



UNIVERSITY  
OF  
CALIFORNIA

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# Medical Centers Report

12/13



UNIVERSITY OF CALIFORNIA  
Medical Centers  
12/13 Annual Financial Report

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# Letter from the Senior Vice President

This is a pivotal time for health providers. As health reform sweeps across the nation, it's now more important than ever to deliver quality care.

The University of California's five academic Medical Centers are rising to that challenge. We are preparing for this new paradigm by working as a system to provide excellent patient care.

The latest *U.S. News & World Report* Best Hospitals rankings underscore our quality. UC hospitals were recognized as No. 1 in their metropolitan areas. All five Medical Centers (Davis, Irvine, Los Angeles, San Diego and San Francisco) ranked nationally, with two listed among the nation's top 10 hospitals: UCLA (No. 5) and UCSF (No. 7).

UC's Medical Centers have more in common than just quality. This first combined financial report shows the efficiencies that we have created by collaborating on joint contracting and purchasing. We also have partnered with Anthem Blue Cross to offer individuals access to UC Health through the state's new health insurance marketplace, Covered California.

UC Medical Centers are a vital part of the state's safety net: Nearly 60 percent of UC patients are covered by Medicare, Medi-Cal or lack health insurance; we operate or staff five Level I trauma centers; and we provide half of all transplants and one quarter of extensive burn care in California.

UC Medical Centers also help support UC's medical schools, which train nearly half of the medical students in California. Indeed, UC Health has the nation's largest health sciences instructional program, with 17 professional schools in seven fields on seven campuses.

In addition, UC Medical Centers have improved health care through research that has produced breakthroughs such as the nicotine patch, cochlear implants for hearing disorders and the Herceptin breast cancer treatment. In 2012, UCSF professor Shinya Yamanaka won the Nobel Prize — UC's 12th Nobel laureate in medicine.

But we're not resting on our laurels. UC Medical Centers have remained self-supporting while operating in extremely competitive environments, navigating pressures from rising labor and pension costs to state-mandated seismic-safety requirements to the impact of health reform on reimbursement rates.

Much is at stake. By working together, I am confident that UC Health will address these challenges and advance health through our three-part mission of patient care, education and research.



A handwritten signature in black ink that reads "John D. Stobo". The signature is written in a cursive, flowing style.

JOHN D. STOBO  
SENIOR VICE PRESIDENT  
HEALTH SCIENCES AND SERVICES  
UNIVERSITY OF CALIFORNIA



## The University of California, Davis Medical Center Service Area and Market Share

The following table presents certain historical utilization statistics for the primary and secondary service area for the 12-month period ended December 31, 2011. Data for the 12-month period ended December 31, 2011, is the most current data available from the State of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	Sacramento, Placer, Yolo	183	2,015,921	83.0%	13.0%
Secondary	Alpine, Amador, Colusa, El Dorado, Nevada, Sierra, Sutter, Yuba	113	509,462	9.0%	6.0%

# The University of California, Davis Medical Center

The Davis Medical Center is the principal clinical teaching site for the University of California, Davis, School of Medicine, founded in 1966, and the Betty Irene Moore School of Nursing at UC Davis, established in 2009.

Licensed as a 619-bed general acute care hospital with 33 operating rooms, the Davis Medical Center provides a full range of inpatient general acute and intensive care, and a full complement of ancillary, support and ambulatory services. These services are housed in about 3.6 million gross square feet of facilities, most of which are located on the 144-acre campus in the city of Sacramento. Ambulatory care is provided at the hospital-based clinics and at 17 Primary Care Network (“PCN”) satellite clinics in the surrounding communities of Auburn, Carmichael, Davis, Elk Grove, Folsom, Natomas, Rancho Cordova, Rocklin, Roseville and Sacramento.

The Davis Medical Center serves as a quaternary- and tertiary-care referral hospital for a 33-county 65,000-square-mile service area with a population of 6 million. Its services range from heart and vascular surgery to transplant and neurological surgery. It is the only provider of several tertiary/quaternary services between San Francisco and Portland, including Level I adult and pediatric trauma care. It is also home to the region’s only nationally ranked comprehensive children’s hospital and a National Cancer Institute designated comprehensive cancer center.

The Davis Medical Center participates in a variety of cooperative outreach activities with regional health care providers. The UC Davis Cancer Care Network is composed of community-based cancer centers in Marysville, Merced, Bakersfield and Truckee. The Davis Medical Center’s nationally recognized clinical telemedicine, distance education and rural affiliation program has affiliations with the Veterans Administration, Lawrence Livermore National Laboratory and the adjacent Shriners’ Hospital for Children.

The UC Davis Medical Group, supported by 936 faculty and contract physicians and 826 residents and fellows, provides inpatient and outpatient medical services.

Significant events during the year are highlighted below:

## **Continuing expansion and renewal to meet mission, community needs**

Construction projects were completed in 2013 or were under way to ensure that the Davis Medical Center has the resources and facilities to meet the needs of the community it serves. Key projects completed or in progress are as follows:

**Cancer Center Expansion:** This 46,000-square-foot expansion makes room for the pediatric cancer program, formerly located in other buildings on campus. The adult hematology and oncology clinic, adult infusion pharmacy and other clinical services also have been relocated into the new 46,000-square-foot wing that is connected to the existing cancer center

building via a bridge above a common courtyard. The new facility opened in October 2012.

**Second Floor ICU Renovation:** Renovation was completed on an existing 18-bed intensive care unit in the University Tower, requiring extensive renovation and upgrade. Construction was substantially completed in September 2012 and the new facility officially reopened on December 5, 2012.

**Primary Care Network (PCN) Expansion:** Several new leased facilities were developed in 2013 to expand the capacity of the UC Davis PCN:

- **Campus Commons:** A new PCN facility in Sacramento's campus commons area with 8 exam rooms opened in September 2012.
- **Elk Grove PCN Expansion:** In May 2013, an additional 9,514-square-foot facility with 19 exam rooms was leased in Elk Grove to complement the existing UC Davis Medical Group facility, which has approximately 25,500 square feet.
- **Folsom PCN Expansion:** This project added approximately 8,878-square-feet and 21 exam rooms in June 2013 to the existing UC Davis Medical Group facilities in Folsom.

**IT Infrastructure:** Substantially complete in July 2012, this project installed up to 1,000 additional wireless access points throughout the main hospital in order to accommodate increasing wireless technology needs. Additionally, new high-capacity single-mode fiber cabling was installed in portions of the main hospital.

**Parking Structure III:** In July 2012, a new 1,100-car garage opened adjacent to the main hospital complex to provide convenient parking for patients, visitors, faculty and staff.

## Enhancement of national reputation

The Davis Medical Center continues to enhance its standing as one of the leading academic health centers in the U.S.

- **UC Davis Comprehensive Cancer Center** earned National Cancer Institute (NCI) designation in March 2012. The center, part of the Davis Medical Center, is one of only 41 cancer centers in the U.S. to have earned the NCI's "comprehensive" status, which signifies that the center meets stringent criteria in the areas of laboratory, clinical- and population-based research, professional and public education, and in the dissemination of clinical and public advances to the communities it serves. The designation is reserved for less than 1 percent of cancer centers nationwide.
- Professional Research Consultants presented three Davis Medical Center units with five-star excellence in health care awards for meeting or exceeding the 90th percentile in patient satisfaction scores. The same-day surgery center received its third five-star award, and the department of emergency medicine and the home health program received their second five-star awards.
- The Davis Medical Center received a Kidney Transplant Excellence Award from HealthGrades, a program that rates clinical outcomes. The Davis Medical Center was one of only eight programs, out of 221 nationally, recognized as a top facility for kidney transplantation and just one of two to receive the award three years in a row.
- The Davis Medical Center's successful use of information technology to improve patient safety and quality of care continues to earn national recognition. The Davis Medical Center has recently achieved the highest level possible in the electronic medical record adoption model, and also has been named one of the "Most Wired" health care organizations, of which only 200 hospitals nationally have been recognized.





## The University of California, Irvine Medical Center Service Area and Market Share

The following table presents certain historical utilization statistics for the primary and secondary service area for the 12-month period ended December 31, 2011. Data for the 12-month period ended December 31, 2011, is the most current data available from the State of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	Orange	72	1,598,635	67.2%	7.1%
Secondary	Los Angeles, Riverside, San Bernardino	74	1,299,198	16.0%	2.0%

# The University of California, Irvine Medical Center

The Irvine Medical Center serves as the principal clinical teaching site for the University of California, Irvine, School of Medicine. In 1976, the Irvine Medical Center, formerly known as Orange County Hospital, was purchased by The Regents. It is Orange County's only academic medical center encompassing hospital-based and ambulatory patient care services, teaching and clinical research.

The Irvine Medical Center is licensed to provide acute care hospital services in Orange, California, and is licensed to operate 411 beds in year 2013. The Irvine Medical Center serves as a major tertiary referral center for Orange County and is also the county's only Level I Trauma Center and Regional Burn Center. The construction of the new UC Irvine Douglas Hospital has been completed and opened for patient care. The new replacement hospital meets the State of California's SB 1953, Hospital Facilities Seismic Safety Act.

Outpatient services are provided by the Irvine Medical Center, which has a clinical practice group of over 400 faculty physicians and surgeons. Outpatient services are provided at the main campus pavilion buildings, Chao Family Comprehensive Cancer Center, Chao Comprehensive Digestive Disease Center, Gottschalk Medical Plaza on the Irvine Campus, and Family Health Centers at Anaheim and Santa Ana clinics. The two Family Health Centers in Santa Ana and Anaheim are the designated Federally Qualified Health Centers owned and operated by the Irvine Medical Center to serve the underserved population in Orange County.

These sites enable the Irvine Medical Center to provide a full scope of high-quality patient care services and attract the volume and diversity of patients required to support the education and research programs of the School of Medicine. Together, these sites provide increased patient volumes and expanded market share, better serve the community, attract favorable payor mix and generate a stable financial environment.

Significant events during the year are highlighted below:

## **National recognition**

For the 13th consecutive year, Irvine Medical Center has been listed among "America's Best Hospitals" by *U.S. News & World Report* and is ranked in the top 50 nationally in three specialties: 30th for geriatrics, 47th for kidney disorders and 48th for urology.

## **Orange County's first Comprehensive Stroke Center**

Irvine Medical Center has become the first hospital in Orange County to receive certification as a Comprehensive Stroke Center from The Joint Commission.

## **QUEST (Quality, Excellence and Safety through Technology)**

QUEST is a multiyear project began in 2009 that will integrate nearly all of Irvine Medical Center's clinical information systems. It will help the Irvine Medical Center and its clinics

move toward an electronic medical record (EMR) system. In 2013, the project successfully executed on its strategy plan to add Enterprise registration and scheduling, physician order entry, integrated pharmacy, eMar, decisions support, bed management and clinical and research data warehouse capabilities. These activities position the Irvine Medical Center for complete accountable care organization and patient-centered medical home models that are being driven by health care reform. Participating in the Orange County Regional Health Information Exchange (HIE) pilot and building our own private HIE allow primary care physicians to connect to our model, enabling the EMR to work outside our environment.

### Major hospital projects

The remodeling of the Chao Family Comprehensive Cancer Center was completed in early 2013. The \$16 million project remodeled over 15,000 assignable square feet to consolidate, expand and improve patient treatment. The project includes new portico, waiting and reception area, hematology clinic, 31 chemotherapy infusion stations and upgrades to the mechanical systems of the building. The Chao Family Comprehensive Cancer Center is one of 41 comprehensive cancer centers in the U.S. and the only one in Orange County.

The Regents approved the Chao Digestive Disease Center (CDDC) expansion project that is scheduled to start in late 2013. The project would construct 6,000 assignable square feet of new space and renovate 6,200 assignable square feet of existing space. The project will provide a new entrance, six interventional procedure rooms, nine additional exam rooms, a patient conference room and a patient waiting area. The CDDC is a regional leader in the delivery of interventional endoscopic treatments and diagnostic and screening services for patients with a wide variety of digestive disorders.

The UC Irvine Medical Center Gavin Herbert Eye Institute (GHEI) opened on September 17, 2013. The 70,000-square-foot facility, located on the campus, includes 34 patient exam rooms, three laser rooms, two operating rooms, six recovery rooms, one laser refractive suite with the latest in optical equipment, the first campus outpatient surgery center, faculty offices and conference space.

For patients, this means increased access to world-class comprehensive eye care. With the opening of the GHEI, patients are able to receive comprehensive eye care services both in Orange and Irvine counties. These services include routine eye exams and prescriptions, and advanced care for more complex cases. In October 2013, the Irvine location will add a new optical shop, featuring lenses, frames, sunglasses and more.

The opening of the GHEI is a reflection of the dedication and support of UC Irvine Medical Center to the Orange County community over the past 40 years. The \$39 million facility is the first on the UC Irvine campus to be funded entirely through local corporate, foundation and individual philanthropic gifts. It is the realization of a dream that began in 1975, when the Department of Ophthalmology was created.





## The University of California, Los Angeles Medical Center Service Area and Market Share

The following table presents certain historical utilization statistics for the primary and secondary service area for the 12-month period ended December 31, 2011. Data for the 12-month period ended December 31, 2011, is the most current data available from the State of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	Los Angeles, Ventura, Kern	403	7,281,388	73.4%	4.0%
Secondary	Orange, Riverside, San Bernardino, San Luis Obispo, Santa Barbara	1,046	12,337,483	19.8%	0.6%

Photo by Benny Chan

# The University of California, Los Angeles Medical Center

The UCLA Medical Center operates licensed beds facilities at the 466-bed Ronald Reagan UCLA Medical Center located in Westwood, the 266-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 UCLA Medical Center serves as the principal teaching site for the David Geffen School of Medicine at UCLA, collectively, the UCLA Medical Center and the David Geffen School of Medicine at UCLA are the UCLA Health System. The UCLA Medical Center's mission is to provide leading-edge 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 UCLA Medical Center's 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 466-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 UCLA 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 I 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 health care needs of Los Angeles' west side community. The Santa Monica facility features several nationally recognized clinical programs located within its 7-acre campus. The final construction phase of the Santa Monica-UCLA Medical Center and Orthopaedic Hospital was completed and occupancy occurred on January 8, 2012.

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 UCLA 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.

Significant events during the year are highlighted below:

### **The UCLA Medical Center continues to maintain its outstanding national reputation**

The UCLA Medical Center's hospitals in Westwood and Santa Monica have been named to *U.S. News & World Report's* most exclusive rankings list: the Best Hospitals 2013–14 Honor Roll. The UCLA Medical Center was ranked No. 5 in the country and No. 1 in both California and the Los Angeles metropolitan area. According to this latest survey, UCLA Medical Center ranked in 15 specialty areas including: cancer (11); cardiology and heart surgery (17); diabetes and endocrinology (13); ear, nose and throat (11); gastroenterology and GI surgery (8); geriatrics (3); gynecology (38); nephrology (8); neurology and neurosurgery (9); ophthalmology (5); orthopedics (19); psychiatry (9); pulmonology (24); rheumatology (8); and urology (4).

### **The UCLA Medical Center continues to work on strategic initiatives**

During this fiscal year, the UCLA Medical Center continued to support the multifaceted strategic plan of the UCLA Health System. Early in the year, the UCLA Health System hired a chief strategy officer to help lead the organization through its strategy of market alignments and acquisitions. Integral to this effort is the UCLA Health System's activities related to increasing tertiary and quaternary care delivery, securing secondary care partners, and creating a robust health care delivery platform for managing all aspects of health care delivery. These activities are related to a carefully orchestrated clinical growth strategy that advances the depth, scope and reach of the UCLA Health System, promotes increased market presence, rationalizes care by better utilizing lower-cost clinical settings, secures alignments that fuel additional clinical growth and provides partners with access to a large and vibrant academic community. As the UCLA Health System increases its footprint and reach, the UCLA Medical Center's Westwood campus's tertiary/quaternary focus will remain a core strength that will maintain UCLA Medical Center's viability and prominence in the future. Additionally, the UCLA Health System is securing primary care capacity at strategically located sites and access to a convenient acute care user-friendly site.

### **The UCLA Medical Center implemented an Electronic Health Record (EHR)**

The UCLA Medical Center's hospitals went live with the electronic health record system, called CareConnect, on March 1, 2013. The implementation included revenue cycle, all inpatient clinical applications, health information management system and the emergency department. With a single EHR, information collection and analytical activities enable outcome-based understanding and measures. The implementation included additional technologies to streamline biomedical device integration and remote communications between patient and provider. Furthermore, the system architecture and design included additional redundancy and technical operational processes.

In addition to improved efficiencies, CareConnect offers patients and caregivers new secure ways to communicate that result in an improved patient experience, whether inpatient or outpatient. In addition to streamlining process around clinical care and operations, the integrated health information system enables implementation of delivery systems required by federal health care reform including but not limited to accountable care, populations management, telemedicine and participation in health information exchanges.

The UCLA Health System ambulatory clinics are going "live" in waves, with the final clinics schedule to be up in Spring 2014.







## The University of California, San Diego Medical Center Service Area and Market Share

The following table presents certain historical utilization statistics for the primary and secondary service area for the 12-month period that ended December 31, 2011. Data for the 12-month period that ended December 31, 2011, is the most current data available from the State of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	San Diego	77	1,342,000	53.0%	13.0%
Secondary	San Diego	95	1,738,000	30.0%	5.0%

# The University of California, San Diego Medical Center

The San Diego Medical Center serves as the principal clinical teaching site for the University of California, San Diego, School of Medicine, established by The Regents of the University of California in 1962. It is San Diego County's only academic health system encompassing hospital-based and ambulatory patient care services, teaching and clinical research.

The San Diego Medical Center is licensed to operate 565 beds and to provide acute care hospital services at two main sites in Hillcrest and La Jolla.

The Hillcrest site, located in central San Diego, is licensed to operate 392 beds. As the San Diego Medical Center's principal teaching hospital, it is the focal point for UC San Diego's education and community services missions, and serves as a major tertiary and quaternary referral center for San Diego, Riverside and Imperial Counties. It is home to the only Regional Burn Center and one of only two Level I trauma centers in the county. A Level I ranking is the highest level given to a trauma center in the U.S. by the American College of Surgeons because of its comprehensive service. Also this site is the only regional Level III neonatal intensive care unit (NICU) within a birthing facility in San Diego. A Level III NICU provides the highest level of care for the smallest and sickest of newborns.

