summary of Significant Accounting Policies (Continued)

The Medical Center has determined that its interest rate swaps entered into in conjunction with certain Medical Center Pooled Revenue Bonds are hybrid instruments under GASB Statement No. 53. At the time of pricing the interest rate swaps in October 2008, the fixed rate on each of the swaps was off-market such that the Medical Center received an upfront payment. As such, the swaps are comprised of a derivative instrument, an at-the-market swap, and a companion instrument, a borrowing, represented by the upfront payment. The at-the-market swap is an effective hedge under the Consistent Critical Terms method. The unamortized portion of the borrowing is $31,348 at June 30, 2009, prior to the adoption of Statement No. 53.

In accordance with GASB Statement No. 53, retrospective application is required. However, there was no cumulative effect on the previously reported net assets as of July 1, 2008.

The Medical Center restated the 2009 statement of net assets for purposes of presenting comparative information to the year ended June 30, 2010. The effect of the change on the Medical Center's financial statements for the year ended June 30, 2009 from the adoption of GASB Statement No. 53 was to increase liabilities by $39,931 for the negative fair value of the interest rate swap and increase assets by $39,931 to defer the negative fair value from the application of hedge accounting as follows:

	Year Ended June 30, 2009		
	As Previously Reported	**Effect of Adoption of Statement No. 53**	**As Restated**
Statement of Net Assets			
Other assets	$ 4,239	$ 39,931	$ 44,170
Total assets	2,186,335	39,931	2,226,306
Other liabilities	–	39,931	39,931
Total liabilities	836,792	39,931	876,723

In addition, the Medical Center reclassified the unamortized portion of the borrowing totaling $31,040 from deferred financing costs to debt. Since deferred financing costs are reported as a component of debt, there was no effect on the net assets as originally reported.

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, 2010 and 2009 was $406,034 and $219,604, 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 2009-2010 annual report of the University.

Inventory

The Medical Center's inventory consists primarily of pharmaceuticals and medical supplies 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 are primarily prepayments for pharmaceuticals and medical supplies, rent, equipment and maintenance contracts.

Restricted Assets, Cash Restricted for Replacement Hospitals

Proceeds from the Medical Center Pooled Revenue Bonds are held by the Treasurer of The Regents. Bond proceeds remain on deposit with the Treasurer until the project is constructed. Restricted assets consist of short-term investments, recorded at cost, which approximates fair value.

Restricted Assets, Donor Funds

Santa Monica Foundation investments are recorded at fair value, which approximates cost. Pledges and charitable remainder trusts are discounted using a risk free rate of interest, and are recorded at net realizable value. Real property is recorded at cost.

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 leases are 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 5 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.

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. These derivative financial instruments are agreements that 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.

At the time of pricing the interest rate swaps, the fixed rate on each of the swaps was off-market such that the Medical Center received an upfront payment. As such, the swaps are comprised of a derivative instrument, an at-the-market swap, and a companion instrument, a borrowing, represented by the upfront payment.

Interest rate swaps are recorded at fair value as either assets or liabilities in the statements of net assets. The Medical Center has determined the at the market interest rate swaps are hedging derivatives that hedge future cash flows. Under hedge accounting, changes in the fair value are considered to be deferred inflows (for hedging derivatives with positive fair values) or deferred outflows (for hedging derivatives with negative fair values). Deferred inflows are included with other liabilities and deferred outflows with other assets in the statements of net assets.

The unamortized amount of the borrowing is included in the current and noncurrent portion of debt and amortized as interest expense over the term of the bonds.

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 being amortized as interest expense on the straight-line basis over the term of the related long-term debt, which approximates the effective interest method.

2. Summary of Significant Accounting Policies (Continued)

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. In addition, the net gain on the termination and replacement of an interest rate swap contract with similar terms has also resulted in deferred financing costs. Unamortized deferred financing costs are included with the current and noncurrent portion of long-term debt, as appropriate, in the Medical Center's statements 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.

- 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.

2. Summary of Significant Accounting Policies (Continued)

Revenues and Expenses

Revenues received in conducting the programs and services of the Medical Center are presented in the financial statements as operating revenue.

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 could 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, replacement hospital transition expenses and the gain or loss on the disposal of capital assets.

State capital appropriations, health system support, proceeds received or receivable from Federal Emergency Management Agency ("FEMA"), donated assets and other transactions with the University are classified as other changes in net assets.