The La Jolla site, located in north San Diego, includes UC San Diego Thornton Hospital, UC San Diego Moores Cancer Center, UC San Diego Sulpizio Cardiovascular Center and UC San Diego Shiley Eye Center. Thornton Hospital opened in July 1993 and contains 119 licensed beds. It is the principal location for inpatient cancer services, with Moores Cancer Center serving as the primary site for outpatient clinical oncology care. Moores Cancer Center is one of only 41 National

Cancer Institute designated comprehensive cancer centers in the U.S. It has one of the first oncology practices in the nation to be recognized by the Quality Oncology Practice Initiative Certification Program, an affiliate of the American Society of Clinical Oncology, for meeting rigorous standards for high-quality cancer care. Sulpizio Cardiovascular Center contains 54 beds and is the principal location for cardiovascular services. Shiley Eye Center opened in 1992 and is a retina and glaucoma center, and home to the region's only eye facility dedicated to children.

Ambulatory care is provided at the San Diego Medical Center's hospital-based clinics located in Hillcrest and La Jolla, as well as the surrounding communities of Vista, Encinitas, Scripps Ranch, Kearny Mesa and Chula Vista.

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

## **The San Diego Medical Center continues to maintain an outstanding local and national reputation**

- The San Diego Medical Center was ranked first in San Diego for the third consecutive year in *U.S. News & World Report's* "Best Hospitals" metro rankings in 2013–14. A hospital had to score in the top 25 percent among its peers in at least one of 16 medical specialties and represent a metropolitan area with 1 million or more residents to qualify.
- In *U.S. News & World Report's* 2013–14 "Best Hospitals" issue, 10 specialties at the San Diego Medical Center were nationally recognized — cancer; cardiology and heart

surgery; diabetes and endocrinology; ear, nose and throat; gastroenterology and GI surgery; geriatrics; nephrology; neurology and neurosurgery; pulmonology; and urology.

- The San Diego Medical Center was named one of the nation's 100 Top Hospitals for the second year in a row by Truven Health Analytics, and was one of only 12 hospitals in the nation to receive the Everest Award in 2012. This award honors a special group of the 100 Top Hospital winners that have achieved both the highest level of current performance and the greatest improvement over a five-year period.
- The Leapfrog Group, an independent national nonprofit run by employers and other large purchasers of health benefits, designated the San Diego Medical Center as a "Top Hospital" in 2012 based on the Leapfrog hospital survey, which is the gold standard for comparing hospitals' performance in quality and patient safety. The San Diego Medical Center also received its third "A" rating from The Leapfrog Group's Hospital Safety Score in 2013 for its overall performance in keeping patients safe from preventable harm and medical errors.
- The San Diego Medical Center was named a winner of the 2011 University HealthSystem Consortium (UHC) Quality Leadership Award for its quality, effectiveness, safety, equity, patient-centeredness and efficiency. It ranked 5th in the nation out of 101 institutions included; it previously ranked 13th. UHC is an alliance of academic medical centers whose mission is to create knowledge, foster collaboration and promote change to help its members succeed.
- The San Diego Medical Center was bestowed Magnet® status by the American Nurses Credentialing Center (ANCC). It is one of only 393 magnet hospitals worldwide to receive this status which recognizes organizations for quality patient care, nursing excellence and innovations in nursing.

### **The San Diego Medical Center operated its first full year after completion of the Thornton Expansion/Cardiovascular Center project**

The centerpiece of this project is the four-story Sulpizio Cardiovascular Center, which opened on August 8, 2011, and includes four catheterization labs, four "smart" operating rooms, and 21 treatment bays in an expanded emergency department. This \$227 million project also included some remodeling and construction work at Thornton Hospital and an expansion of the central plant. Sulpizio Cardiovascular Center is the first cardiovascular center in San Diego and the first hospital-based project in the region to receive Leadership in Energy and Environmental Design (LEED) Gold certification from the United States Green Building Council. LEED promotes a "whole-building" approach to sustainability, as well as good health by combining energy conservation techniques with the very best care available.

### **Construction continued on UC San Diego Jacobs San Diego Medical Center**

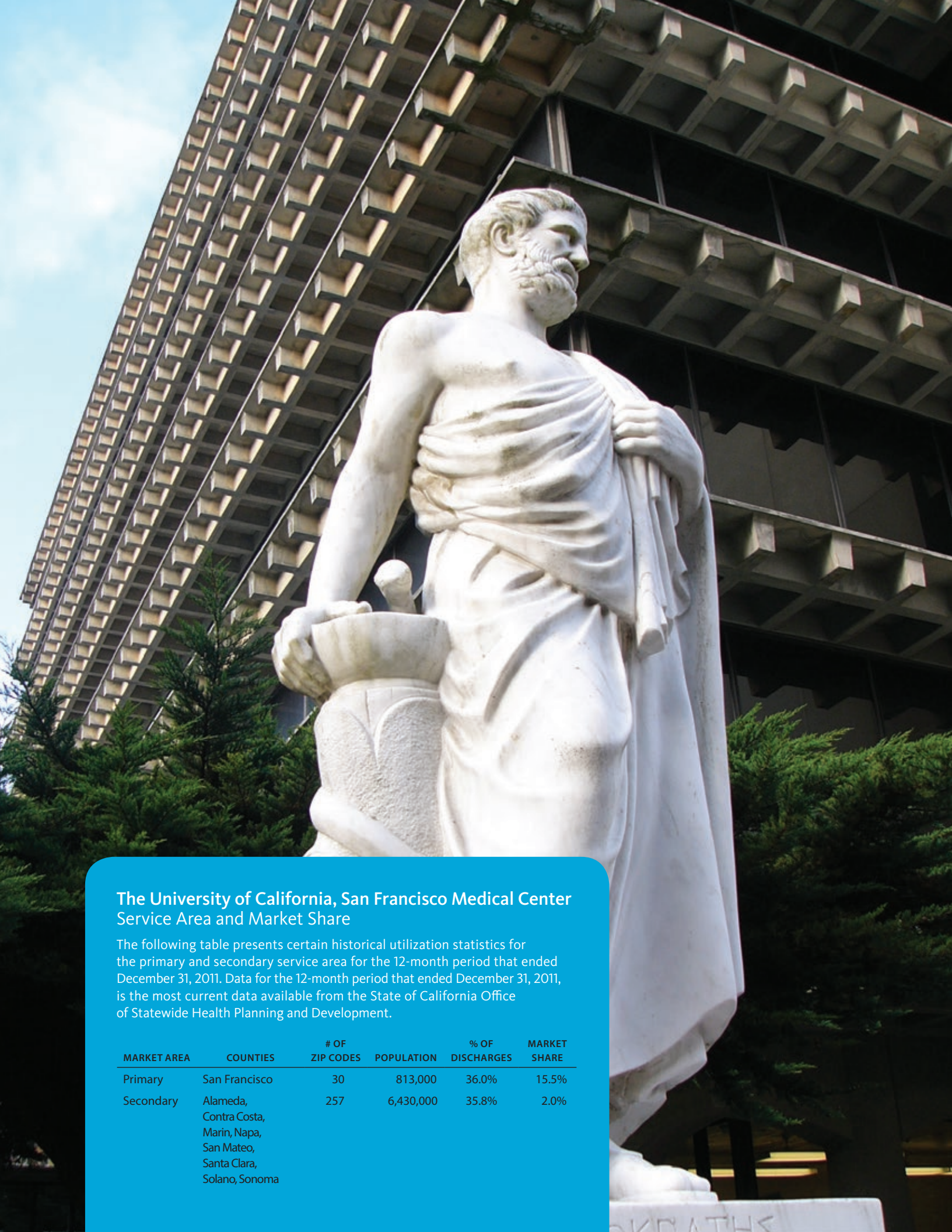
This 10-story, 509,500-square-foot project will include four hospitals in one location: the existing Thornton Hospital, plus the Hospital for Cancer Care, Hospital for Women and Infants, and Hospital for Advanced Surgery. The project also includes renovations to significant portions of Thornton Hospital to modernize and harmonize with Jacobs San Diego Medical Center. The projected completion date is 2016.

### **Recognition for advanced use of information technology**

Adopting new technologies to support operational, clinical and research excellence is a strategic priority for the San Diego Medical Center. The San Diego Medical Center was one of only 1.1 percent of U.S. hospitals in 2011 to achieve the highest ranking possible, "Stage 7" of Electronic Medical Record (EMR) adoption — a ranking devised by the Health care Information and Management Systems Society (HIMSS) Analytics group. At Stage 7 paper charts are no longer used to deliver and manage patient care; the EMR is used in both inpatient and outpatient settings.

The San Diego Medical Center was named one of the nation's "Most Wired" for the seventh consecutive year in 2012 by *Hospitals and Health Networks*, a publication of the American Hospital Association. Most Wired hospitals are leaders in ordering medications electronically, implementing computerized standing orders based on treatment protocols that have been proven effective and encrypting data on movable devices, such as laptops, to safeguard information.





## The University of California, San Francisco Medical Center Service Area and Market Share

The following table presents certain historical utilization statistics for the primary and secondary service area for the 12-month period that ended December 31, 2011. Data for the 12-month period that ended December 31, 2011, is the most current data available from the State of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	San Francisco	30	813,000	36.0%	15.5%
Secondary	Alameda, Contra Costa, Marin, Napa, San Mateo, Santa Clara, Solano, Sonoma	257	6,430,000	35.8%	2.0%

# The University of California, San Francisco Medical Center

The UCSF Medical Center serves as the principal clinical teaching site for the University of California, San Francisco, School of Medicine, affiliated with the University of California since 1873. Consistently ranked among the nation's top medical schools, the UCSF School of Medicine earns its greatest distinction from its outstanding faculty. In 2013–14, *U.S. News & World Report* ranked the UCSF School of Medicine fourth nationally for its primary care training and its research training — the only medical school in the country ranked in the top five in both categories.

The UCSF Medical Center is licensed to provide inpatient care at Moffitt-Long Hospital on the 107-acre Parnassus campus and at UCSF Mount Zion, outpatient hospital care at the two hospital sites and physician clinical care at those hospitals and other locations primarily in San Francisco. The Moffitt-Long Hospital includes UCSF Benioff Children's Hospital, a "hospital within a hospital" with more than 150 pediatric specialists practicing in more than 50 areas of medicine. The UCSF Medical Center is licensed to operate 720 beds. At June 30, 2013, the UCSF Medical Center had 640 available beds.

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

The UCSF Medical Center's primary service area is the city and county of San Francisco. Its secondary service area includes the eight Bay Area counties surrounding San Francisco: Alameda, Contra Costa, Marin, Napa, San Mateo, Santa Clara, Solano and Sonoma. The UCSF Medical Center also cares for patients from a tertiary service area including counties from Madera and Mariposa to the southeast, Yolo and Butte to the northeast, and San Joaquin and Stanislaus to the east. More than 90 percent of inpatient cases have historically originated from the 20 counties in these combined service areas.

The UCSF Medical Center provides care across the acuity spectrum: basic care, moderate care and highly complex care, including transplants, neurosurgery and cancer treatment. The patient origin of the basic care population is heavily concentrated in the primary service area. Patients requiring moderate acute care are largely concentrated in the primary and secondary service area. High complexity care is provided to patients originating from a more widely dispersed geographic area. Approximately 75 percent of the UCSF Medical Center's existing inpatient cases represent adults, while 25 percent are pediatric.

## **The UCSF Medical Center continues to maintain an outstanding national reputation**

The 2013–14 *U.S. News & World Report* survey of America's best hospitals ranked UCSF Medical Center as the seventh best hospital in the nation. The survey score summarizes overall quality of inpatient care, including balance of nurses

to patients, mortality, patient safety, reputation, procedure volume and care-related measures such as technology and patient services.

According to the latest *U.S. News & World Report* survey, UCSF Medical Center now ranks among the nation's top 10 programs in the following specialties: cancer care, diabetes & endocrinology, geriatrics, gynecology, kidney disorders, neurology & neurosurgery, rheumatology and urology.

UCSF Benioff Children's Hospital was ranked by *U.S. News & World Report* among the nation's best children's hospitals in nine pediatric specialties, making it one of the top-ranked facilities in California. The 2013–14 children's hospital survey ranked UCSF Benioff Children's Hospital among the top hospitals nationally in cancer, cardiology and heart surgery, diabetes and endocrinology, gastroenterology, kidney care, neonatology, neurology and neurosurgery, urology and pulmonology.

### **The UCSF Medical Center continued to focus on strategic initiatives to meet its mission and community needs**

Significant events during the year are highlighted below:

- The UCSF Medical Center developed and implemented an enterprise-wide electronic medical records project. The electronic system, known as Advancing Patient-Centered Excellence, or APeX, creates a single electronic health record for every outpatient and inpatient at UCSF Medical Center. The project, begun in 2009, transforms how UCSF providers and staff exchange information across all care settings, enhancing safety and improving the overall patient experience. APeX was used throughout 2013 and was also incorporated into patient billing and collections, resulting in improvements in the overall revenue cycle and a decrease in accounts receivable.
- The UCSF Medical Center achieved a Magnet designation in September 2012 for excellence in nursing by the American Nurses Credentialing Center (ANCC). ANCC launched the Magnet program in 1994 to recognize health care organizations for high-quality patient care, professional excellence and innovations in nursing practice. Less than 7 percent of the nation's 5,700 hospitals registered with the American Hospital Association had Magnet status as of 2012.

- The development of the UCSF Mission Bay Hospital continued. The Mission Bay project includes construction of approximately 878,000 gross square feet to accommodate a 289-bed inpatient building for Children's, Women's and Cancer hospitals, an outpatient building with a helipad, an energy center and site improvements and infrastructure. Construction is expected to be completed in 2015.
- Parking garages were completed at Mission Bay and Mt. Zion to provide parking for patients, visitors, faculty and staff.
- The UCSF Medical Center significantly expanded the use of MyChart, an online patient portal established in 2011. More than 50,000 patients have enrolled in the portal, which gives patients confidential access to their medical records and enables them to send and receive messages to doctors, nurses and office staff.
- The Medical Center's patient satisfaction scores continued to increase over the previous year and exceeded annual targets established at the beginning of the year.
- The UCSF Medical Center entered into a memorandum of understanding for an affiliation agreement with Children's Hospital & Research Center at Oakland that will further the mission of advancing pediatric care as well as research and educational missions.
- The UCSF Medical Center collaborated with the San Francisco Department of Public Health and other health and social service agencies to develop a community health needs assessment report in 2013 to identify key health priorities in its primary service area. These priorities are included in future goals for UCSF Medical Center.
- More than \$205 million in uncompensated or undercompensating care was provided in 2013.





# Management's Discussion and Analysis *(Unaudited)*

## INTRODUCTION

The objective of Management's Discussion and Analysis is to help readers better understand the UC Medical Center's financial position and operating activities for the year ended June 30, 2013, with selected comparative information for the years ended June 30, 2012 and 2011. 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 (2011, 2012, 2013, etc.) in this discussion refer to the fiscal years ended June 30.

## OVERVIEW

The University of California, Medical Centers (the "Medical Centers") is part of the University of California (the "University"), a California public corporation under Article IX, Section 9 of the California Constitution. The University is administered by The Regents of the University of California ("The Regents") of which, under the formation documents of the University, administrative authority with respect to the Medical Centers is vested in the President of the University. The Medical Centers consist of the University of California, Davis Medical Center ("UC Davis Medical Center" or "Davis"), the University of California, Irvine Medical Center ("UC Irvine Medical Center" or "Irvine"), the University of California, Los Angeles Medical Center ("UCLA Medical Center" or "Los Angeles"), the University of California, San Diego Medical Center ("UCSD Medical Center" or "San Diego") and the University of California, San Francisco Medical Center ("UCSF Medical Center" or "San Francisco"), each of which provides educational and clinical opportunities for students in the University's Schools of Medicine ("Schools of Medicine") and offers a comprehensive array of medical services including tertiary and quaternary care services.

The Medical Centers' activities are monitored by The Regents' Committee on Health Services. Under the formation documents of the University of California, administrative authority with respect to the Medical Centers is vested in the President of the University, who, in turn, has delegated certain authority to the Chancellor of the applicable campus. At each applicable campus, direct management authority has been further delegated by the applicable Chancellor as follows: for the UC Davis Medical Center, the UC Irvine Medical Center, the UCSD Medical Center and the UCSF Medical Center, to the applicable Medical Center Director, and for the UCLA Medical Center, to the Vice Chancellor, Medical Sciences.

## OPERATING STATISTICS

The following table presents utilization statistics for the Medical Centers:

(shown in fiscal year)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
<b>Licensed beds</b>						
2013	619	411	806	565	720	3,121
2012	619	412	806	600	722	3,159
2011	645	417	855	546	722	3,185
<b>Admissions</b>						
2013	30,200	19,312	41,335	27,674	28,530	147,051
2012	29,629	17,787	39,982	27,411	27,788	142,597
2011	28,826	16,365	40,336	26,722	28,268	140,517
<b>Average daily census</b>						
2013	466	301	732	427	487	2,413
2012	463	294	719	420	491	2,387
2011	456	281	723	384	500	2,344
<b>Discharges</b>						
2013	30,326	19,401	41,328	26,988	28,484	146,527
2012	29,871	17,900	40,030	26,801	27,831	142,433
2011	29,054	16,424	40,318	25,742	28,273	139,811
<b>Average length of stay</b>						
2013	5.6	5.7	6.5	5.8	6.2	6.0
2012	5.7	6.0	6.6	5.8	6.5	6.1
2011	5.7	6.2	6.5	5.5	6.5	6.1
<b>Patient days</b>						
2013	170,241	109,921	267,136	155,797	177,646	880,741
2012	167,627	107,732	263,261	153,659	179,611	871,890
2011	165,539	102,400	263,717	140,011	182,397	854,064
<b>Case mix index<sup>1</sup></b>						
2013	1.67	1.72	1.96	1.64	2.03	
2012	1.72	1.63	1.93	1.63	1.97	
2011	1.70	1.59	1.92	1.67	1.94	
<b>Outpatient visits</b>						
2013	937,237	561,021	932,313	661,544	899,218	3,991,333
2012	938,492	519,145	971,207	637,668	830,747	3,897,259
2011	943,086	510,070	928,590	615,459	831,280	3,828,485

<sup>1</sup>Case mix index is calculated at the patient level and is not determinable systemwide.

### Licensed Beds

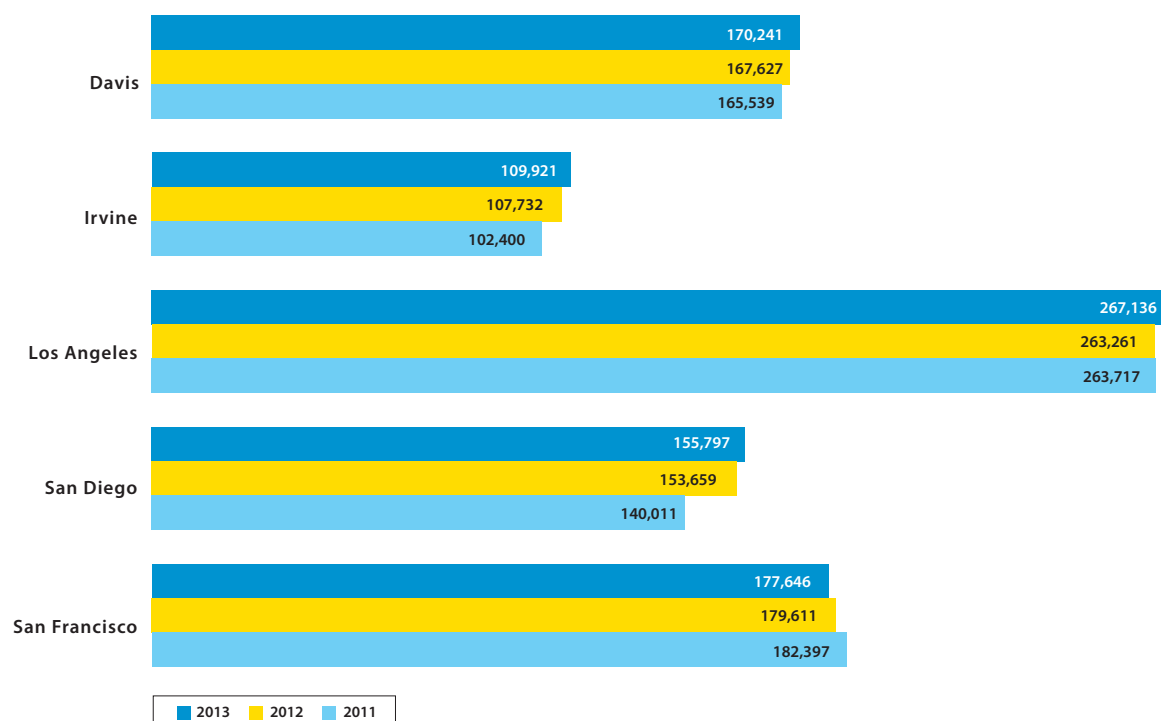
Licensed beds changed as follows:

Increased (decreased)

	2013	2012	
Davis	(26)		Licensed beds remained the same in 2013. In 2012, due to facility renovations, 50 acute care beds were removed from service, offset by an increase in 24 intensive care beds
Irvine	(1)	(5)	Licensed beds were reduced in the perinatal unit due to the remodeling of UC Irvine Medical Center's Tower building
Los Angeles		(49)	Decrease in beds due to the demolition of the old Santa Monica hospital and the opening of the new Santa Monica facility
San Diego	(35)	54	There was a reduction of 35 beds in July 2012 when the Child and Adolescent Psychiatry unit (located at Alvarado Hospital) was transferred to Rady Children's Hospital. There was an increase in beds due to the opening of the Sulpizio Cardiovascular Center in August 2011
San Francisco	(2)		Reduced two licensed beds as part of annual licensing with the state

## Admissions and Patient Days

Admissions fluctuate based upon the Medical Centers' market share and overall volumes in the marketplace. Patient days fluctuate based on admissions and the overall length of stay, generally as a result of the complexity of care provided. Patient days for each Medical Center are as follows:



Admissions and patient days changed in 2013 as follows:

*Increased (decreased)*

	Admissions		Patient Days		
Davis	571	1.9%	2,614	1.6%	A new service line was added in Pediatrics, a transfer and receiving unit supported more admissions than prior years and increased outreach programs were implemented during the current year
Irvine	1,525	8.6%	2,189	2.0%	Increases due to increase in surgery cases and overall patient volumes
Los Angeles	1,353	3.4%	3,875	1.5%	Higher inpatient volume and higher contract patient days
San Diego	263	1.0%	2,138	1.4%	Modest growth in admissions and patient days
San Francisco	742	2.7%	(1,965)	(1.1%)	Lower days due to shorter average lengths of stay during the year

Admissions and patient days changed in 2012 as follows:

*Increased (decreased)*

	Admissions		Patient Days		
Davis	803	2.8%	2,088	1.3%	Increased patient volumes along with increased patient days in Medicare and contracted commercial payers contributed to the overall change
Irvine	1,422	8.7%	5,322	5.2%	Increased due to more admissions for oncology and orthopedics cases and patient days increased due to higher general medicine patient days
Los Angeles	(354)	(0.9%)	(456)	(0.2%)	Lower surgery, orthopedic and obstetrical cases and lower Medi-Cal and non-sponsored/self pay patient days
San Diego	689	2.6%	13,648	9.7%	Increased number of cases from medicine, neuroscience, orthopedic, pediatric, psychiatry and surgery volumes and longer length of stay
San Francisco	(480)	(1.7%)	(2,786)	(1.5%)	Due to overall lower inpatient volumes in the marketplace

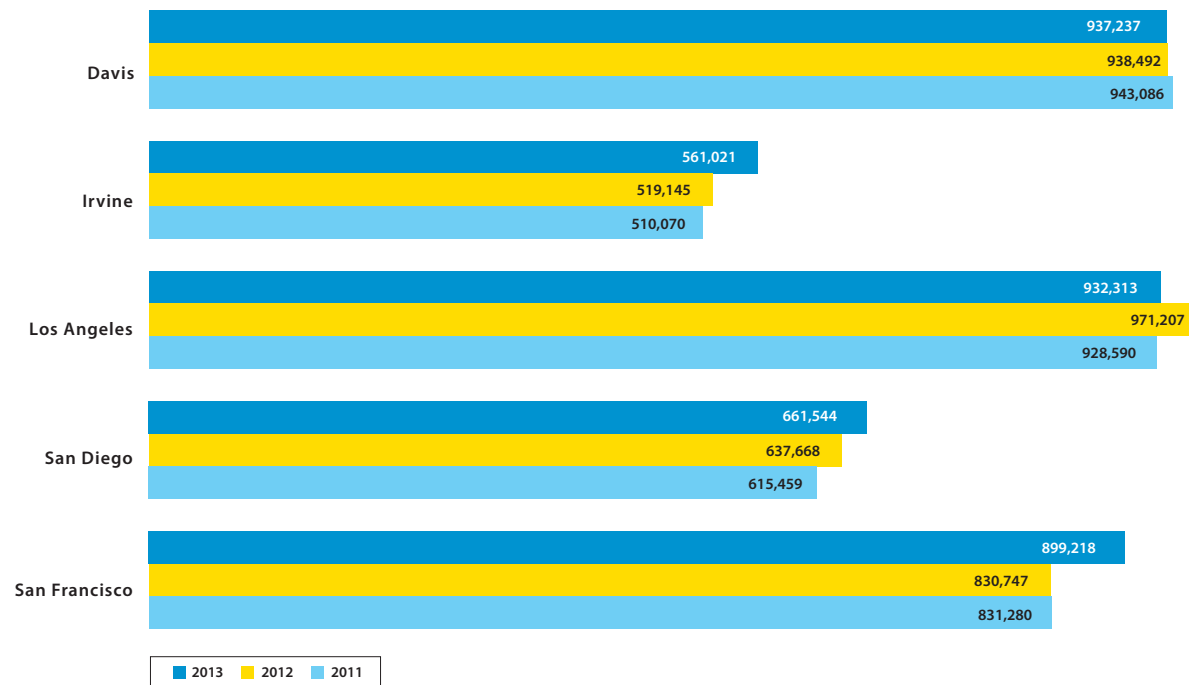
## Outpatient Visits

Outpatient services are provided by the Medical Centers and include clinic visits, primary care network, home health and hospice and emergency visits. The following presents outpatient services volume for the Medical Centers:

(shown in fiscal year)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
<b>2013</b>						
Hospital clinics	403,330	517,341	845,045	595,179	844,839	3,205,734
Primary care network	452,311					452,311
Home health and hospice	19,402				16,474	35,876
Emergency visits	62,194	43,680	87,268	66,365	37,905	297,412
<b>Total</b>	<b>937,237</b>	<b>561,021</b>	<b>932,313</b>	<b>661,544</b>	<b>899,218</b>	<b>3,991,333</b>
<b>2012</b>						
Hospital clinics	410,719	479,856	885,107	572,142	775,337	3,123,161
Primary care network	448,048					448,048
Home health and hospice	18,688				17,850	36,538
Emergency visits	61,037	39,289	86,100	65,526	37,560	289,512
<b>Total</b>	<b>938,492</b>	<b>519,145</b>	<b>971,207</b>	<b>637,668</b>	<b>830,747</b>	<b>3,897,259</b>
<b>2011</b>						
Hospital clinics	408,142	474,448	845,508	554,013	778,525	3,060,636
Primary care network	455,367					455,367
Home health and hospice	21,554				16,704	38,258
Emergency visits	58,023	35,622	83,082	61,446	36,051	274,224
<b>Total</b>	<b>943,086</b>	<b>510,070</b>	<b>928,590</b>	<b>615,459</b>	<b>831,280</b>	<b>3,828,485</b>

The volume of total outpatient visits by Medical Center are as follows:



## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The following table summarizes the operating results for the Medical Centers for fiscal years:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
<b>2013</b>						
Net patient service revenue	\$ 1,448,358	\$ 795,678	\$ 1,846,792	\$ 1,088,146	\$ 2,098,463	\$ 7,277,437
Other operating revenue	28,089	30,272	67,661	48,942	65,846	240,810
<b>Total operating revenue</b>	<b>1,476,447</b>	<b>825,950</b>	<b>1,914,453</b>	<b>1,137,088</b>	<b>2,164,309</b>	<b>7,518,247</b>
Total operating expenses	1,390,010	752,682	1,705,339	996,536	2,041,326	6,885,893
<b>Income from operations</b>	<b>86,437</b>	<b>73,268</b>	<b>209,114</b>	<b>140,552</b>	<b>122,983</b>	<b>632,354</b>
Total net non-operating revenues (expenses)	(11,116)	(12,102)	(8,044)	(3,503)	11,878	(22,887)
<b>Income before other changes in net position</b>	<b>75,321</b>	<b>61,166</b>	<b>201,070</b>	<b>\$137,049</b>	<b>134,861</b>	<b>609,467</b>
Other changes in net position	(15,943)	(37,148)	(96,324)	\$(10,783)	18,571	(141,627)
<b>Increase in net position</b>	<b>59,378</b>	<b>24,018</b>	<b>104,746</b>	<b>126,266</b>	<b>153,432</b>	<b>467,840</b>
Net position — beginning of year:						
Beginning of year, as previously reported	1,022,346	605,413	1,826,302	858,750	1,169,160	5,481,971
Cumulative effect of accounting change			(3,895)			(3,895)
Beginning of year, as restated	1,022,346	605,413	1,822,407	\$858,750	1,169,160	5,478,076
<b>Net position — end of year</b>	<b>\$1,081,724</b>	<b>\$ 629,431</b>	<b>\$ 1,927,153</b>	<b>\$ 985,016</b>	<b>\$1,322,592</b>	<b>\$5,945,916</b>
<b>2012</b>						
Net patient service revenue	\$ 1,319,423	\$ 709,486	\$ 1,753,609	\$ 996,668	\$ 1,945,325	\$ 6,724,511
Other operating revenue	17,806	25,083	66,712	48,274	31,809	189,684
<b>Total operating revenue</b>	<b>1,337,229</b>	<b>734,569</b>	<b>1,820,321</b>	<b>1,044,942</b>	<b>1,977,134</b>	<b>6,914,195</b>
Total operating expenses	1,292,420	676,911	1,589,833	949,057	1,881,549	6,389,770
<b>Income from operations</b>	<b>44,809</b>	<b>57,658</b>	<b>230,488</b>	<b>95,885</b>	<b>95,585</b>	<b>524,425</b>
Total net non-operating revenues (expenses)	(9,936)	(10,513)	(38,722)	220	5,161	(53,790)
<b>Income before other changes in net position</b>	<b>34,873</b>	<b>47,145</b>	<b>191,766</b>	<b>96,105</b>	<b>100,746</b>	<b>470,635</b>
Other changes in net position	41,326	(61,921)	(80,586)	11,433	(55,090)	(144,838)
<b>Increase in net position</b>	<b>76,199</b>	<b>(14,776)</b>	<b>111,180</b>	<b>107,538</b>	<b>45,656</b>	<b>325,797</b>
Net position — beginning of year	946,147	620,189	1,715,122	751,212	1,123,504	5,156,174
<b>Net position — end of year</b>	<b>\$1,022,346</b>	<b>\$605,413</b>	<b>\$1,826,302</b>	<b>\$ 858,750</b>	<b>\$1,169,160</b>	<b>\$5,481,971</b>
<b>2011</b>						
Net patient service revenue	\$ 1,247,655	\$ 675,211	\$ 1,656,724	\$ 899,949	\$ 1,864,052	\$ 6,343,591
Other operating revenue	12,342	23,926	63,666	42,293	25,152	167,379
<b>Total operating revenue</b>	<b>1,259,997</b>	<b>699,137</b>	<b>1,720,390</b>	<b>942,242</b>	<b>1,889,204</b>	<b>6,510,970</b>
Total operating expenses	1,170,279	620,864	1,446,726	826,972	1,714,796	5,779,637
<b>Income from operations</b>	<b>89,718</b>	<b>78,273</b>	<b>273,664</b>	<b>115,270</b>	<b>174,408</b>	<b>731,333</b>
Total net non-operating revenues (expenses)	27,911	6,881	15,879	27,950	32,559	111,180
<b>Income before other changes in net position</b>	<b>117,629</b>	<b>85,154</b>	<b>289,543</b>	<b>143,220</b>	<b>206,967</b>	<b>842,513</b>
Other changes in net position	(23,497)	(47,125)	(57,213)	(38,030)	(15,392)	(181,257)
<b>Increase in net position</b>	<b>94,132</b>	<b>38,029</b>	<b>232,330</b>	<b>105,190</b>	<b>191,575</b>	<b>661,256</b>
Net position — beginning of year	852,015	582,160	1,482,792	646,022	931,929	4,494,918
<b>Net position — end of year</b>	<b>\$ 946,147</b>	<b>\$ 620,189</b>	<b>\$ 1,715,122</b>	<b>\$ 751,212</b>	<b>\$ 1,123,504</b>	<b>\$5,156,174</b>

Financial results for the Medical Centers have fluctuated over the last three years due to patient volumes and the impacts of health care reform and increased retirement contributions.

### Medicaid Reimbursements

The Medical Centers received funds from the Hospital Fee Program under the State of California Assembly Bill (“AB”) 1383 of 2009, as amended by AB 1653 on September 8, 2010. These funds are reported as operating and non-operating revenues, as follows:

(in thousands of dollars)

	PATIENT REVENUES			STATE GRANTS		
	2013	2012	2011	2013	2012	2011
Davis	\$ 11,121	\$ 3,061	\$ 16,850	\$ 3,843	\$ 2,483	\$ 36,336
Irvine	18,305	3,600	27,400	2,926	10,100	13,900
Los Angeles	9,519	2,398	16,600	3,293	2,249	31,399
San Diego	3,620	1,330	8,006	1,475	1,923	24,530
San Francisco	12,437	2,626	14,293	551	1,973	36,594
<b>Total</b>	<b>\$55,002</b>	<b>\$13,015</b>	<b>\$83,149</b>	<b>\$12,088</b>	<b>\$18,728</b>	<b>\$142,759</b>

### Meaningful Use of Electronic Health Records

The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record (“EHR”) technology. A hospital may receive an incentive payment for up to four years, from 2011 through 2015, by meeting a series of objectives that make use of EHR’s potential related to the improvement of quality, efficiency and patient safety. Meaningful use is assessed on a year-by-year basis and requires attestation by the facility that the criteria have been satisfied. The Medical Centers received EHR payments as follows:

(in thousands of dollars)

	2013	2012
Davis	\$ 8,251	\$ 7,492
Irvine	3,950	1,400
Los Angeles		3,400
San Diego	3,710	5,539
San Francisco	8,378	2,569
<b>Total</b>	<b>\$24,289</b>	<b>\$20,400</b>

### University of California Retirement Benefits

Substantially all full-time employees of the Medical Centers participate in the University of California Retirement Plan (UCRP). UCRP costs are funded by a combination of earnings and employee and member contributions. Contributions to UCRP are made by the Medical Centers based upon contribution rates set by The Regents. Employer contribution rates were 10.0 percent, 7.0 percent and 4.0 percent in 2013, 2012 and 2011, respectively. The Regents have approved increasing the employer contribution rate to 12.0 percent and 14.0 percent for 2014 and 2015, respectively. Medical Center contributions for pension retirement benefits have increased as follows:

(in thousands of dollars)

	2013	2012	2011
Davis	\$ 55,904	\$ 36,481	\$ 18,900
Irvine	29,756	19,576	9,300
Los Angeles	63,712	43,903	20,966
San Diego	34,966	24,320	11,389
San Francisco	69,455	48,046	23,392
<b>Total</b>	<b>\$253,793</b>	<b>\$172,326</b>	<b>\$83,947</b>

### Children's Hospital Bond Act of 2004 and 2008

Each Medical Center is eligible for \$30.0 million of grant funding from Proposition 61, passed in 2004 and \$39.0 million of grant funding from Proposition 3, passed in 2008. Grant funds must be used for capital projects associated with the care of children and must be used prior to June 30, 2018. Grant funds are reported as contributions for building programs and are recorded in other changes in net position. The amounts the Medical Centers received in Proposition 3 and Proposition 61 grant funding during the years ended June 30, and the remaining grant funds the Medical Centers are eligible to receive in future years are as follows:

(in thousands of dollars)

	GRANT FUNDS RECEIVED		REMAINING GRANT FUNDS AVAILABLE
	2013	2012	
Davis	\$ 24,915	\$15,265	\$20,394
San Diego	38,975	29,828	197
San Francisco	68,802		
<b>Total</b>	<b>\$132,692</b>	<b>\$45,093</b>	<b>\$20,591</b>

### Hospital Facilities Seismic Safety Act ("SB 1953")

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 operations following major earthquakes. By January 1, 2030, all general acute care inpatient buildings must be operational after an earthquake. Amounts spent by the Medical Centers on seismic compliance during the years ended June 30, and the estimated remaining costs that will be required in future years are as follows:

(in thousands of dollars)