Retiree Health Benefits Expense

The University established the University of California Retiree Health Benefit Trust ("UCRHBT") to allow certain University locations and affiliates, including the Medical Center, to share the risks, rewards and costs of providing for retiree health benefits and to accumulate funds on a tax-exempt basis under an arrangement segregated from University assets.

The UCRHBT provides retiree health benefits to retired employees of the Medical Center. Contributions from the Medical Center to the UCRHBT are effectively made to a cost-sharing single-employer health plan administered by the University. The Medical Center is required to contribute at a rate assessed each year by the UCRHBT. As a result, the Medical Center's required contributions are recognized as an expense in the statements of revenues, expenses and changes in net assets.

UCRP Benefits Expense

The University of California Retirement Plan ("UCRP") provides retirement benefits to retired employees of the Medical Center. Contributions from the Medical Center to the UCRP are effectively made to a cost-sharing single-employer defined benefit pension plan administered by the University. The Medical Center is required to contribute at a rate assessed each year by the UCRP. As a result, the Medical Center's required contributions, if any, are recognized as an expense in the statements of revenues, expenses and 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.

Tax Exemption
The Regents of the University of California is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). Because the University is a State institution, related income received by the University is also exempt from federal tax under IRC Section 115(a). In addition, the University is exempt from State income taxes imposed under the California Revenue and Taxation Code.

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 the estimate or judgment is made and actual amounts could differ from those estimates.

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. The Medical Center does not believe that there are significant credit risks associated with the Medicare program.

  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 hospitals' (the Ronald Reagan UCLA Medical Center, the Santa Monica – UCLA Medical Center and Orthopaedic Hospital, and the Resnick Neuropsychiatric Hospital at UCLA) Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2003 for the Ronald Reagan UCLA Medical Center, June 30, 2007 for Santa Monica and June 30, 2008 for Resnick Neuropsychiatric Hospitals. The fiscal intermediary is in the process of conducting their audits of the 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 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"). For the years ended June 30, 2010 and 2009, the Medical Center recorded total Medi-Cal revenue of $151,669 and $139,954, 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, 2010 and 2009, the Medical Center recorded revenue of $13,535 and $6,835, 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 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 or case rate. The most common payment arrangement for outpatient care is a prospective payment system that uses ambulatory payment classifications.

Amounts due from Medicare and Medi-Cal represent 24.0 percent and 21.0 percent of net patient accounts receivable at June 30, 2010 and 2009, respectively.

(Dollars in thousands)

3. Net Patient Service Revenue (Continued)

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

	2010	2009
Medicare (non-risk)	$ 358,954	$ 327,054
Medicare (risk)	33,283	35,146
Medi-Cal (non-risk)	151,669	139,954
Commercial	11,247	13,130
Contract (discounted or per diem)	955,050	865,966
Non-sponsored/self-pay (uninsured)	16,954	20,597
Total	$ 1,527,157	$ 1,401,847

4. Charity Care

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

	2010	2009
Charity care at established rates	$ 20,797	$ 29,191
Estimated cost of charity care	$ 6,517	$ 9,183

Estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs was $50,216 and $66,092 for the years ended June 30, 2010 and 2009, 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.

The composition of restricted assets for the years ended June 30 is as follows:

	2010	2009
Mutual funds	$ 13,247	$ 8,273
Real property	2,100	2,100
Charitable remainder trusts	3,249	3,370
Total	$ 18,596	$ 13,743

(Dollars in thousands)

5. Restricted Assets, Donor Funds (Continued)

Donor restricted funds are available for the following purposes:

	2010	2009
Capital purposes	$ 5,155	$ 1,014
Endowments	337	337
Operations	13,104	12,392
Total	$ 18,596	$ 13,743

6. Capital Assets

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

	2008	Additions	Disposals	2009	Additions	Disposals	2010
Original Cost							
Land	$ 12,098	$ –	$ –	$ 12,098	$ 1,845	$ –	$ 13,943
Buildings and improvements	1,220,232	92,260	–	1,312,492	50,669	–	1,363,161
Equipment	312,912	82,699	(33,674)	361,937	31,982	(28,833)	365,086
Construction in progress	343,823	(33,733)	–	310,090	69,285	–	379,375
Capital assets, at cost	$1,889,065	$ 141,226	$ (33,674)	$ 1,996,617	$ 153,781	$ (28,833)	$ 2,121,565