	COSTS SPENT ON SEISMIC COMPLIANCE		ESTIMATED REMAINING COSTS TO BE COMPLIANT
	2013	2012	
Davis	\$ 86	\$ 5,693	\$ 108
Irvine			16,169
Los Angeles		13,600	
San Diego	757	1,936	1,000
San Francisco	122		
<b>Total</b>	<b>\$ 965</b>	<b>\$21,229</b>	<b>\$ 17,277</b>

### Revenues

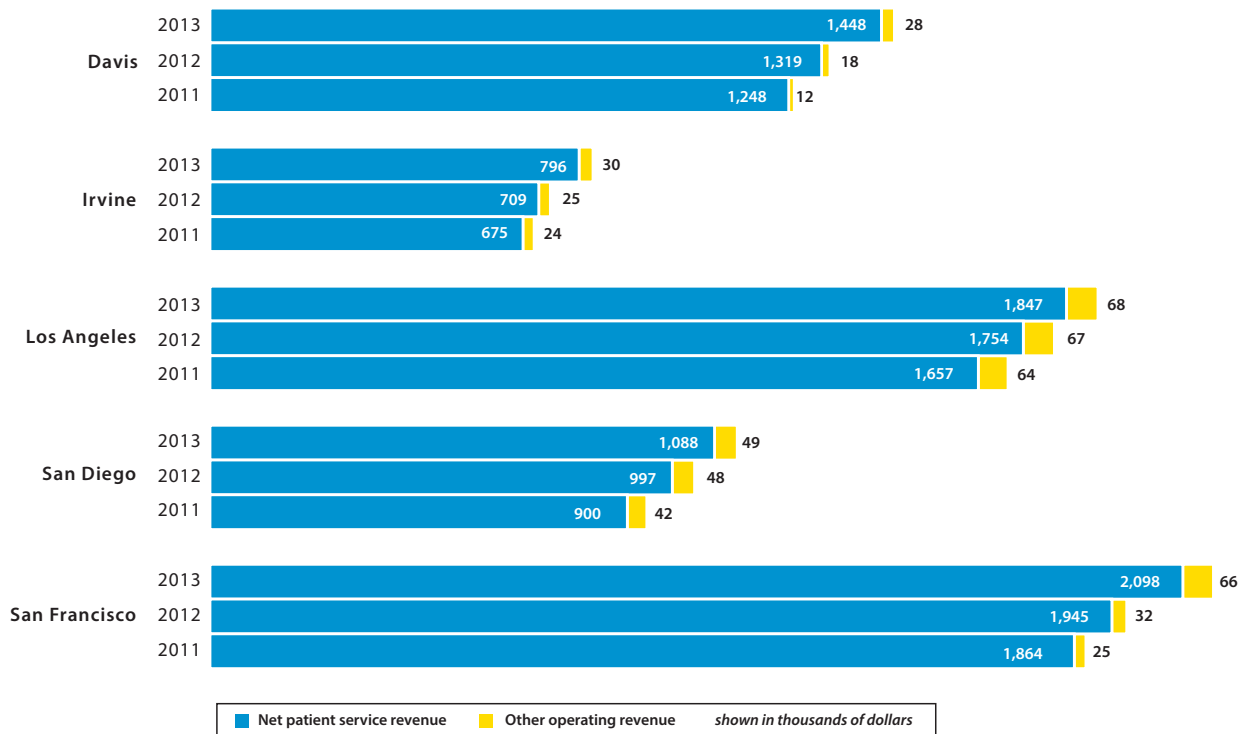
Patient service revenue depends on inpatient occupancy levels, the volume of outpatient visits, the complexity of care provided and the charges or negotiated payment rates for services provided.

Patient service revenues are net of bad debts and estimated allowances from contractual arrangements with Medicare, Medi-Cal and other third-party commercial payors and have been estimated based on the terms of reimbursement for contracts currently in effect. Other operating revenue consisted primarily of State Clinical Teaching Support Funds ("CTS"), Meaningful Use of Electronic Health Records Act revenues and other non-patient services such as contributions, cafeteria, vendor rebates and campus revenues.



The following chart illustrates the net patient service revenue and other operating revenue:

## REVENUES



Revenues for 2013 as compared to 2012 are as follows:

*Increased (decreased) in millions of dollars*

	Total Operating Revenue		Net Patient Service Revenues		
	Amount	%	Amount	%	
Davis	\$139.2	10.4%	\$128.9	9.8%	Increased volume, a favorable payer mix and significant increases in Medi-Cal waiver and Hospital Fee Program activity contributed to the overall increase. Additionally, the Medical Center began receiving funding for certain indigent patients who qualified for a new county reimbursement program. The Medical Center also consolidated parking operations for the first time, resulting in an increase of operating revenues.
Irvine	91.4	12.4%	86.2	12.1%	Increase in volume, patient days, outpatient visits, and surgeries. Total operating revenues included EHR funds received in 2013
Los Angeles	94.1	5.2%	93.2	5.3%	Increase in contract rates, Medicare and contract volume
San Diego	92.1	8.8%	91.5	9.2%	Higher due to the increased patient volume, contract price increases and improved collections
San Francisco	187.2	9.5%	153.1	7.9%	A continuing increase in the complexity of cases and a change in the mix of payors to those with better contract rates

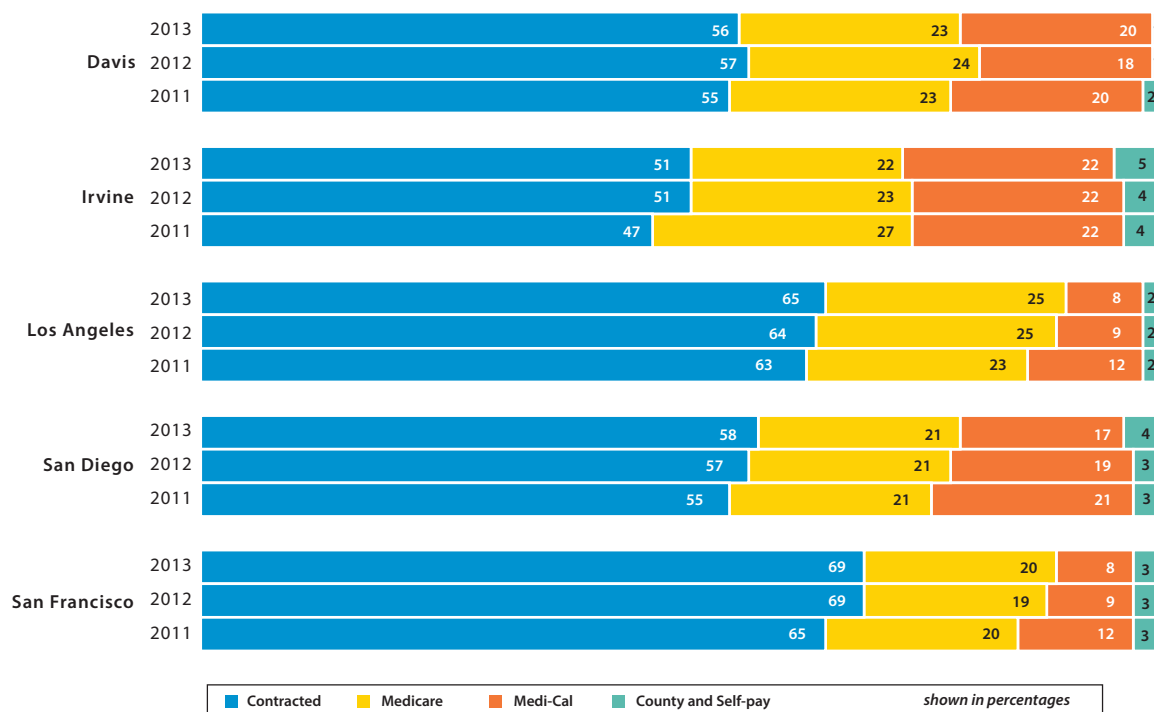
Revenues for 2012 as compared to 2011 were as follows:

*Increased (decreased) in millions of dollars*

	Total Operating Revenue		Net Patient Service Revenues		
	Amount	%	Amount	%	
Davis	\$ 77.2	6.1%	\$71.8	5.8%	Improved patient mix and higher volumes for contracted commercial patients contributed to the overall increase
Irvine	35.4	5.1%	34.3	5.1%	Increased Medi-Cal supplemental funding and increased contract rates
Los Angeles	99.9	5.8%	96.9	5.8%	Higher contract rates, outpatient volume, Medicare volume and rates
San Diego	102.7	10.9%	96.7	10.7%	Higher due to the increased patient volume, contract price increases and improved collections
San Francisco	87.9	4.7%	81.3	4.4%	An increase in the complexity of cases and a slight change in the mix of payors to those with better contracted rates

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. The following chart illustrates the percentage of patient service revenue by payor:

## REVENUES



Payor mix changed in 2013 as follows:

2013	
Davis	Medicare admissions and Medi-Cal patient days have increased 2% and 8%, respectively, over 2012. Additionally, Contract patient days have decreased by 4%.
Irvine	Contract net patient revenue increased by 13.3% due to increase in reimbursement rate. County net patient revenue increased by 51.0% due to a final settlement with the county on prior year patient activity.
Los Angeles	Medicare and Contracts increased 8% and 5%, respectively. The largest change in payor mix occurred in Non-sponsored with a 39% increase. Medi-Cal utilization decreased by 3%.
San Diego	Medicare and Contracts increased due to higher patient volumes, Medi-Cal continued to shift non-risk Medi-Cal enrollees into managed care plans and the County LIHP program. Contract reimbursements also increased over the prior year.
San Francisco	Medi-Cal was lower due to lower patient volumes as traditional Medi-Cal patients migrated to commercial managed care plans. Medicare increased primarily due to an increase of inpatient volume.

Payor mix changed in 2012 as follows:

<b>2012</b>	
Davis	Medicare and Contract patient days increased by 4.2 percent and 35.4 percent, respectively, over 2011. Medi-Cal days decreased by 1.5 percent over 2011.
Irvine	Contract net patient revenue increased by 12.0% due to improved contract pricing. Commercial net patient revenue increased by 10.6% due to increase in reimbursement rate.
Los Angeles	Increase in Medicare and Contracts at 10% and 9%, respectively, Medi-Cal utilization decreased by 22%.
San Diego	Medicare and Contracts increased due to higher patient volumes, Medi-Cal continued to shift non-risk Medi-Cal enrollees into managed care plans and the County LIHP program. Contract reimbursements also increased over the prior year.
San Francisco	Medi-Cal was lower due to lower patient volumes as traditional Medi-Cal patients migrated to commercial managed care plans.

## Operating Expenses

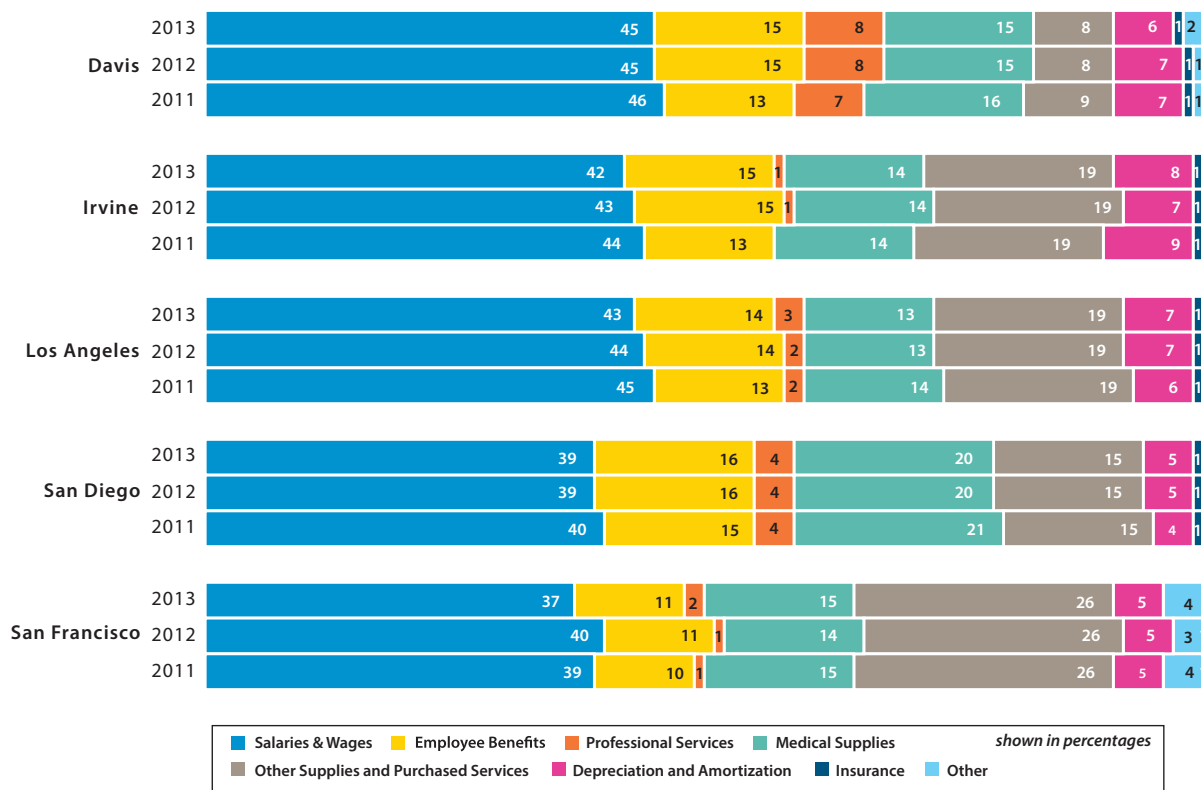
The following table summarizes the operating expenses for the Medical Centers:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
<b>2013</b>						
Salaries and wages	\$ 628,312	\$ 324,434	\$ 744,101	\$ 387,263	\$ 772,994	\$ 2,857,104
Employee benefits	214,548	113,531	238,579	158,777	224,465	949,900
Professional services	115,040	4,236	48,314	43,230	34,919	245,739
Medical supplies	203,246	107,775	229,626	198,127	307,126	1,045,900
Other supplies and purchased services	106,197	141,274	322,548	150,972	521,982	1,242,973
Depreciation and amortization	88,238	56,887	110,964	52,315	100,801	409,205
Insurance	9,304	4,545	11,207	5,852	6,367	37,275
Other	25,125				72,672	97,797
<b>Total</b>	<b>\$ 1,390,010</b>	<b>\$ 752,682</b>	<b>\$ 1,705,339</b>	<b>\$ 996,536</b>	<b>\$ 2,041,326</b>	<b>\$ 6,885,893</b>
<b>2012</b>						
Salaries and wages	\$ 590,638	\$ 297,077	\$ 713,574	\$ 379,668	\$ 740,809	\$ 2,721,766
Employee benefits	189,315	100,998	216,879	148,128	202,215	857,535
Professional services	101,010	3,386	35,966	38,607	25,041	204,010
Medical supplies	192,902	95,012	213,779	192,117	271,048	964,858
Other supplies and purchased services	102,689	127,583	294,123	139,481	480,831	1,144,707
Depreciation and amortization	84,821	48,414	104,124	45,110	90,259	372,728
Insurance	9,875	4,441	11,388	5,946	6,482	38,132
Other	21,170				64,864	86,034
<b>Total</b>	<b>\$ 1,292,420</b>	<b>\$ 676,911</b>	<b>\$ 1,589,833</b>	<b>\$ 949,057</b>	<b>\$ 1,881,549</b>	<b>\$ 6,389,770</b>
<b>2011</b>						
Salaries and wages	\$ 538,809	\$ 270,018	\$ 648,152	\$ 337,692	\$ 672,756	\$ 2,467,427
Employee benefits	149,563	83,052	181,312	121,329	168,754	704,010
Professional services	87,460	2,252	33,530	35,447	19,836	178,525
Medical supplies	182,762	88,522	208,027	170,054	257,472	906,837
Other supplies and purchased services	104,840	119,256	275,568	120,171	442,846	1,062,681
Depreciation and amortization	77,760	52,850	89,277	35,437	81,474	336,798
Insurance	9,323	4,914	10,860	6,842	6,820	38,759
Other	19,762				64,838	84,600
<b>Total</b>	<b>\$ 1,170,279</b>	<b>\$ 620,864</b>	<b>\$ 1,446,726</b>	<b>\$ 826,972</b>	<b>\$ 1,714,796</b>	<b>\$ 5,779,637</b>

The following graph illustrates the percentage of operating expenses by type:

## OPERATING EXPENSES



Total operating expenses changed in 2013 as follows:

*Increased (decreased) in millions of dollars*

2013			
Davis	\$ 97.6	7.6%	Higher labor costs, increased pension contributions, inflationary and volume increases in services and supplies contributed to the overall operating expense change
Irvine	75.8	11.2%	Increases in salaries, benefits, medical and non-medical supplies and depreciation expenses
Los Angeles	115.5	7.3%	Increase in salary and employee benefits, medical supplies, other supplies and purchased services and an increase in depreciation costs
San Diego	47.5	5.0%	Increased expenses for higher patient volumes, inflation and pension contributions, offset by operational efficiencies from process improvement and more favorable pricing on renegotiated contracts
San Francisco	159.8	8.5%	Higher labor and pension costs, pharmaceuticals and medical supplies, general inflation and higher depreciation due to the implementation of an electronic health record system

Total operating expenses changed in 2012 as follows:

*Increased (decreased) in millions of dollars*

2012			
Davis	\$122.1	10.4%	Higher labor costs, increased pension contributions, inflationary and volume increases in services and supplies, as well as completion of several construction projects contributed to the overall operating expense change
Irvine	56.0	9.0%	Increases in salaries, benefits, medical and non-medical supplies and purchased services
Los Angeles	143.1	9.9%	Higher salary and employee benefits, medical supplies, other supplies and purchased services and an increase in depreciation costs for the replacement hospital and new ambulatory medical office building
San Diego	122.1	14.8%	Higher primarily due to increased salaries, benefits, pension contributions, medical supplies, purchased service, and depreciation for the Sulpizio Cardiovascular Center
San Francisco	166.8	9.7%	Higher labor and pension costs, medical supplies, general inflation and incremental costs associated with the implementation of an electronic health record system

## Salaries and Benefits

Salary and employee benefits expenses include wages paid to employees, vacation, holiday and sick pay, payroll taxes, workers' compensation insurance premiums, health insurance, pension contributions and other employee benefits. Salaries and benefits as a percentage of total operating revenues have changed due to higher pension contributions and operational initiatives as follows:

	2013	2012	2011	
Davis	57.1%	58.3%	54.6%	Growth in operating revenue outpaced the growth in salaries and benefits for 2013
Irvine	53.0%	54.2%	50.5%	Salaries and wages increased as a result of an increase in FTE's and an overall pay increase
Los Angeles	51.3%	51.1%	48.2%	Salaries and benefits increased due to staffing costs related to the implementation of the electronic health record, market pressure wage increases and higher pension contributions
San Diego	48.0%	50.5%	48.7%	Higher pension contributions, and salary increases were partly offset by a reduction of 62 employees resulting from operational improvements
San Francisco	46.1%	47.7%	44.5%	Staffing connected to the implementation of the electronic health record system in 2012 were reduced after the system was placed in service and was partially offset by higher pension contributions

Approximately one-half of the Medical Centers' workforces, including nurses and employees providing ancillary services, expand and contract with patient volumes. Salaries and wages, full-time equivalent (FTE) employees and salary and wage rates changed as follows:

*Increased (decreased) in millions of dollars*

	2013						2012					
	Salaries and Wages		FTEs		Rate Changes		Salaries and Wages		FTEs		Rate Changes	
Davis	\$37.7	6.4%	236	3.4%	\$17.6	2.9%	\$51.8	9.6%	200	3.0%	\$35.9	6.5%
Irvine	27.4	9.2%	301	7.2%	5.6	1.9%	27.1	10.0%	272	6.9%	7.8	2.9%
Los Angeles	30.5	4.3%	284	3.5%	5.4	0.8%	65.4	10.1%	335	4.3%	36.0	5.6%
San Diego	7.6	2.0%	(62)	(1.1%)	12.0	3.2%	42.0	12.4%	376	7.5%	16.7	4.6%
San Francisco	32.2	4.3%	45	0.6%	27.6	3.7%	68.1	10.1%	308	4.5%	39.4	5.4%

Pension costs increased in 2013 and 2012 due to higher contribution rates approved by The Regents. Health and welfare costs increased in 2013 and 2012 due to higher insurance premiums. Employee benefits, which include pension and health and welfare costs, changed as follows:

*Increased (decreased) in millions of dollars*

	2013						2012					
	Employee Benefits		Pension		Health and Welfare		Employee Benefits		Pension		Health and Welfare	
Davis	\$25.2	13.3%	\$19.4	53.2%	\$5.8	3.8%	\$39.8	26.6%	\$17.6	93.0%	\$22.2	17.0%
Irvine	12.5	12.4%	10.5	54.2%	2.0	2.5%	17.9	21.6%	10.0	106.4%	7.9	10.8%
Los Angeles	21.7	10.0%	20.0	45.6%	1.7	1.0%	35.6	19.6%	22.8	109.1%	12.7	7.9%
San Diego	10.7	7.2%	10.6	43.8%	2.4	4.7%	26.8	22.1%	12.9	113.2%	5.8	12.8%
San Francisco	22.3	11.0%	22.4	48.1%	(0.2)	(0.1%)	33.5	19.8%	23.7	101.3%	9.8	6.7%

## Professional Services

Professional services include payments to the Schools of Medicine for physician services in the hospitals and clinics, payments to other health care providers for capitated patients, outside lab fees, organ acquisition fees, transcription fees and legal fees. Professional services changed in 2013 as follows:

*Increased (decreased) in millions of dollars*

2013			
Davis	\$14.0	13.9%	Transplant volume continues to increase, resulting in a higher number of organ acquisitions. Additionally, physician service costs increased due to inflation and patient volume. Legal costs also increased due to ongoing activity.
Irvine	0.9	25.1%	Increase in medical director fees
Los Angeles	12.3	34.3%	Higher costs related to consulting and management fees for a major expense reduction project, information technology consulting costs and a increase in legal fees
San Diego	4.6	12.0%	Professional services were higher due to the provision of new services
San Francisco	9.9	39.4%	Higher costs due to consulting fees for a revenue cycle enhancement project and expense reduction projects

Professional services changed in 2012 as follows:

*Increased (decreased) in millions of dollars*

2012			
Davis	\$13.6	15.5%	Higher costs for medical director, transcription and legal services, as well as increased organ acquisition costs due to higher number of transplants
Irvine	1.1	50.4%	Higher contracted medical director expenses
Los Angeles	2.4	7.3%	Higher costs related to consulting and management fees for a major expense reduction project
San Diego	3.2	8.9%	Professional services were higher due to the provision of new services
San Francisco	5.2	26.2%	Higher costs related to consultant costs associated with the implementation of the electronic health record system that was placed in service in 2012 and commencing a revenue cycle enhancement project

## Medical Supplies

Medical supplies are subject to significant inflationary pressures, due to escalating pharmaceutical costs and continued innovation in implants, prosthetics and other medical supplies. The Medical Centers have ongoing initiatives to control supply utilization and to negotiate competitive pricing. Medical supply expenses, including pharmaceuticals, changed in 2013 as follows:

*Increased (decreased) in millions of dollars*

2013			
Davis	\$10.3	5.4%	Temporary adjustments due to the 340B program contributed to a 12% increase in pharmaceutical costs. Additionally, general medical supplies increased due to inflationary pressures as well as increases in surgical volumes and emergency room visits
Irvine	12.8	13.4%	Increase in surgical supplies and implants
Los Angeles	15.8	7.4%	Increase was due to higher pharmaceutical costs as a result of inflation and an increase in patient acuity. Additionally, medical supplies increased as a result of outpatient surgical volumes and laboratory supply costs
San Diego	6.0	3.1%	Higher patient volume and inflation. Operational efficiencies resulting from process improvements lowered the costs of medical supplies in several major areas and included renegotiated contracts for selected supplies
San Francisco	36.1	13.3%	Increase was due to higher pharmaceutical costs from an expanded pharmacy program, higher transplant costs and general surgical supplies.

Medical supply expenses, including pharmaceuticals, changed in 2012 as follows:

*Increased (decreased) in millions of dollars*

2012			
Davis	\$10.1	5.5%	Inflationary increases, as well as higher volume in procedures, contributed to larger consumption of pharmaceuticals, implants and surgical supplies
Irvine	6.5	7.3%	Inflationary increases in medical supplies and pharmaceuticals, as well as higher acuity level patients
Los Angeles	5.8	2.8%	Higher costs due to inflation and more expensive cancer drugs
San Diego	22.1	13.0%	Higher patient volume and inflation
San Francisco	13.6	5.3%	Higher costs due to inflation

### Other Supplies and Purchased Services

Other supplies and purchased services include non-medical supplies, medical purchased services, repairs and maintenance, administrative, treasury and insurance services. Other supplies and purchased services changed in 2013 as follows:

*Increased (decreased) in millions of dollars*

2013			
Davis	\$ 3.5	3.4%	Increase in related party support, as well as two capital project write-offs, offset by lower consulting costs
Irvine	13.7	10.7%	Increase in residents, non-medical supplies, purchased services and other costs
Los Angeles	28.4	9.7%	Increase in repair and maintenance costs, higher charges for services from the University, increased utility costs, rent and more leased equipment
San Diego	11.5	8.2%	Primarily due to purchased medical services and other purchased services, partially offset by reductions in temporary labor costs
San Francisco	41.2	8.6%	Higher costs due to increased medical services costs

Other supplies and purchased services changed in 2012 as follows:

*Increased (decreased) in millions of dollars*

2012			
Davis	\$ (2.2)	(2.1%)	Decreased consulting and utility costs, higher amount of costs transferred to related parties were offset by increases in telecommunication costs and non-medical supplies
Irvine	8.3	7.0%	Higher nurse registry costs, resident costs, non-medical supplies, facility costs and other purchased services
Los Angeles	18.6	6.7%	Higher organ acquisition costs for transplant cases, increased operating room volume and an increase in outside provider costs for capitated plans; additionally, there were higher costs for purchasing supplies for the Santa Monica replacement hospital and the new Santa Monica ambulatory medical office building
San Diego	19.3	16.1%	Primarily due to temporary labor for nursing registry, rent for the building lease for the Center for Advanced Laboratory Medicine, purchased medical services, maintenance and repair, and other purchased services
San Francisco	38.0	8.6%	Higher costs due to inflation, increased medical services costs and higher costs associated with technology improvements

### Depreciation

Depreciation expense changed in 2013 as follows:

*Increased (decreased) in millions of dollars*

2013			
Davis	\$3.4	4.0%	In the summer of 2012, Parking Structure III was opened and construction on the Cancer Center was completed
Irvine	8.5	17.5%	Increase was due to new additions of equipment and capitalization of completed projects
Los Angeles	6.8	6.6%	Increase was due to a full year of depreciation for the Santa Monica replacement hospital and new medical office building vs. partial depreciation in prior year
San Diego	7.2	16.0%	This was due to completed projects that were capitalized during the year
San Francisco	10.5	11.7%	Increase was due to a new electronic health record system that was placed in service at the end of the previous fiscal year

Depreciation expense changed in 2012 as follows:

*Increased (decreased) in millions of dollars*

2012			
Davis	\$7.1	9.1%	Construction on the Pavilion and Davis Tower buildings was completed in early 2012
Irvine	(4.4)	(8.4%)	Lower costs were related to high value equipment that was fully depreciated in the prior year
Los Angeles	14.9	16.6%	Capitalization of completed projects and the opening of the new Santa Monica replacement hospital and the new Santa Monica ambulatory medical office building
San Diego	9.7	27.3%	Additional depreciation on the newly opened Sulpizio Cardiovascular Center
San Francisco	8.8	10.8%	Due to capital investments in facilities, an electronic medical record system and equipment

### Insurance

The Medical Centers are insured through the University's malpractice, general liability, workers' compensation and health and welfare self-insurance programs. All claims and related expenses are paid from the University's self-insurance funds. Rates for each Medical Center are established based upon claims experience and insurance cost increase or decrease with favorable or unfavorable claims experience.

## Income from Operations

The Medical Centers reported income from operations and operating margins of:

(in millions of dollars)

	2013		2012		2011	
	Income from Operations	Operating Margin	Income from Operations	Operating Margin	Income from Operations	Operating Margin
Davis	\$ 86.4	5.9%	\$44.8	3.4%	\$ 89.7	7.1%
Irvine	73.3	8.9%	57.7	7.8%	78.3	11.2%
Los Angeles	209.1	10.9%	230.5	12.7%	273.7	15.9%
San Diego	140.6	12.4%	95.9	9.2%	115.3	12.2%
San Francisco	123.0	5.7%	95.6	4.8%	174.4	9.2%

Overall, the operating margins for the Medical Centers have generally increased due to higher volumes and more favorable contracted rates. Operating margins for the Medical Centers have decreased due to increased pension contribution requirements and changes in Medicaid reimbursement programs. Overall, the Medical Centers continue to make investments in facilities and electronic health records, and costs during the start-up and implementation periods reduce operation margins.

## Non-operating Revenues (Expenses)

Non-operating revenues and expenses include Hospital Fee Program revenue, interest income and expenses, federal subsidies for bond interest and losses on disposals of capital assets. Non-operating revenues and expenses for the years that ended June 30 were as follows:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
Total net non-operating revenues (expenses):						
<b>2013</b>	\$(11,116)	\$(12,102)	\$(8,044)	\$(3,503)	\$11,878	\$(22,887)
<b>2012</b>	(9,936)	(10,513)	(38,722)	220	5,161	(53,790)
<b>2011</b>	27,911	6,881	15,879	27,950	32,559	111,180

Total net non-operating revenues (expenses) changed in 2013 as follows:

Increased (decreased) in millions of dollars

	2013		
Davis	\$1.2	11.9%	Hospital Fee Program direct grants revenue was lower during 2013 compared to 2012. Due to higher cash balances, interest income was slightly higher; however that was offset by reductions in income from joint ventures
Irvine	1.6	15.1%	Increase in non-operating expenses mainly due to decrease in interest income and subsidies
Los Angeles	30.7	79.2%	Increase revenue from Hospital Fee Program direct grants, recognition of gain on fair market value adjustment to an interest rate swap agreement in 2013, and recognition of losses on an interest rate swap agreement in 2012
San Diego	(3.7)	(1,692.3%)	Lower direct grant portion of the Hospital Fee Program direct grants and lower interest income on cash balances. In addition, interest expense was higher due to a full year of interest on equipment financing obligations and capitalized interest decreased
San Francisco	6.7	130.1%	Lower interest expense as a greater amount of interest cost was capitalized

Total net non-operating revenues (expenses) changed in 2012 as follows:

Increased (decreased) in millions of dollars

	2012		
Davis	\$(37.8)	(135.6%)	Lower direct grant portion of the Hospital Fee Program, as well as increased interest expense costs
Irvine	(17.4)	(252.8%)	Increased interest expenses and decrease in direct grant portion of the Hospital Fee Program
Los Angeles	(54.6)	(343.9%)	Decrease due to recognition of losses on an interest rate swap agreement and lower direct grant portion of the Hospital Fee Program
San Diego	(27.7)	(99.2%)	Lower direct grant portion of the Hospital Fee Program
San Francisco	(27.4)	(84.1%)	Lower direct grant portion of the Hospital Fee Program



In 2012, UCLA Medical Center recognized losses of \$26 million due to discontinuing hedge accounting on some of its interest rate swap agreements when the related variable rate bonds were retired.

## Income Before Other Changes in Net Position

Income before other changes in net position were as follows:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
<b>2013</b>	\$ 75,321	\$61,166	\$201,070	\$137,049	\$134,861	\$609,467
<b>2012</b>	34,873	47,145	191,766	96,105	100,746	470,635
<b>2011</b>	117,629	85,154	289,543	143,220	206,967	842,513

Income before other changes in net position changed in 2013 as follows:

Increased (decreased) in millions of dollars

<b>2013</b>			
Davis	\$40.4	116.0%	The principle driver of the increase over prior year is related to changes in estimates for the Medi-Cal waiver program totaling \$36.8 million
Irvine	14.0	29.7%	Increased operating income was due to growth in revenues exceeding increases in expenses
Los Angeles	9.3	4.9%	The prior year included a hedge termination expense of \$26.1 million
San Diego	40.9	42.6%	The increase in operating revenues outpaced the increase in operating expenses due to reductions in costs that were the result of process improvements in selected areas. These efficiencies largely offset inflation, increased pension contributions and increased depreciation
San Francisco	34.1	33.9%	Increase was due to an increase of outpatient activity and an improved payor mix

Income before other changes in net position changed in 2012 as follows:

Increased (decreased) in millions of dollars

<b>2012</b>			
Davis	\$ (82.8)	(70.4%)	In 2012, Davis recorded \$5.5 million of revenue related to the Medi-Cal waiver program as compared to \$53.2 million for 2011. Additionally, reimbursements were received for the American Reinvestment and Recovery Act which ended in June 2011. In 2012, pension benefit costs also increased by \$36.5 million over 2011
Irvine	(38.0)	(44.6%)	Decrease in income related lower revenues from the Medi-Cal waiver program compared to 2011
Los Angeles	(97.8)	(33.8%)	The decrease in operating revenue was due to lower reimbursements received under the American Reinvestment and Recovery Act, for supplemental Medi-Cal payments which ended in June 2011. Additionally, there was an increase in labor and pension costs
San Diego	(47.1)	(32.9%)	The increase in operating revenue was outpaced somewhat by an increase in operating expenses, particularly for pension contributions and depreciation related to the Sulpizio Cardiovascular Center and other capital expenditures and the Hospital Fee Program direct grants decreased
San Francisco	(106.2)	(51.3%)	Decrease due to lower supplemental payments received under AB 1383, and an increase in labor, pension and technology implementation costs

## Other Changes in Net Position

The following table presents total other changes in net position as follows:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
<b>2013</b>	\$ (15,943)	\$(37,148)	\$(96,324)	\$(10,783)	\$ 18,571	\$(141,627)
<b>2012</b>	41,326	(61,921)	(80,586)	11,433	(55,090)	(144,838)
<b>2011</b>	(23,497)	(47,125)	(57,213)	(38,030)	(15,392)	(181,257)

Health system support includes amounts paid by the Medical Centers to fund Schools of Medicine operating activities, payments to support clinical research and transfers to faculty practice plans, as well as other payments made to support various Schools of Medicine programs. Transfers from the respective campuses to fund capital projects are reported as contributions for building programs.