	2008	Depreciation	Disposals	2009	Depreciation	Disposals	2010
Accumulated Depreciation and Amortization							
Buildings and improvements	$ 127,071	$ 48,979	$ (349)	$ 175,701	$ 36,881	$ (203)	$ 212,379
Equipment	194,433	32,942	(32,311)	195,064	48,992	(27,515)	216,541
Accumulated depreciation and amortization	$ 321,504	$ 81,921	$ (32,660)	$ 370,765	$ 85,873	$ (27,718)	$ 428,920
Capital assets, net	$ 1,567,561			$ 1,625,852			$ 1,692,645

Equipment under capital lease obligations and related accumulated amortization is $87,434 and $61,206 in 2010, respectively, and $85,877 and $59,557 in 2009, respectively.

The University has acquired certain facilities and equipment under capital leases with the State of California Public Works Board. These facilities and equipment were contributed at cost by the University to the Medical Center to support the operations of the Medical Center. Principal and interest payments required under the leases are the obligations of the University and are not reflected in the financial statements of the Medical Center.

Donated assets represent gift funds that have been used for the hospitals' replacement. The gift funds are only recorded on the Medical Center's financial statements when expenditures for the project have been incurred.

6. Capital Assets (Continued)

The new Ronald Reagan UCLA Medical Center was completed and occupied on June 29, 2008. The Santa Monica – Medical Center and Orthopaedic Hospital is still under construction. Both projects are required in order to be in compliance with Senate Bill 1953, the *Hospital Facilities Seismic Safety Act*. A portion of the construction is financed by the University under a lease-revenue bond with the State of California Public Works Board. These amounts totalled $0 and $175 for the years ended June 30, 2010 and 2009, respectively, and are included in Contributions from University for building program on the statements of revenues, expenses and changes in net assets.

7. Note Payable to Campus

The Medical Center has an internal line of credit in the amount of $75,000 from the Chancellor. The line of credit expires in February 2014 and accrues interest at the STIP rate of an annual average of 2.48 percent for the year ended June 30, 2010. As of June 30, 2010 and June 30, 2009, $75,000 was outstanding. Interest expense for the years ended June 30, 2010 and 2009 was $1,871 and $2,500, respectively.

(Dollars in thousands)

8. Long-term Debt and Capital Leases

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

	2010	2009
University of California Medical Center Pooled Revenue Bonds 2009 Series E and F "Build America Bonds", net interest rates after the 35 percent federal subsidy ranging from 3.0 percent to 6.6 percent, payable semi-annually, with annual principal payments beginning in 2020 through 2049	$ 146,000	–
University of California Medical Center Pooled Revenue Bonds 2007 Series A, interest rates ranging from 4.3 percent to 5.0 percent, payable semi-annually, with annual principal payments beginning in 2012 through 2047	250,000	$ 250,000
University of California Medical Center Pooled Revenue Bonds 2007 Series C, variable interest rate, with annual principal payments through 2047	197,030	197,030
University of California Hospital Revenue Bonds 2004 (University of California, Los Angeles Medical Centers, Series A and B), interest rates from 2.0 percent to 5.5 percent, payable semi-annually, with annual principal payments through 2039	86,500	89,155
University of California General Revenue Bonds 2003, interest rates from 2.0 percent to 5.3 percent, payable semi-annually, with annual principal payments through 2023	9,346	9,861
Capital lease obligations, with fixed interest rates ranging from 2.9 percent to 9.4 percent, payable through 2014, collateralized by underlying equipment	24,833	23,857
The University Pool 2 Loan, interest rate of 5.7 percent payable annually, with annual principal payments through 2019	233	255
Other borrowing	30,573	31,040
Unamortized bond premium	2,613	2,704
Unamortized deferred financing costs	(24,090)	(24,944)
Total debt and capital leases	723,038	578,958
Less: Current portion of debt and capital leases	(10,972)	(10,227)
Noncurrent portion of debt and capital leases	$ 712,066	$ 568,731

(Dollars in thousands)

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

Interest expense associated with financing projects during construction, along with any investment income earned on bond proceeds during construction, is capitalized. Total interest expense during the years ended June 30, 2010 and 2009 was $30,048 and $25,446, respectively. Interest expense totaling $14,504 and $11,435 was capitalized during the years ended June 30, 2010 and 2009, respectively. The remaining $15,544 in 2010 and $14,011 in 2009 are reported as interest expense in the statements of revenues, expenses and changes in net assets. Investment income totaling $(147) and $(439) was capitalized during the years ended June 30, 2010 and 2009, respectively.