Other changes in net position changed in 2013 as follows:

*Increased (decreased) in millions of dollars*

<b>2013</b>			
Davis	\$(57.3)	(138.6%)	Funds for building programs were reduced during 2013 due to completion of several large building projects in the prior year. Transfers from the University, net, for 2013 represent loan funding amounts of \$18.6 million and \$4.3 million related party tax offset by an increase of equity related to a division transfer. Health system support transfers totaling \$24.2 million were made during 2013, while a transfer of \$31.6 million was made in 2012 to support academic, research and administrative services of the School of Medicine. The 2012 transfer was offset by a return of unspent capital funds totaling \$30.5 million
Irvine	24.8	40.0%	Increase due to increased contributions for building program and decreased health system support
Los Angeles	(15.7)	(19.5%)	Payments for health system support, representing transfers to the School of Medicine, increased by \$14.2 million
San Diego	(22.2)	(194.3%)	Lower contributions for building program as compared to the prior year. Received \$39.0 million of Children's Hospital Bond Act funds in 2013
San Francisco	73.7	133.7%	Received \$68.8 million of Children's Hospital Bond Act funds

Other changes in net position changed in 2012 as follows:

*Increased (decreased) in millions of dollars*

<b>2012</b>			
Davis	\$(64.8)	(275.9%)	Funds for building programs representing the Surgery and Emergency Pavillion and Parking Structure III for 2012 and Parking Structure III for 2011 were received totaling \$37.0 million and \$13.6 million, respectively. health system support transfers of \$31.6 million and \$41.1 million were made in 2012 and 2011, respectively, to support academic, research and administrative services of the School of Medicine. During 2012, \$30.5 million was returned by the School of Medicine due to a deferral of capital expenditures
Irvine	(14.8)	(31.4%)	Decrease due to increases in health system support
Los Angeles	(23.4)	(40.9%)	Contribution from the University for building program decreased
San Diego	49.5	130.1%	Contributions for the Jacobs Medical Center project included \$29.8 million of Children's Hospital Bond Act funds in 2012 and a \$27.3 million advance on remaining gifts to be raised for the project
San Francisco	(39.7)	(257.9%)	Funds donated to the UCSF Foundation are transferred to UCSF Medical Center and recognized as donated assets when used. During 2012, construction for the Mission Bay project was funded with bond funds rather than donated funds resulting in a lower use of donor funds in 2012

## STATEMENTS OF NET POSITION

The following table is an abbreviated statement of net position at June 30:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
<b>2013</b>						
Current assets:						
Cash	\$ 254,609	\$158,830	\$ 700,743	\$ 185,552	\$ 413,486	\$1,713,220
Patient accounts receivable (net)	215,062	108,313	335,353	171,750	324,577	1,155,055
Other current assets	86,696	76,073	114,113	114,893	107,211	498,986
<b>Total current assets</b>	<b>556,367</b>	<b>343,216</b>	<b>1,150,209</b>	<b>472,195</b>	<b>845,274</b>	<b>3,367,261</b>
Restricted assets		21,018	15,311	120	30,213	66,662
Capital assets (net)	1,077,727	725,978	1,911,573	908,868	1,630,307	6,254,453
Other assets	27,641	2,207	11,746	13,341	7,103	62,038
<b>Total assets</b>	<b>1,661,735</b>	<b>1,092,419</b>	<b>3,088,839</b>	<b>1,394,524</b>	<b>2,512,897</b>	<b>9,750,414</b>
Deferred outflows from interest rate swap agreements			34,623		11,135	45,758
<b>Total deferred outflows of resources</b>			<b>34,623</b>		<b>11,135</b>	<b>45,758</b>
Current liabilities	259,868	162,166	366,885	215,763	288,801	1,293,483
Long-term debt	320,143	295,822	703,166	190,352	842,957	2,352,440
Other liabilities		5,000	126,258	3,393	69,682	204,333
<b>Total liabilities</b>	<b>580,011</b>	<b>462,988</b>	<b>1,196,309</b>	<b>409,508</b>	<b>1,201,440</b>	<b>3,850,256</b>
Net position:						
Invested in capital assets (net)	696,397	427,435	1,149,607	677,957	748,754	3,700,150
Restricted			12,135		21,862	33,997
Unrestricted	385,327	201,996	765,411	307,059	551,976	2,211,769
<b>Total net position</b>	<b>\$1,081,724</b>	<b>\$629,431</b>	<b>\$1,927,153</b>	<b>\$ 985,016</b>	<b>\$1,322,592</b>	<b>\$5,945,916</b>
<b>2012</b>						
Current assets:						
Cash	\$ 158,203	\$ 141,335	\$ 745,094	\$ 120,359	\$ 256,924	\$ 1,421,915
Patient accounts receivable (net)	195,299	108,905	262,394	183,812	329,744	1,080,154
Other current assets	68,565	65,135	56,479	102,174	90,856	383,209
<b>Total current assets</b>	<b>422,067</b>	<b>315,375</b>	<b>1,063,967</b>	<b>406,345</b>	<b>677,524</b>	<b>2,885,278</b>
Restricted assets		37,230	20,723	134	394,277	452,364
Capital assets (net)	1,122,623	726,428	1,862,415	796,358	1,297,071	5,804,895
Other assets	26,162	2,312	10,643	11,092	8,086	58,295
<b>Total assets</b>	<b>1,570,852</b>	<b>1,081,345</b>	<b>2,957,748</b>	<b>1,213,929</b>	<b>2,376,958</b>	<b>9,200,832</b>
Deferred outflows of resources			52,752		16,743	69,495
<b>Total deferred outflows of resources</b>			<b>52,752</b>		<b>16,743</b>	<b>69,495</b>
Current liabilities	192,730	154,785	307,700	138,731	263,972	1,057,918
Long-term debt	355,776	316,147	722,614	214,371	889,407	2,498,315
Other liabilities		5,000	153,884	2,077	71,162	232,123
<b>Total liabilities</b>	<b>548,506</b>	<b>475,932</b>	<b>1,184,198</b>	<b>355,179</b>	<b>1,224,541</b>	<b>3,788,356</b>
Net position:						
Invested in capital assets (net)	727,648	420,363	1,051,459	557,388	759,131	3,515,989
Restricted			17,553		16,970	34,523
Unrestricted	294,698	185,050	757,290	301,362	393,059	1,931,459
<b>Total net position</b>	<b>\$1,022,346</b>	<b>\$ 605,413</b>	<b>\$1,826,302</b>	<b>\$ 858,750</b>	<b>\$1,169,160</b>	<b>\$5,481,971</b>

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
<b>2011</b>						
Current assets:						
Cash	\$ 105,584	\$ 175,692	\$ 598,063	\$ 189,906	\$ 349,008	\$1,418,253
Patient accounts receivable (net)	183,863	96,868	260,936	144,509	322,786	1,008,962
Other current assets	78,011	34,922	48,112	49,922	85,130	296,097
<b>Total current assets</b>	<b>367,458</b>	<b>307,482</b>	<b>907,111</b>	<b>384,337</b>	<b>756,924</b>	<b>2,723,312</b>
Restricted assets			88,970	610	628,185	717,765
Capital assets (net)	1,111,322	712,025	1,728,111	687,612	957,406	5,196,476
Other assets	27,077	64,342	11,122	12,174	21,858	136,573
<b>Total assets</b>	<b>1,505,857</b>	<b>1,083,849</b>	<b>2,735,314</b>	<b>1,084,733</b>	<b>2,364,373</b>	<b>8,774,126</b>
Deferred outflows from interest rate swap agreements			37,959		9,133	47,092
<b>Total deferred outflows of resources</b>			<b>37,959</b>		<b>9,133</b>	<b>47,092</b>
Current liabilities	193,782	133,035	246,448	120,564	243,937	937,766
Long-term debt	365,928	325,625	698,744	212,957	946,642	2,549,896
Other liabilities		5,000	112,959		59,423	177,382
<b>Total liabilities</b>	<b>559,710</b>	<b>463,660</b>	<b>1,058,151</b>	<b>333,521</b>	<b>1,250,002</b>	<b>3,665,044</b>
Net position:						
Invested in capital assets (net)	693,467	367,057	1,036,830	451,683	605,924	3,154,961
Restricted		61,995	17,469	610	13,491	93,565
Unrestricted	252,680	191,137	660,823	298,919	504,089	1,907,648
<b>Total net position</b>	<b>\$ 946,147</b>	<b>\$ 620,189</b>	<b>\$1,715,122</b>	<b>\$ 751,212</b>	<b>\$1,123,504</b>	<b>\$5,156,174</b>

## Cash

Cash changed in 2013 as follows:

*Increased (decreased) in millions of dollars*

<b>2013</b>			
Davis	\$ 96.4	60.9%	Operating activities generated cash that exceeded spending on capital and financing activities
Irvine	17.5	12.4%	Increase due to cash provided from operations
Los Angeles	(44.4)	(6.0%)	Decrease due to slowing of billing and collection as the result of the implementation of the new billing system. Additionally, there were increases in capital purchases and additional payments to the University
San Diego	65.2	54.2%	The increase was due to cash provided by operations and more timely payments for patient accounts receivables and third-party settlements
San Francisco	156.6	60.9%	Increase due to cash provided from operations and receipt of \$68.8 million of Children's Hospital Bond funds

Cash changed in 2012 as follows:

*Increased (decreased) in millions of dollars*

<b>2012</b>			
Davis	\$ 52.6	49.8%	Increase due to equity transfers from the campus for the building program and financing of capital related costs
Irvine	(34.4)	(19.6%)	Decrease in cash on capital exceeded cash provided by operations
Los Angeles	147.0	24.6%	Increased operating revenues and financing of capital related costs
San Diego	(69.5)	(36.6%)	Decrease due to slower collections of patient receivables, delays in payments from the state of California and payments for capital expenditures
San Francisco	(92.1)	(26.4%)	Investments in capital assets and payments of long-term debt obligations exceeded cash generated from operations

## Patient Accounts Receivable

Patient accounts receivable, net of estimated uncollectible accounts, changed in 2013 as follows:

*Increased (decreased) in millions of dollars*

2013			
Davis	\$19.8	10.1%	Accounts receivable increased due to a rate increase in July 2012, a new county health program established in Sacramento County and overall increased volume
Irvine	(0.6)	(0.5%)	Decrease due to timeliness of billing and collections
Los Angeles	73.0	27.8%	Increase due to slowing of billing and collection as a result of the implementation of new billing system and increased value for managed care contract rate increases
San Diego	(12.1)	(6.6%)	Decrease due to cash improvements in the timeliness of collecting patient accounts
San Francisco	(5.2)	(1.6%)	Decrease due to improved timeliness of billing and collections of patient accounts receivable related to the implementation of a new billing system at the end of 2012

Patient accounts receivable, net of estimated uncollectible accounts, changed in 2012 as follows:

*Increased (decreased) in millions of dollars*

2012			
Davis	\$11.4	6.2%	Increases due to higher contracted payor rates and delayed payments from Medi-Cal
Irvine	12.0	12.4%	Increase due to higher patient volumes
Los Angeles	1.5	0.6%	Increase related to higher volume and contracted rates
San Diego	39.3	27.2%	Increase was primarily due to increased patient activity and slower collections of patient accounts
San Francisco	7.0	2.2%	Higher outpatient volumes and higher contracted rates

## Capital Assets

Net capital assets changed in 2013 as follows:

*Increased (decreased) in millions of dollars*

2013			
Davis	\$(44.9)	(4.0%)	Annual depreciation exceeded capital projects for the year
Irvine	(0.5)	(0.1%)	Lower in capital expenditures due to nearly completing the replacement hospital projects
Los Angeles	49.2	2.6%	Purchases of several properties and electronic health record system drove increase in assets, offset by an increase in depreciation
San Diego	112.5	14.1%	Capital spending for construction of the Jacobs Medical Center
San Francisco	333.2	25.7%	Construction costs for the development of Mission Bay hospital facility

Net capital assets changed in 2012 as follows:

*Increased (decreased) in millions of dollars*

2012			
Davis	\$ 11.3	1.0%	Construction of the Cancer Center expansion, a new parking structure and equipment purchases
Irvine	14.4	2.0%	Continued Phase II construction on the hospital
Los Angeles	134.3	7.8%	Implementation costs for the electronic health record and the new Santa Monica ambulatory medical office building
San Diego	108.7	15.8%	Capital spending for construction of the Jacobs Medical Center Project
San Francisco	339.7	35.5%	Development of land at Mission Bay and an increased level of investment in electronic medical record system

## Long-term Debt

Long-term debt changed in 2013 as follows:

*Increased (decreased) in millions of dollars*

2013			
Davis	\$(35.6)	(10.0%)	Debt service payments and retirement of certain bonds, which were replaced with current payable to campus
Irvine	(20.3)	(6.4%)	Debt service payments and retirement of certain bonds, which were replaced with current payable to campus
Los Angeles	(19.4)	(2.7%)	Debt service payments and retirement of certain bonds, which were replaced with current payable to campus
San Diego	(24.0)	(11.2%)	Debt service payments and retirement of certain bonds, which were replaced with current payable to campus
San Francisco	(46.5)	(5.2%)	Debt service payments

Long-term debt changed in 2012 as follows:

*Increased (decreased) in millions of dollars*

2012			
Davis	\$(10.2)	(2.8%)	Debt service payments
Irvine	(9.5)	(2.9%)	Debt service payments
Los Angeles	23.9	3.4%	The new Santa Monica ambulatory office building was financed using a capital lease for \$62.1 million, offset by debt service payments
San Diego	1.4	0.7%	Debt service payments
San Francisco	(57.2)	(6.0%)	Debt service payments and the early payoff of three financing obligations

## LIQUIDITY AND CAPITAL RESOURCES

The following table is an abbreviated statement of cash flows:

*(in thousands of dollars)*

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
<b>2013</b>						
Cash received from operations	\$1,451,394	\$822,288	\$1,793,685	\$1,190,448	\$2,158,503	\$ 7,416,318
Cash payments for operations	(1,273,617)	(692,429)	(1,572,394)	(945,576)	(1,929,555)	(6,413,571)
<b>Net cash provided by operating activities</b>	<b>177,777</b>	<b>129,859</b>	<b>221,291</b>	<b>244,872</b>	<b>228,948</b>	<b>1,002,747</b>
Net cash (used) by noncapital financing activities	(10,785)	(41,570)	(99,697)	(51,249)	(57,673)	(260,974)
<b>Net cash provided by operating and noncapital financing activities</b>	<b>166,992</b>	<b>88,289</b>	<b>121,594</b>	<b>193,623</b>	<b>171,275</b>	<b>741,773</b>
Net cash (used) by capital and related financing activities	(75,409)	(89,519)	(183,518)	(127,619)	(394,859)	(870,924)
Net cash provided (used) by investing activities	4,823	18,725	17,573	(811)	380,146	420,456
<b>Net increase (decrease) in cash</b>	<b>96,406</b>	<b>17,495</b>	<b>(44,351)</b>	<b>65,193</b>	<b>156,562</b>	<b>291,305</b>
Cash — beginning of year	158,203	141,335	745,094	120,359	256,924	1,421,915
<b>Cash — end of year</b>	<b>\$ 254,609</b>	<b>\$158,830</b>	<b>\$ 700,743</b>	<b>\$ 185,552</b>	<b>\$ 413,486</b>	<b>\$ 1,713,220</b>
<b>2012</b>						
Cash received from operations	\$1,346,772	\$693,831	\$1,781,027	\$ 972,100	\$1,947,633	\$ 6,741,363
Cash payments for operations	(1,205,051)	(616,926)	(1,446,400)	(904,121)	(1,744,412)	(5,916,910)
<b>Net cash provided by operating activities</b>	<b>141,721</b>	<b>76,905</b>	<b>334,627</b>	<b>67,979</b>	<b>203,221</b>	<b>824,453</b>
Net cash provided (used) by noncapital financing activities	4,476	(53,172)	(92,391)	(44,789)	(57,511)	(243,387)
<b>Net cash provided by operating and noncapital financing activities</b>	<b>146,197</b>	<b>23,733</b>	<b>242,236</b>	<b>23,190</b>	<b>145,710</b>	<b>581,066</b>
Net cash used by capital and related financing activities	(101,162)	(86,297)	(180,237)	(97,105)	(509,654)	(974,455)
Net cash provided by investing activities	7,584	28,207	85,032	4,368	271,860	397,051
<b>Net increase (decrease) in cash</b>	<b>52,619</b>	<b>(34,357)</b>	<b>147,031</b>	<b>(69,547)</b>	<b>(92,084)</b>	<b>3,662</b>
Cash — beginning of year	105,584	175,692	598,063	189,906	349,008	1,418,253
<b>Cash — end of year</b>	<b>\$ 158,203</b>	<b>\$141,335</b>	<b>\$ 745,094</b>	<b>\$ 120,359</b>	<b>\$ 256,924</b>	<b>\$ 1,421,915</b>

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
<b>2011</b>						
Cash received from operations	\$1,230,301	\$ 704,907	\$1,739,051	\$ 938,706	\$1,890,682	\$ 6,503,647
Cash payments for operations	(1,091,546)	(560,529)	(1,332,903)	(792,545)	(1,637,943)	(5,415,466)
<b>Net cash provided by operating activities</b>	<b>138,755</b>	<b>144,378</b>	<b>406,148</b>	<b>146,161</b>	<b>252,739</b>	<b>1,088,181</b>
Net cash (used) by noncapital financing activities	(764)	(34,246)	(57,969)	(31,375)	(5,801)	(130,155)
<b>Net cash provided by operating and noncapital financing activities</b>	<b>137,991</b>	<b>110,132</b>	<b>348,179</b>	<b>114,786</b>	<b>246,938</b>	<b>958,026</b>
Net cash (used) by capital and related financing activities	(127,832)	(81,483)	(163,277)	(147,763)	492,565	(27,790)
Net cash provided (used) by investing activities	3,606	44,395	7,127	37,588	(607,687)	(514,971)
<b>Net increase (decrease) in cash</b>	<b>13,765</b>	<b>73,044</b>	<b>192,029</b>	<b>4,611</b>	<b>131,816</b>	<b>415,265</b>
Cash — beginning of year	91,819	102,648	406,034	185,295	217,192	1,002,988
<b>Cash — end of year</b>	<b>\$ 105,584</b>	<b>\$ 175,692</b>	<b>\$ 598,063</b>	<b>\$ 189,906</b>	<b>\$ 349,008</b>	<b>\$ 1,418,253</b>

Cash balances represent the Medical Centers' holdings in the University's short-term investment pool (STIP). STIP balances are used by the Medical Centers for operations and to fund program and capital initiatives. Cash flows from operating activities fluctuate primarily based upon income from operations before depreciation adjusted for the timing of collecting patient accounts. Cash flows from noncapital financing activities primarily represent health system support paid to the respective Schools of Medicine to support the faculty practice plan, clinical research and various other programs. Net cash for capital and related financing activities primarily includes purchases of capital assets and principal and interest payments, offset by proceeds from new external financing, contributions for building programs and gifts for capital purposes.

#### *Days Cash on Hand*

Days cash on hand measures the average number of days' expenses the Medical Centers maintain in cash. The goal set by the University of California Office of the President is 60 days. Days cash on hand were as follows:

	2013	2012	2011
Davis	71	48	35
Irvine	83	80	110
Los Angeles	160	184	161
San Diego	72	49	88
San Francisco	78	52	78

#### *Days of Revenue in Accounts Receivable*

The days of revenue in accounts receivable measures the average number of days it takes to collect patient accounts receivable. Days of revenue in accounts receivable were as follows:

	2013	2012	2011
Davis	54	54	54
Irvine	50	56	52
Los Angeles	66	55	58
San Diego	58	68	59
San Francisco	56	62	63

## Debt Service Coverage

Debt service coverage ratio measures the amount of funds available to cover the principal and interest on long-term debt. Debt service coverage ratios were as follows:

	2013	2012	2011
Davis	3.2	2.5	4.0
Irvine	3.5	2.9	5.0
Los Angeles	6.9	6.2	8.7
San Diego	7.6	6.3	3.0
San Francisco	3.2	1.9	4.4

## LOOKING FORWARD

### 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, each 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.

### 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 2011 was signed, amending the PPACA (collectively the “Affordable Care Act”). On June 29, 2012, the Supreme Court upheld the constitutionality of much of the Affordable Care Act. The Affordable Care Act addresses a broad range of topics affecting the health care industry, including a significant expansion of health care 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 innovation and efficiency in the health care delivery system. Some provisions of the health care reform legislation were effective immediately; others are being phased in through 2014. The Medical Centers will likely be affected by the coverage expansion provisions that go into effect in 2014 creating pressure on the Medical Centers to care for more patients without additional financial resources; however, the effect of this legislation is not determinable at this time.



### *University of California Retirement and Other Post-Employment Benefit Plans*

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 the July 1, 2012, actuarial valuation was \$14.5 billion. The Regents approved a new eligibility formula for the Retiree Health Plan for all employees hired on or after July 1, 2013, and non-grandfathered members, that is based on a graduated formula using both a member's age and years of Retirement Plan service credit upon retirement, subject to collective bargaining for represented members.