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

	Revenue Bonds	Capital Lease Obligations	Other Borrowings	Total
Year Ended June 30, 2010				
Current portion at June 30, 2009	$ 2,428	$ 7,332	$ 467	$ 10,227
Reclassification from noncurrent	2,577	8,436	494	11,507
Principal payments	(3,192)	(7,866)	–	(11,058)
Amortization of bond premium	(91)	–	–	(91)
Amortization of deferred financing costs	854	–	(467)	387
Current portion at June 30, 2010	$ 2,576	$ 7,902	$ 494	$ 10,972
Noncurrent portion at June 30, 2009	$ 521,633	$ 16,525	$ 30,573	$ 568,731
New obligations	146,000	8,842	–	154,842
Reclassification to current	(2,577)	(8,436)	(494)	(11,507)
Noncurrent portion at June 30, 2010	$ 665,056	$ 16,931	$ 30,079	$ 712,066

(Dollars in thousands)

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

	Revenue Bonds	Capital Lease Obligations	Other Borrowings	Total
Year Ended June 30, 2009				
Current portion at June 30, 2008	$ 3,149	$ 11,876	$ –	$ 15,025
Reclassification from noncurrent	1,845	7,580	775	10,200
Principal payments	(3,072)	(12,124)	–	(15,196)
Amortization of bond premium	(91)	–	–	(91)
Amortization of deferred financing costs	597	–	(308)	289
Current portion at June 30, 2009	$ 2,428	$ 7,332	$ 467	$ 10,227
Noncurrent portion at June 30, 2008	$ 548,814	$ 15,671	$ –	$ 564,485
New obligations	–	8,434	31,348	39,782
Deferred financing costs-terminated bond swap	(25,336)	–	–	(25,336)
Reclassification to current	(1,845)	(7,580)	(775)	(10,200)
Noncurrent portion at June 30, 2009	$ 521,633	$ 16,525	$ 30,573	$ 568,731

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 sets forth requirements for certain other financial covenants. Total Medical Center Pooled Revenue Bonds outstanding at June 30, 2010 are $1.55 billion of which $593.0 million 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, 2010 and 2009 were $5.94 billion and $5.56 billion, respectively.

In December 2009, Medical Center Pooled Revenue Bonds totaling $146.0 million were issued as taxable “Build America Bonds” specifically for the Medical Center to finance certain improvements to the Medical Center. Proceeds, including a bond premium of $2.0 thousand were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds. The bonds require interest only payments through May 2020 and mature at various dates through 2049. The taxable bonds have a stated weighted average interest rate of 6.57 percent and a net weighted average interest rate of 4.27 percent after the expected cash subsidy payment from the United States Treasury which is equal to 35 percent of the interest payable on the taxable bonds. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

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

University of California Hospital Revenue Bonds 2004 series have also financed certain improvements at the Medical Center. The Hospital Revenue Bonds are collateralized solely by revenues of the Medical Center. In addition, under the bond indentures, the Medical Center is required to maintain a debt service ratio of 1.1 to 1.0 and has limitations as to additional borrowings and the purchase or sale of assets.

General Revenue Bonds issued by the University, collateralized solely by general revenues of the University, finance certain Medical Center projects. The Medical Center is charged for its proportionate share of total principal and interest payments made on the General Revenue Bonds pertaining to the Medical Center projects.

Medical Center revenues are not pledged for any other purpose than under the indentures for the Medical Center Pooled Revenue Bonds and specific Hospital Revenue Bonds. The pledge of medical center revenues under Medical Center Pooled Revenue Bonds is on a parity with interest rate swap agreements and subordinate to the Hospital Revenue Bonds. The Medical Center's obligations under the terms of the General Revenue Bonds are subordinate to the Medical Center Pooled Revenue Bonds.

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 STIP. 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.

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, the Medical Center entered into an interest rate swap agreement in connection with its variable-rate Medical Center Pooled Revenue Bonds.

At the time of pricing the interest rate swaps, the fixed rate on each of the swaps was off-market such that the Medical Center received an upfront payment. As such, the swaps are comprised of a derivative instrument, an at-the-market swap, and a companion instrument, a borrowing, represented by the upfront payment. The unamortized amount of the borrowing is $30,573 and $31,040 at June 30, 2010 and 2009, respectively.

(Dollars in thousands)

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

Interest Rate Swap Agreements (Continued)

The notional amounts, fair value of the interest rate swap outstanding and the change in fair value for June 30, 2010 and 2009 are as follows:

Notional Amount		Fair Value – Positive (Negative)			Changes in Fair Value		
2010	**2009**	**Classification**	**2010**	**2009**	**Classification**	**2010**	**2009**
$189,775	$189,775	Other assets (liabilities)	($52,664)	($39,931)	Deferred (inflows) / outflows	($12,733)	($8,583)

Because swap rates have changed since execution of the swap, financial institutions have estimated the fair value using quoted market prices when available or a forecast of expected discounted future net cash flows. The fair value of the interest rate swap is the estimated amount the Medical Center would have either (paid) or received if the swap agreement was terminated on June 30, 2010 or 2009.

Objective and Terms. Under the swap agreement, the Medical Center pays the swap counterparty a fixed interest rate payment and receives a variable rate interest payment that effectively changes the Medical Center's variable interest rate bonds to synthetic fixed rate bonds.

The Medical Center has determined the at the market interest rate swap is a hedging derivative that hedge future cash flows. The notional amount of the swap matches the principal amount of the variable-rate Medical Center Pooled Revenue Bonds. The Medical Center's swap agreement contains scheduled reductions to outstanding notional amounts that match scheduled reductions in the variable-rate bonds.

Additional terms with respect to the outstanding swap and the fair value at June 30, 2010, along with the credit rating of the counterparty, are as follows:

Terms	Effective Date	Maturity Date	Cash Paid or Received	Counterparty Credit Rating
Pay fixed 4.6873 percent; receive 67 percent of 1-Month LIBOR* + 0.73 percent**	2008	2047	None	Aa3/AA

* London Interbank Offered Rate (LIBOR)

** Weighted average spread

Credit Risk. The Medical Center could be exposed to credit risk if the counterparty to the swap contract is unable to meet the terms of the contracts. 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 swap contract's fair value, less any collateral held by the Medical Center provided by the counterparty. Swap contracts with negative fair values are not exposed to credit risk.

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

Interest Rate Swap Agreements (Continued)

Depending on the fair value related to the swap with the $189.775 million notional amount, the University may be entitled to receive collateral from the counterparty to the extent the positive fair value exceeds $35.0 million, or be obligated to provide collateral to the counterparty if the negative fair value of the swap exceeds $50.0 million. On July 1, 2010, the University deposited collateral of $1.85 million with the counterparty, and on July 2, 2010, additional collateral of $0.8 million was deposited by the University.

Although the Medical Center has entered into the interest rate swap contract with a creditworthy financial institution to hedge its variable-rate debt, there is credit risk for losses in the event of non-performance by counterparties or unfavorable interest rate movements.

Interest rate risk. There is a risk the value of the interest rate swap will decline because of changing interest rates. The values of interest rate swaps with longer maturity dates tend to be more sensitive to changing interest rates and, therefore, more volatile than those with shorter maturities.

Basis Risk. There is no basis or tax risk related to the swap since the variable rate the Medical Center pays to the bond holders matches the variable rate payments received from the swap counterparty.

Termination Risk. There is termination risk for losses in the event of non-performance by the counterparty in an adverse market resulting in cancellation of the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. In addition, the swap may be terminated if the Medical Center Pooled Revenue Bonds credit quality rating, as issued by Moody's or Standard & Poor's, falls below Baa1/BBB+, or if the swap counterparty's rating falls below Baa1/BBB+. At termination, the Medical Center may also owe a termination payment if there is a realized loss based on the fair value of the swap.

(Dollars in thousands)

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

Future Debt Service and Interest Rate Swaps

Future debt service payments for the Medical Center's fixed and variable-rate debt and net receipts or payments on associated hedging derivative interest rate swaps for each of the five fiscal years subsequent to June 30, 2010 and thereafter are shown below. Although not a prediction by the Medical Center of the future interest rate cost of the variable rate bonds or the impact of the interest rate swaps, these amounts assume that current interest rates on variable rate bonds and the current reference rates of the interest rate swaps will remain the same. As these rates vary, variable-rate bond interest payments and net interest rate swap payments will vary.