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, 2012, actuarial valuation was \$10.1 billion or 78.1 percent funded. As of July 1, 2013, the funded ratio is expected to decrease to approximately 76 percent. The total funding policy contributions in the July 1, 2012 actuarial valuations represent 28.7 percent of covered compensation. Member and employer contributions increased to 6.5 percent and 12.0 percent, respectively, of covered compensation in July 2013. Member contributions for the employees in the new benefit tier are 7.0 percent, and the employer rate is uniform across all members. The Regents approved increasing employee member and employer contributions to 8.0 percent and 14.0 percent, respectively, in July 2014. These contribution rates are below UCRP's total funding requirements. The Regents also approved a new tier of pension benefits applicable to employees hired on or after July 1, 2013, which increased the early retirement age from 50 to 55, but retain many of the current features of UCRP. The new tier would not offer lump sum cash-outs, inactive member Cost of Living Adjustments (COLAs) or subsidized survivor annuities for spouses and domestic partners. These changes are subject to collective bargaining for union-represented employees.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the University's fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the University to its employees. This Statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. As of June 30, 2013, the University reported an obligation to UCRP of \$3.4 billion, representing unfunded contributions to UCRP based upon the University's funding policy. Under GASB No. 68, the University's obligation to UCRP is expected to increase. Currently, the Medical Centers do not report an obligation to UCRP, however, under GASB No. 68, the Medical Centers will be reporting their proportionate share of the UCRP obligation.

### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain information provided by the Medical Centers, 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 Centers expect or anticipate will or may occur in the future, contain forward-looking information.



Pain Management  
Scheduled



# Independent Auditors' Report

To the Regents of the University of California

We have audited the accompanying individual financial statements of the University of California - Davis Medical Center, University of California - Irvine Medical Center, University of California - Los Angeles Medical Center, University of California - San Diego Medical Center, and the University of California - San Francisco Medical Center (collectively referred to as the "University of California Medical Centers"), each of which is a division of the University of California (the "University"), which comprise the individual statements of net position as of June 30, 2013 and 2012 and the related individual statements of revenues, expenses and changes in net position, and of cash flows for the years then ended.

## **Management's Responsibility for the Individual Financial Statements**

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

## **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the individual financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the individual financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University of California Medical Centers' preparation and fair presentation of the individual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University of California Medical Centers' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the individual financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinions

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the individual financial positions of the University of California - Davis Medical Center, University of California - Irvine Medical Center, University of California - Los Angeles Medical Center, University of California - San Diego Medical Center, and the University of California - San Francisco Medical Center at June 30, 2013 and 2012, and their individual changes in financial position and their individual cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note 1, the individual financial statements of the University of California Medical Centers 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 University of California Medical Centers. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2013 and 2012, 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. Our opinion is not modified with respect to this matter.

### Other Matters

The accompanying management's discussion and analysis on pages 24 through 49 are required by accounting principles generally accepted in the United States of America to supplement the individual financial statements. Such information, although not a part of the individual financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the individual financial statements in the appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the individual financial statements and other knowledge we obtained during our audits of the individual financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



SAN FRANCISCO, CALIFORNIA  
OCTOBER 9, 2013

## UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

**STATEMENTS OF NET POSITION**

At June 30, 2013 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
<b>ASSETS</b>						
Current assets						
Cash	\$ 254,609	\$ 158,830	\$ 700,743	\$ 185,552	\$ 413,486	\$1,713,220
Net patient accounts receivable	215,062	108,313	335,353	171,750	324,577	1,155,055
Other receivables	2,072	9,974	11,529	10,391	311	34,277
Third-party payor settlements, net	43,534	40,290	58,039	75,377	41,321	258,561
Inventory	21,211	16,042	25,107	18,771	30,352	111,483
Prepaid expenses and other assets	19,879	9,767	19,438	10,354	35,227	94,665
<b>Total current assets</b>	<b>556,367</b>	<b>343,216</b>	<b>1,150,209</b>	<b>472,195</b>	<b>845,274</b>	<b>3,367,261</b>
Restricted assets:						
Cash restricted for hospital construction		21,018	3,176	120	8,351	32,665
Donor funds			12,135		21,862	33,997
Capital assets, net	1,077,727	725,978	1,911,573	908,868	1,630,307	6,254,453
Investments in joint ventures	25,413			9,800		35,213
Deferred costs of issuance	2,228	2,207	5,258	1,938	7,103	18,734
Other assets			6,488	1,603		8,091
<b>Total assets</b>	<b>1,661,735</b>	<b>1,092,419</b>	<b>3,088,839</b>	<b>1,394,524</b>	<b>2,512,897</b>	<b>9,750,414</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred outflows from interest rate swap agreements			34,623		11,135	45,758
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable and accrued expenses	29,426	19,504	96,712	82,286	156,797	384,725
Accrued salaries and benefits	106,089	57,703	138,394	59,477	72,847	434,510
Third-party payor settlements, net	47,805	60,748	15,414	207	2,025	126,199
Current portion of long-term debt and financing obligations	31,721	18,455	10,716	14,269	46,450	121,611
Other liabilities	44,827	5,756	105,649	59,524	10,682	226,438
<b>Total current liabilities</b>	<b>259,868</b>	<b>162,166</b>	<b>366,885</b>	<b>215,763</b>	<b>288,801</b>	<b>1,293,483</b>
Unearned rent				3,393		3,393
Long-term debt and financing obligations, net of current portion	320,143	295,822	703,166	190,352	842,957	2,352,440
Third-party payor settlements, net					58,547	58,547
Notes payable to campus		5,000	75,000			80,000
Interest swap agreements			51,258		11,135	62,393
<b>Total liabilities</b>	<b>580,011</b>	<b>462,988</b>	<b>1,196,309</b>	<b>409,508</b>	<b>1,201,440</b>	<b>3,850,256</b>
<b>NET POSITION</b>						
Invested in capital assets, net of related debt	696,397	427,435	1,149,607	677,957	748,754	3,700,150
Restricted:						
Nonexpendable:						
Endowments			337			337
Expendable:						
Capital projects			1,226		15,362	16,588
Other			10,572		6,500	17,072
Unrestricted	385,327	201,996	765,411	307,059	551,976	2,211,769
<b>Total net position</b>	<b>\$1,081,724</b>	<b>\$ 629,431</b>	<b>\$1,927,153</b>	<b>\$ 985,016</b>	<b>\$ 1,322,592</b>	<b>\$5,945,916</b>

See accompanying notes to financial statements.

## UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

**STATEMENTS OF NET POSITION**

At June 30, 2012 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
<b>ASSETS</b>						
Current assets						
Cash	\$ 158,203	\$ 141,335	\$ 745,094	\$ 120,359	\$ 256,924	\$ 1,421,915
Net patient accounts receivable	195,299	108,905	262,394	183,812	329,744	1,080,154
Other receivables	6,956	3,667	5,105	9,975	277	25,980
Third-party payor settlements, net	25,445	37,985	11,292	64,248	33,142	172,112
Inventory	18,711	14,826	21,972	17,602	28,774	101,885
Prepaid expenses and other assets	17,453	8,657	18,110	10,349	28,663	83,232
<b>Total current assets</b>	<b>422,067</b>	<b>315,375</b>	<b>1,063,967</b>	<b>406,345</b>	<b>677,524</b>	<b>2,885,278</b>
Restricted assets:						
Cash restricted for hospital construction		37,230	3,170	134	377,307	417,841
Donor funds			17,553		16,970	34,523
Capital assets, net	1,122,623	726,428	1,862,415	796,358	1,297,071	5,804,895
Investments in joint ventures	23,806			7,404		31,210
Deferred costs of issuance	2,356	2,312	5,501	2,075	7,371	19,615
Other assets			5,142	1,613	715	7,470
<b>Total assets</b>	<b>1,570,852</b>	<b>1,081,345</b>	<b>2,957,748</b>	<b>1,213,929</b>	<b>2,376,958</b>	<b>9,200,832</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred outflows from interest rate swap agreements			52,752		16,743	69,495
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable and accrued expenses	29,246	23,714	83,240	59,332	154,204	349,736
Accrued salaries and benefits	88,409	52,340	130,642	56,837	73,386	401,614
Third-party payor settlements, net	30,022	53,137	293	6,437	3,261	93,150
Current portion of long-term debt and financing obligations	35,660	21,783	12,627	15,907	25,343	111,320
Other liabilities	9,393	3,811	80,898	218	7,778	102,098
<b>Total current liabilities</b>	<b>192,730</b>	<b>154,785</b>	<b>307,700</b>	<b>138,731</b>	<b>263,972</b>	<b>1,057,918</b>
Unearned rent				2,077		2,077
Long-term debt and financing obligations, net of current portion	355,776	316,147	722,614	214,371	889,407	2,498,315
Third-party payor settlements, net					54,419	54,419
Notes payable to campus		5,000	75,000			80,000
Interest swap agreements			78,884		16,743	95,627
<b>Total liabilities</b>	<b>548,506</b>	<b>475,932</b>	<b>1,184,198</b>	<b>355,179</b>	<b>1,224,541</b>	<b>3,788,356</b>
<b>NET POSITION</b>						
Invested in capital assets, net of related debt	727,648	420,363	1,051,459	557,388	759,131	3,515,989
Restricted:						
Nonexpendable:						
Endowments			337			337
Expendable:						
Capital projects			3,325		10,840	14,165
Other			13,891		6,130	20,021
Unrestricted	294,698	185,050	757,290	301,362	393,059	1,931,459
<b>Total net position</b>	<b>\$1,022,346</b>	<b>\$ 605,413</b>	<b>\$1,826,302</b>	<b>\$ 858,750</b>	<b>\$1,169,160</b>	<b>\$5,481,971</b>

See accompanying notes to financial statements.

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

For the year ended June 30, 2013 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
Net patient service revenue	\$ 1,448,358	\$ 795,678	\$ 1,846,792	\$ 1,088,146	\$ 2,098,463	\$ 7,277,437
Other operating revenue:						
Clinical teaching support		8,727	13,467			22,194
Other	28,089	21,545	54,194	48,942	65,846	218,616
<b>Total other operating revenue</b>	<b>28,089</b>	<b>30,272</b>	<b>67,661</b>	<b>48,942</b>	<b>65,846</b>	<b>240,810</b>
<b>Total operating revenue</b>	<b>1,476,447</b>	<b>825,950</b>	<b>1,914,453</b>	<b>1,137,088</b>	<b>2,164,309</b>	<b>7,518,247</b>
Operating expenses:						
Salaries and wages	628,312	324,434	744,101	387,263	772,994	2,857,104
UCRP, retiree health and other employee benefits	214,548	113,531	238,579	158,777	224,465	949,900
Professional services	115,040	4,236	48,314	43,230	34,919	245,739
Medical supplies	203,246	107,775	229,626	198,127	307,126	1,045,900
Other supplies and purchased services	106,197	141,274	322,548	150,972	521,982	1,242,973
Depreciation and amortization	88,238	56,887	110,964	52,315	100,801	409,205
Insurance	9,304	4,545	11,207	5,852	6,367	37,275
Other	25,125				72,672	97,797
<b>Total operating expenses</b>	<b>1,390,010</b>	<b>752,682</b>	<b>1,705,339</b>	<b>996,536</b>	<b>2,041,326</b>	<b>6,885,893</b>
<b>Income from operations</b>	<b>86,437</b>	<b>73,268</b>	<b>209,114</b>	<b>140,552</b>	<b>122,983</b>	<b>632,354</b>
Non-operating revenues (expenses):						
Hospital Fee Program grants	1,572	(447)	3,293	1,475	551	6,444
Interest income	3,449	2,513	16,057	1,571	16,082	39,672
Build America Bonds federal interest subsidies		3,432	3,522	2,396	15,274	24,624
Interest expense	(18,290)	(17,306)	(37,653)	(8,964)	(16,350)	(98,563)
Gain (loss) on disposal of capital assets	(828)		91	19	(3,679)	(4,397)
Gain on investment derivative			9,496			9,496
Other	2,981	(294)	(2,850)			(163)
<b>Total net non-operating revenues (expenses)</b>	<b>(11,116)</b>	<b>(12,102)</b>	<b>(8,044)</b>	<b>(3,503)</b>	<b>11,878</b>	<b>(22,887)</b>
<b>Income before other changes in net position</b>	<b>75,321</b>	<b>61,166</b>	<b>201,070</b>	<b>137,049</b>	<b>134,861</b>	<b>609,467</b>
Other changes in net position:						
Donated assets	86		6,666	11,331	7,993	26,076
Contributions for building program	19,536	3,975		30,610	68,802	122,923
Transfers (to) from University, net	(11,335)					(11,335)
Health system support	(24,230)	(41,123)	(102,990)	(52,724)	(58,224)	(279,291)
<b>Total other changes in net position</b>	<b>(15,943)</b>	<b>(37,148)</b>	<b>(96,324)</b>	<b>(10,783)</b>	<b>18,571</b>	<b>(141,627)</b>
<b>Increase (decrease) in net position</b>	<b>59,378</b>	<b>24,018</b>	<b>104,746</b>	<b>126,266</b>	<b>153,432</b>	<b>467,840</b>
Net position — beginning of year:						
Beginning of year, as previously reported	1,022,346	605,413	1,826,302	858,750	1,169,160	5,481,971
Cumulative effect of accounting change			(3,895)			(3,895)
Beginning of year, as restated	1,022,346	605,413	1,822,407	858,750	1,169,160	5,478,076
<b>Net position — end of year</b>	<b>\$ 1,081,724</b>	<b>\$ 629,431</b>	<b>\$ 1,927,153</b>	<b>\$ 985,016</b>	<b>\$ 1,322,592</b>	<b>\$ 5,945,916</b>

See accompanying notes to financial statements.



**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

For the year ended June 30, 2012 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
Net patient service revenue	\$ 1,319,423	\$ 709,486	\$ 1,753,609	\$ 996,668	\$ 1,945,325	\$ 6,724,511
Other operating revenue:						
Clinical teaching support		8,648	13,467	6,277	4,287	32,679
Other	17,806	16,435	53,245	41,997	27,522	157,005
<b>Total other operating revenue</b>	<b>17,806</b>	<b>25,083</b>	<b>66,712</b>	<b>48,274</b>	<b>31,809</b>	<b>189,684</b>
<b>Total operating revenue</b>	<b>1,337,229</b>	<b>734,569</b>	<b>1,820,321</b>	<b>1,044,942</b>	<b>1,977,134</b>	<b>6,914,195</b>
Operating expenses:						
Salaries and wages	590,638	297,077	713,574	379,668	740,809	2,721,766
UCRP, retiree health and other employee benefits	189,315	100,998	216,879	148,128	202,215	857,535
Professional services	101,010	3,386	35,966	38,607	25,041	204,010
Medical supplies	192,902	95,012	213,779	192,117	271,048	964,858
Other supplies and purchased services	102,689	127,583	294,123	139,481	480,831	1,144,707
Depreciation and amortization	84,821	48,414	104,124	45,110	90,259	372,728
Insurance	9,875	4,441	11,388	5,946	6,482	38,132
Other	21,170				64,864	86,034
<b>Total operating expenses</b>	<b>1,292,420</b>	<b>676,911</b>	<b>1,589,833</b>	<b>949,057</b>	<b>1,881,549</b>	<b>6,389,770</b>
<b>Income from operations</b>	<b>44,809</b>	<b>57,658</b>	<b>230,488</b>	<b>95,885</b>	<b>95,585</b>	<b>524,425</b>
Non-operating revenues (expenses):						
Hospital Fee Program grants	2,483	10	2,249	1,923	1,973	8,638
Interest income	2,623	3,442	16,785	3,003	24,461	50,314
Build America Bonds federal interest subsidies		3,587	3,290	2,534	16,149	25,560
Gain on bond retirement			8,643			8,643
Interest expense	(18,996)	(17,486)	(33,777)	(7,020)	(37,290)	(114,569)
Gain (loss) on disposal of capital assets	(220)		(3,908)	(220)	(132)	(4,480)
Decrease upon hedge termination			(26,132)			(26,132)
Other	4,174	(66)	(5,872)			(1,764)
<b>Total net non-operating revenues (expenses)</b>	<b>(9,936)</b>	<b>(10,513)</b>	<b>(38,722)</b>	<b>220</b>	<b>5,161</b>	<b>(53,790)</b>
<b>Income before other changes in net position</b>	<b>34,873</b>	<b>47,145</b>	<b>191,766</b>	<b>96,105</b>	<b>100,746</b>	<b>470,635</b>
Other changes in net position:						
Donated assets			8,087	11,399	4,394	23,880
Proceeds received or receivable from FEMA			95			95
Contributions for building program	37,005	(8,739)		46,746		75,012
Transfers (to) from University, net	5,398					5,398
Health system support	(1,077)	(53,182)	(88,768)	(46,712)	(59,484)	(249,223)
<b>Total other changes in net position</b>	<b>41,326</b>	<b>(61,921)</b>	<b>(80,586)</b>	<b>11,433</b>	<b>(55,090)</b>	<b>(144,838)</b>
<b>Increase (decrease) in net position</b>	<b>76,199</b>	<b>(14,776)</b>	<b>111,180</b>	<b>107,538</b>	<b>45,656</b>	<b>325,797</b>
Net position — beginning of year	946,147	620,189	1,715,122	751,212	1,123,504	5,156,174
<b>Net position — end of year</b>	<b>\$1,022,346</b>	<b>\$ 605,413</b>	<b>\$1,826,302</b>	<b>\$858,750</b>	<b>\$ 1,169,160</b>	<b>\$5,481,971</b>

See accompanying notes to financial statements.