Year Ending June 30,	Revenue Bonds	Capital Lease Obligations	Total Payments	Principal	Interest
2011	$ 38,552	$ 8,809	$ 47,361	$ 11,241	$ 36,120
2012	41,307	7,595	48,902	13,262	35,640
2013	41,669	5,559	47,228	12,161	35,067
2014	41,678	3,553	45,231	10,713	34,518
2015	41,678	1,306	42,984	8,953	34,031
2016 – 2020	210,824		210,824	47,111	163,713
2021 – 2025	215,704	–	215,704	66,527	149,177
2026 – 2030	210,226	–	210,226	79,085	131,141
2031 – 2035	207,942	–	207,942	99,045	108,897
2036 – 2040	205,126	–	205,126	123,685	81,441
2041 – 2045	201,513	–	201,513	154,165	47,348
2046 – 2048	97,189	–	97,189	87,995	9,194
Total future debt service	1,553,408	26,822	1,580,230	$ 713,943	$ 866,287
Less: Interest component of future payments	(864,298)	(1,989)	(866,287)		
Principal portion of future payments	689,110	24,833	713,943		
Adjusted by:					
Unamortized bond premium	2,612	–	2,612		
Unamortized deferred financing costs	6,483	–	6,483		
Total debt	$ 698,205	$ 24,833	$ 723,038		

Additional information on the revenue bonds can be obtained from the 2009-2010 annual report of the University.

(Dollars in thousands)

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

Future Debt Service and Interest Rate Swaps (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, 2010, 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
2011	–	1,923	6,943	8,866
2012	–	1,923	6,943	8,866
2013	–	1,923	6,943	8,866
2014	–	1,923	6,943	8,866
2015	–	1,923	6,943	8,866
2016 – 2020	–	9,614	4,717	44,331
2021 – 2025	10,555	9,522	34,343	54,420
2026 – 2030	21,055	8,775	31,324	61,154
2031 – 2035	26,345	7,704	27,108	61,157
2036 – 2040	37,040	6,300	21,815	65,155
2041 – 2045	64,510	3,769	12,838	81,117
2046 – 2047	30,270	495	1,674	32,439
Total	$ 189,775	$ 55,794	$ 198,534	$ 444,103

9. 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, 2010 and 2009 was $7,621 and $7,924, respectively. The terms of the operating leases extend through the year 2016.

Future minimum payments on operating leases with an initial or non-cancelable term in excess of year are as follows:

Year Ending June 30,	Minimum Annual Lease Payments
2011	$ 9,402
2012	9,454
2013	7,001
2014	5,600
2015	4,343
2016 – 2020	23,746
Total	$ 59,546

10. Retiree Health Plans

The University administers single-employer health plans to provide health and welfare benefits, primarily medical, dental and vision benefits, to eligible retirees of the University of California and its affiliates. The Regents have the authority to establish and amend the benefit plans.

The contribution requirements of the eligible retirees and the participating University locations, such as the Medical Center, are established and may be amended by the University. Membership in the UCRP is required to become eligible for retiree health benefits. Contributions toward benefits are shared with the retiree. The University determines the employer's contribution. Retirees are required to pay the difference between the employer's contribution and the full cost of the health insurance. Retirees employed by the Medical Center prior to 1990 are eligible for the maximum employer contribution if they retire before age 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least 5 years of service. Retirees employed by the Medical Center after 1989 and not rehired after that date are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum employer contribution, increasing to 100 percent after 20 years of service.

Participating University locations, such as the Medical Center, are required to contribute at a rate assessed each year by the UCRHBT. The contribution requirements are based upon projected pay-as-you-go financing requirements. The assessment rates were $3.12 and $3.09 per $100 of UCRP covered payroll resulting in Medical Center contributions of $16,200 and $15,400 for the years ended June 30, 2010 and 2009, respectively.

The actuarial value of UCRHBT assets and the actuarial accrued liability associated with the University's campuses and medical centers using the entry age normal cost method as of July 1, 2009, the date of the latest actuarial valuation, were $76.9 million and $14.5 billion, respectively. The net assets held in trust for pension benefits on the UCRHBT's Statement of Plan Fiduciary Net assets were $69.4 million at June 30, 2010. For the years ended June 30, 2010 and 2009, combined contributions from the University's campuses and medical centers were $283.5 million and $278.5 million, respectively, including an implicit subsidy of $49.5 million and $44.1 million, respectively. The University's annual retiree health benefit expense for its campuses and medical centers was $1.6 billion and $1.5 billion for the years ended June 30, 2010 and 2009. As a result of contributions that were less than the retiree health benefit expense, the University's obligation for retiree health benefits attributable to its campuses and medical centers totaling $3.7 billion at June 30, 2010 increased by $1.4 billion and $1.2 billion for the years ended June 30, 2010 and 2009, respectively.

Information related to plan assets and liabilities as they relate to individual campuses and medical centers is not readily available. Additional information on the retiree health plans can be obtained from the 2009–2010 annual reports of the University of California and the University of California Health and Welfare Program.

11. 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 four defined contribution plans with several investment portfolios generally funded with employee non-elective and elective contributions. The Regents has the authority to establish and amend the benefit plans.

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 Medical Center and the employees. The rates for contributions as a percentage of payroll are determined annually pursuant to The Regents' funding policy and based upon recommendations of the consulting actuary. The Regents determine the portion of the total contribution to be made by the Medical Center and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements. Medical Center and employee contributions were $4,581 and $2,291, respectively, during the year ended June 30, 2010. There were no required Medical Center or employee contributions for the year ended June 30, 2009.

The actuarial value of UCRP assets and the actuarial accrued liability associated with the University's campuses and medical centers using the entry age normal cost method as of July 1, 2009, the date of the latest actuarial valuation, were $34.8 billion and $36.8 billion, respectively, resulting in a funded ratio of 94.8 percent. The net assets held in trust for pension benefits on the UCRP Statement of Plan's Fiduciary Net assets were $34.6 billion and $32.3 billion at June 30, 2010 and 2009, respectively.

For the years ended June 30, 2010 and 2009, the University's campuses and medical centers contributed a combined $64.8 and $0.4 million, respectively. The University's annual UCRP benefits expense for its campuses and medical centers was $1.6 billion for the year ended June 30, 2010. As a result of contributions that were less than the UCRP benefits expense, the University's obligation for UCRP benefits attributable to its campuses and medical centers increased by $1.5 billion for the year ended June 30, 2010.

The UCRSP plans (DC Plan, Supplemental DC 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 Supplemental DC Plan accepts employer contributions on behalf of certain qualifying employees. The 403(b) and 457(b) plans accept pre-tax employee contributions and 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.

(Dollars in thousands)

11. Retirement Plans (Continued)

Information related to plan assets and liabilities as they relate to individual campuses and medical centers is not readily available. Additional information on the retirement plans can be obtained from the 2009–2010 annual reports of the University of California Retirement Plan, the University of California Retirement Savings Plan and the University of California PERS–VERIP.

12. 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.

Workers' compensation premiums, included as salaries and employee benefits expense in the statements of revenues, expenses and changes in net assets, were $13,970 and $13,128 for the years ended June 30, 2010 and 2009, respectively. During 2010 and 2009, as a result of actuarial analysis, the Medical Center received a refund of premiums from the University of $0 and $1,413, respectively.

Combined malpractice and general liability premiums, recorded as insurance expense in the statements of revenues, expenses and changes in net assets, were $9,118 and $9,513 for the years ended June 30, 2010 and 2009, respectively.

13. 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 reported as operating expenses in the statements of revenues, expenses and changes in net assets for the years ended June 30 as follows:

	2010	2009
Professional services	$ 11,843	$ 10,388
Medical supplies	(2,318)	(2,168)
Other supplies and purchased services	63,553	52,487
Interest income (net)	(7,077)	(3,982)
Insurance	8,982	9,513
Total	$ 74,983	$ 66,238

(Dollars in thousands)

13. Transactions with Other University Entities (Continued)

Additionally, the Medical Center makes payments to the University of California, Los Angeles School of Medicine ("School of Medicine"). 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 revenue, 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, transfers to faculty practice plans, as well as other payments made to support various School of Medicine programs.

The total net amount of payments made by the Medical Center to the University were $131,200 and $104,170 in 2010 and 2009, respectively. Of these amounts, $74,983 and $66,238 are reported as operating expenses for the years ended June 30, 2010 and 2009, respectively, and $56,217 and $37,932 are reported as health system support for the years ended June 30, 2010 and 2009, respectively.

14. Federal Emergency Management Administration

The Medical Center was affected by the January 1994 Northridge earthquake. As a result, the Medical Center negotiated with the Federal Emergency Management Agency ("FEMA") and with the state of California for grant funds for the replacement of the UCLA Medical Center and the Santa Monica-UCLA Medical Center. The Medical Center received approval for grant funds as follows:

	FEMA	State of California	Total
UCLA Medical Center	$ 439.7	$ 43.9	$ 483.6
Santa Monica – Medical Center*	72.1	–	72.1
	$ 511.8	$ 43.9	$ 555.7

*includes the Orthopaedic Hospital funds; see Note 15

Under the terms of the agreement, the Medical Center will be reimbursed for eligible costs of rebuilding the acute care facilities. The Medical Center capitalizes construction costs based on cash receipts and pending reimbursements from FEMA. For the years ended June 30, 2010 and 2009, no cash was received from FEMA. As such, outstanding receivables of $33,266 and $33,018, respectively, remain to be collected.

The grants are subject to final settlement after completion of construction and submission of reports and audits thereof by FEMA. If the results of the audit determine that the construction costs incurred were ineligible for reimbursement, the University would be required to find alternative financing sources. As of June 30, 2009, FEMA has not completed any audits.

(Dollars in thousands)

15. 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 Medical Center 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 Medical Center's financial statements.

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, 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 $600,000 among the University’s medical centers, of which $182,000 was allocated to the Medical Center. The Medical Center spent $0 and $175 of its allocation during the years ended June 30, 2010 and 2009, respectively, recorded in the statements of revenues, expenses and changes in net assets as a component of Contributions from University for building program. As of June 30, 2010, any repayments the Medical Center may be obligated to make under these financing arrangements are dependent upon continued appropriations for the lease payments to the University by the state.

The replacement hospital at the UCLA Medical Center was completed and placed in service in June 2008. The Santa Monica – Medical Center is still under construction. The total cost of these Medical Center projects is currently estimated to be $1.5 billion, excluding interest. The estimated financing sources for the replacement hospitals are estimated as follows:

FEMA	$ 511,803
State Matching Funds	43,886
Gift Funds	92,756
State Lease Revenue Bonds	181,957
Medical Center Revenue Bond 2004	172,428
Medical Center Revenue Bond 2007	249,367
Medical Center Revenue Bond 2009	144,679
State Children’s Hospital Program Grant	29,827
Hospital Reserves	47,309
Total	$ 1,474,012

15. Commitments and Contingencies (Continued)

Gift funds used for construction totaling $14,299 and $40,203 for the years ended June 30, 2010 and 2009, respectively, and are reflected in the statements of revenues, expenses and changes in net assets. Additional gift funds and pledges received but not used as of June 30, 2010 are not included in the financial statements of the Medical Center. These gifts and pledges are included in the financial statements of the University and transferred to the Medical Center when used.

The Medical Center has entered into various construction contracts. The remaining cost of these Medical Center projects is estimated to be approximately $16.0 million, excluding interest, as of June 30, 2010.

16. Subsequent Event

AB 1383 of 2009, as amended by AB 1653 on September 8, 2010, establishes a series of Medicaid supplemental payments funded through a “Quality Assurance Fee” and a "Hospital Fee Program", which are imposed on certain California hospitals. The effective date of the Hospital Fee Program is April 1, 2009 through December 31, 2010 and is predicated in part on the enhanced Federal Medicaid Assistance Percentage ("FMAP") contained in the American Reinvestment and Recovery Act ("ARRA"). The Hospital Fee Program would make supplemental payments to hospitals for various health care services and support the State’s effort to maintain health care coverage for children. Supplemental payments are anticipated to be made by California Department of Health Care Services ("CDHS") before December 31, 2010. The CDHS is responsible for obtaining approval from CMS on a distribution plan for funds. It is not anticipated that fees and payments would commence without federal approval, but if final federal approval is not obtained, any fees and payments made under the program would be refunded. The University's medical centers, as designated public hospitals, are exempt from paying the “Quality Assurance Fee”; however, the University's medical centers are eligible to receive supplemental payments under the Hospital Fee Program.