**STATEMENTS OF CASH FLOWS**

For the year ended June 30, 2013 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
Cash flows from operating activities:						
Receipts from patients and third-party payors	\$1,427,725	\$803,881	\$1,743,655	\$1,082,849	\$2,098,343	\$7,156,453
Payments to employees	(613,666)	(321,753)	(742,464)	(412,842)	(773,803)	(2,864,528)
Payments to suppliers	(448,437)	(259,821)	(597,467)	(397,439)	(931,557)	(2,634,721)
Payments for benefits	(211,514)	(110,855)	(232,463)	(135,295)	(224,195)	(914,322)
Other receipts (payments)	23,669	18,407	50,030	107,599	60,160	259,865
<b>Net cash provided by operating activities</b>	<b>177,777</b>	<b>129,859</b>	<b>221,291</b>	<b>244,872</b>	<b>228,948</b>	<b>1,002,747</b>
Cash flows from noncapital financing activities:						
Health system support	(24,230)	(41,123)	(102,990)	(52,724)	(58,224)	(279,291)
Grants from the Hospital Fee Program	5,921	(447)	3,293	1,475	551	10,793
Transfers (to) from University	7,524					7,524
<b>Net cash used by noncapital financing activities</b>	<b>(10,785)</b>	<b>(41,570)</b>	<b>(99,697)</b>	<b>(51,249)</b>	<b>(57,673)</b>	<b>(260,974)</b>
Cash flows from capital and related financing activities:						
Proceeds (contributions) for building program	19,536	3,975		30,610	68,802	122,923
Proceeds from legal settlement	13,000		20,546			33,546
Proceeds from financing obligations and other borrowings	6,048	53	127			6,228
Build America Bonds federal interest subsidies		3,432	3,522	2,396	15,274	24,624
Proceeds from sale of capital assets	10			177	84	271
Purchases of capital assets	(58,581)	(58,382)	(161,183)	(145,436)	(407,929)	(831,511)
Principal paid on long-term debt and financing obligations	(37,729)	(21,396)	(12,758)	(15,346)	(25,424)	(112,653)
Interest paid on long-term debt and financing obligations	(17,779)	(17,201)	(37,588)	(11,351)	(53,659)	(137,578)
Gifts and donated funds	86		6,666	11,331	7,993	26,076
Payment to swap counterparty			(2,850)			(2,850)
<b>Net cash used by capital and related financing activities</b>	<b>(75,409)</b>	<b>(89,519)</b>	<b>(183,518)</b>	<b>(127,619)</b>	<b>(394,859)</b>	<b>(870,924)</b>
Cash flows from investing activities:						
Interest income received	3,449	2,513	16,057	1,571	16,082	39,672
Distributions from (contributions to) investments in joint ventures, net	1,350			(2,396)		(1,046)
Change in restricted assets		16,212	1,516	14	364,064	381,806
Other non-operating expenses	24					24
<b>Net cash provided (used) by investing activities</b>	<b>4,823</b>	<b>18,725</b>	<b>17,573</b>	<b>(811)</b>	<b>380,146</b>	<b>420,456</b>
<b>Net increase (decrease) in cash</b>	<b>96,406</b>	<b>17,495</b>	<b>(44,351)</b>	<b>65,193</b>	<b>156,562</b>	<b>291,305</b>
Cash — beginning of year	158,203	141,335	745,094	120,359	256,924	1,421,915
<b>Cash — end of year</b>	<b>\$ 254,609</b>	<b>\$158,830</b>	<b>\$ 700,743</b>	<b>\$ 185,552</b>	<b>\$ 413,486</b>	<b>\$1,713,220</b>

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS  
**STATEMENTS OF CASH FLOWS** *continued*

For the year ended June 30, 2013 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
Reconciliation of income from operations to net cash provided by operating activities:						
Income from operations	\$ 86,437	\$ 73,268	\$ 209,114	\$ 140,552	\$ 122,983	\$ 632,354
Adjustments to reconcile income from operations to net cash provided by operating activities:						
Depreciation and amortization expense	88,238	56,887	110,964	52,315	100,801	409,205
Provision for doubtful accounts	87,326	13,125	55,908	101,832	78,549	336,740
Changes in operating assets and liabilities:						
Patient accounts receivable	(107,089)	(12,533)	(128,867)	(89,770)	(73,382)	(411,641)
Other receivables	4,884	(8,612)	(6,424)	(416)	(34)	(10,602)
Inventory	(2,500)	(1,216)	(3,135)	(1,169)	(1,578)	(9,598)
Prepaid expenses and other assets	(2,426)	(1,110)	(2,674)	5	(5,849)	(12,054)
Accounts payable and accrued expenses	2,482	(2,746)	10,034	5,370	10,523	25,663
Accrued salaries and benefits	17,680	5,363	7,752	2,640	(539)	32,896
Third-party payor settlements	(870)	7,611	(31,626)	(17,359)	(5,287)	(47,531)
Other liabilities	3,615	(178)	245	49,556	2,761	55,999
Unearned rent				1,316		1,316
<b>Net cash provided by operating activities</b>	<b>\$177,777</b>	<b>\$ 129,859</b>	<b>\$221,291</b>	<b>\$244,872</b>	<b>\$ 228,948</b>	<b>\$1,002,747</b>
Supplemental noncash activities information:						
Payables for property and equipment	\$ 1,237	\$ 583	\$ 13,336	\$ 26,410	\$ 27,118	\$ 68,684
Bond retirements	9,370	2,123	7,659	9,750		28,902
Amortization of deferred financing costs	2,296		436		102	2,834
Amortization of bond premium	817	187	802	561	21	2,388
Amortization of deferred costs of issuance	128	105	243	137	268	881
Purchase of capital assets under financing obligations			(702)			(702)
Property and equipment transfers from (to) the University	(983)					(983)
Change in fair value of interest rate swaps			27,626		5,608	33,234
Transfer of liabilities from the University	18,859					18,859

See accompanying notes to financial statements.

**STATEMENTS OF CASH FLOWS**

For the year ended June 30, 2012 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
Cash flows from operating activities:						
Receipts from patients and third-party payors	\$1,334,696	\$ 701,124	\$ 1,728,479	\$ 915,369	\$1,921,147	\$ 6,600,815
Payments to employees	(595,970)	(294,543)	(701,823)	(403,517)	(739,391)	(2,735,244)
Payments to suppliers	(420,047)	(224,585)	(535,808)	(376,002)	(808,020)	(2,364,462)
Payments for benefits	(189,034)	(97,798)	(208,769)	(124,602)	(197,001)	(817,204)
Other receipts (payments)	12,076	(7,293)	52,548	56,731	26,486	140,548
<b>Net cash provided by operating activities</b>	<b>141,721</b>	<b>76,905</b>	<b>334,627</b>	<b>67,979</b>	<b>203,221</b>	<b>824,453</b>
Cash flows from noncapital financing activities:						
Health system support	(1,077)	(53,182)	(88,768)	(46,712)	(59,484)	(249,223)
Grants from the Hospital Fee Program	155	10	2,249	1,923	1,973	6,310
Replacement hospital transition costs			(5,872)			(5,872)
Transfers from University	5,398					5,398
<b>Net cash provided (used) by noncapital financing activities</b>	<b>4,476</b>	<b>(53,172)</b>	<b>(92,391)</b>	<b>(44,789)</b>	<b>(57,511)</b>	<b>(243,387)</b>
Cash flows from capital and related financing activities:						
Proceeds (contributions) for building program	37,005	(8,739)		46,747		75,013
Proceeds from FEMA			95			95
Proceeds from financing obligations	36,043	19,950		18,535		74,528
Bond issuance costs		(32)				(32)
Build America Bonds federal interest subsidies		3,587	3,290	2,534	16,149	25,560
Proceeds from sale of capital assets	20			37	550	607
Purchases of capital assets	(109,765)	(63,044)	(138,102)	(151,702)	(408,869)	(871,482)
Principal paid on long-term debt and financing obligations	(46,276)	(21,886)	(14,825)	(13,233)	(65,001)	(161,221)
Interest paid on long-term debt and financing obligations	(18,189)	(17,443)	(38,782)	(11,422)	(56,877)	(142,713)
Gifts and donated funds			8,087	11,399	4,394	23,880
Other		1,310				1,310
<b>Net cash used by capital and related financing activities</b>	<b>(101,162)</b>	<b>(86,297)</b>	<b>(180,237)</b>	<b>(97,105)</b>	<b>(509,654)</b>	<b>(974,455)</b>
Cash flows from investing activities:						
Interest income received	2,623	3,442	16,785	3,003	24,461	50,314
Distributions from (contributions to) investments in joint ventures, net	5,110			889		5,999
Change in restricted assets		24,765	68,247	476	247,399	340,887
Other non-operating expenses	(149)					(149)
<b>Net cash provided by investing activities</b>	<b>7,584</b>	<b>28,207</b>	<b>85,032</b>	<b>4,368</b>	<b>271,860</b>	<b>397,051</b>
<b>Net increase (decrease) in cash</b>	<b>52,619</b>	<b>(34,357)</b>	<b>147,031</b>	<b>(69,547)</b>	<b>(92,084)</b>	<b>3,662</b>
Cash — beginning of year	105,584	175,692	598,063	189,906	349,008	1,418,253
<b>Cash — end of year</b>	<b>\$ 158,203</b>	<b>\$ 141,335</b>	<b>\$ 745,094</b>	<b>\$ 120,359</b>	<b>\$ 256,924</b>	<b>\$ 1,421,915</b>

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS  
**STATEMENTS OF CASH FLOWS** *continued*

For the year ended June 30, 2012 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
Reconciliation of income from operations to net cash provided by operating activities:						
Income from operations	\$ 44,809	\$ 57,658	\$ 230,488	\$ 95,885	\$ 95,585	\$ 524,425
Adjustments to reconcile income from operations to net cash provided by operating activities:						
Depreciation and amortization expense	84,821	48,414	104,124	45,110	90,259	372,728
Provision for doubtful accounts	82,569	11,632	39,757	98,192	72,724	304,874
Changes in operating assets and liabilities:						
Patient accounts receivable	(94,005)	(23,669)	(41,215)	(137,495)	(79,682)	(376,066)
Other receivables	(188)	(29,459)	(2,775)	(1,986)	1,147	(33,261)
Inventory	(3,098)	(1,261)	(566)	(1,311)	(746)	(6,982)
Prepaid expenses and other assets	(6,309)	507	(2,317)	(466)	(1,330)	(9,915)
Accounts payable and accrued expenses	3,600	2,148	8,710	4,784	36,846	56,088
Accrued salaries and benefits	3,356	5,735	19,861	5,185	6,632	40,769
Third-party payor settlements	26,709	3,675	(25,360)	(41,996)	(17,220)	(54,192)
Other liabilities	(543)	1,525	3,920		(994)	3,908
Unearned rent				2,077		2,077
<b>Net cash provided by operating activities</b>	<b>\$ 141,721</b>	<b>\$ 76,905</b>	<b>\$ 334,627</b>	<b>\$ 67,979</b>	<b>\$ 203,221</b>	<b>\$ 824,453</b>
Supplemental noncash activities information:						
Payables for property and equipment	\$ 3,539	\$ 2,047	\$ 9,897	\$ 8,826	\$ 35,048	\$ 59,357
Bond retirements			25,750			25,750
Amortization of deferred financing costs	2,411		331		105	2,847
Amortization of bond premium	862	62	207	561	21	1,713
Amortization of deferred costs of issuance	128	70	447	137	269	1,051
Gain on bond retirements			8,643			8,643
Purchase of capital assets under financing obligations			62,140			62,140
Property and equipment transfers from (to) the University	(10)					(10)
Decrease upon hedge termination			26,133			26,133
Change in fair value of interest rate swaps			14,793		7,610	22,403

See accompanying notes to financial statements.

# Notes to Financial Statements

*Years ended June 30, 2013 and 2012*

## 1. ORGANIZATION

The University of California, Medical Centers (the “Medical Centers”) are part of the University of California (the “University”), a California public corporation under Article IX, Section 9 of the California Constitution. The University is administered by The Regents of the University of California (“The Regents”) of which, under the formation documents of the University, administrative authority with respect to the Medical Centers is vested in the President of the University. The Medical Centers consist of the University of California, Davis Medical Center (“UC Davis Medical Center” or “Davis”), the University of California, Irvine Medical Center (“UC Irvine Medical Center” or “Irvine”), the University of California, Los Angeles Medical Center (“UCLA Medical Center” or “Los Angeles”), the University of California, San Diego Medical Center (“UCSD Medical Center” or “San Diego”) and the University of California, San Francisco Medical Center (“UCSF Medical Center” or “San Francisco”). The Medical Centers provide educational and clinical opportunities for students in the University’s Schools of Medicine (“Schools of Medicine”) and offers a comprehensive array of medical services including tertiary and quaternary care services.

The financial statements of the Medical Centers 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 Centers.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The financial statements of the Medical Centers 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”). 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.

The Medical Centers periodically receive notification of a financial interest in various charitable trusts where the assets are invested and administered by outside trustees. Effective July 1, 2012, the Medical Centers changed its accounting policy and does not record these gifts until the time requirements have been met and the assets are received. The impact of this change in accounting principle resulted in a reduction to the beginning of the year net position for the fiscal year ended June 30, 2013 of \$3.9 million for the UCLA Medical Center.

The significant accounting policies of the University are as follows:

**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 the investment policy, which is carried out by the Treasurer of The Regents.

All of the Medical Centers’ cash is deposited into the STIP. All Medical Centers 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.

None of these amounts are insured by the Federal Deposit Insurance Corporation. To date, the Medical Centers have not experienced any losses on these accounts.

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

Additional information on cash and investments can be obtained from the 2012–2013 annual report of the University.

**Funds Held By Trustees.** The University and campus foundations have been named the irrevocable beneficiary for several charitable remainder trusts for which the University and campus foundations are not the trustee. Upon maturity of each trust, the remainder of the trust corpus will be transferred to the University or the campus foundation. These funds cannot be sold, disbursed or consumed until a specified number of years have passed or a specific event has occurred. The University and campus foundations are also an income beneficiary of certain trusts where the assets are invested and administered by outside trustees.

Consistent with the University’s and campus foundations’ recognition policy for pledges of endowment, receivables and contribution revenue associated with these trusts are not reflected in the accompanying financial statements. The University and campus foundations recognize contribution revenue when all eligibility requirements have been met.

**Inventory.** The Medical Centers’ 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 Centers’ prepaid expenses are primarily prepayments for pharmaceuticals and medical supplies, rent, equipment and maintenance contracts.

**Restricted Assets, Held by Trustee.** Proceeds from the Medical Centers’ 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 are deposited in STIP.

**Restricted Assets, Donor Funds.** The Medical Centers have been designated as the trustee for several charitable remainder trusts. The trusts are established by donors to provide income to designated beneficiaries, generally for life. Upon maturity, the principal in the trusts will be distributed to the Medical Centers. Trust assets are recorded at fair market value.

The Medical Centers have been named the irrevocable beneficiary for several charitable remainder trusts for which the Medical Centers are not the trustee. Upon maturity of each trust, the remainder of the trust corpus will be transferred to the Medical Center. These funds cannot be sold, disbursed or consumed until a specified number of years have passed or a specific event has occurred. The Medical Centers recognize contribution revenue when all eligibility requirements have been met.

**Capital Assets.** The Medical Centers’ capital assets are reported at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets. 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 5 to 20 years for equipment. University guidelines mandate that land purchased with the Medical Centers’ funds are recorded as an asset of the Medical Centers. Land utilized by the Medical Centers but purchased with other sources of funds is recorded as an asset of the University. Significant additions, replacements, major repairs and renovations to infrastructure and buildings are generally capitalized if the cost exceeds \$35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations. Equipment with a cost in excess of \$5,000 and a useful life of more than one year is capitalized. All costs are capitalized. 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 on borrowings to finance facilities is capitalized during construction, net of any investment income earned on tax-exempt borrowings during the temporary investment of project-related borrowings.

**Investments in Joint Ventures.** The Medical Centers have entered into joint-venture arrangements with various third-party entities that include home health services, cancer center operations and a health maintenance organization. Investments in these joint ventures are recorded using the equity method.

**Interest Rate Swap Agreements.** The Medical Centers have entered into interest rate swap agreements to limit the exposure of their 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.

Interest rate swaps are recorded at fair value as either assets or liabilities in the statements of net position. The Medical Centers have determined that 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 position.

At the time of pricing certain interest rate swaps, the fixed rate of the swaps was off-market such that the Medical Centers received an up-front payment. As such, the swaps are composed of a derivative instrument, an at-the-market swap, and a companion instrument, a borrowing, represented by the up-front payment. 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.

**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 composed 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 Centers' statements of net position. These costs are being amortized as interest expense over the remaining life of the defeased or refinanced bonds, whichever is shorter.

**Net Position.** Net position is 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 Centers classify net position 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 position subject to externally imposed restrictions that must be retained in perpetuity by the Medical Centers.

*Expendable* — Net position whose use by the Medical Centers is subject to externally imposed restrictions that can be fulfilled by actions of the Medical Centers pursuant to those restrictions or that expire by the passage of time.

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

Expenses are charged to either restricted or unrestricted net position based upon a variety of factors, including consideration of prior and future revenue sources, the type of expense incurred, the Medical Center's budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost.



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

Operating revenue includes net patient service revenue reported at the estimated net realizable amounts from patients, third-party payors including Medicare and Medi-Cal, and others for services rendered, including estimated retroactive audit adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. The Medical Centers believe that it is in compliance with all applicable laws and regulations related to the Medicare and Medi-Cal programs.

The Medical Centers estimate and recognize a provision for doubtful accounts and the allowance for doubtful accounts based on historical experience.

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

Non-operating revenue and expense includes Hospital Fee Program grants, interest income and expense, federal interest subsidies, gains on bond retirements, the gain or loss on the disposal of capital assets, and other non-operating revenue and expenses.

Health system support, donated assets, proceeds from FEMA, contributions for building program, and transfers to the University are classified as other changes in net position.

**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 Centers, 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 Centers. Contributions from the Medical Centers to the UCRHBT are effectively made to a cost-sharing single-employer health plan administered by the University. The Medical Centers are required to contribute at a rate assessed each year by the University. As a result, the Medical Centers' required contributions are recognized as an expense in the statements of revenues, expenses and changes in net position.

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

**Charity Care.** The Medical Centers provide 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 Centers also provide 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 Centers have 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 Centers at will (subject to certain restrictive covenants or bond indentures) and use that cash at its discretion. The Medical Centers record expense transactions where direct and incremental economic benefits are received by the Medical Centers. Payments, which constitute subsidies or payments for which the Medical Centers do not receive direct and incremental economic benefit, are recorded as health system support in the statements of revenues, expenses and changes in net position.

Certain expenses are allocated from the University to the Medical Centers. Allocated expenses reported as operating expenses in the statements of revenues, expenses and changes in net position are management's best estimates of the Medical Centers' 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 Centers, they are recorded as health system support.

**Compensated Absences.** The Medical Centers accrue 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.

**Comparative Information.** Certain amounts on the statement of net position for UC Irvine Medical Center, statements of revenues, expenses and changes in net position for UC Davis Medical Center and UC San Diego Medical Center, and statement of cash flows for UCLA Medical Center have been reclassified for 2012 to conform with the 2013 presentation.

**New Accounting Pronouncements.** In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for the Medical Centers' fiscal year beginning July 1, 2013. This Statement reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Medical Centers are evaluating the effect that Statement No. 65 will have on its financial statements.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*, effective for the Medical Centers' fiscal year beginning July 1, 2013. This Statement resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Medical Centers are evaluating the effect that Statement No. 66 will have on its financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the Medical Centers' fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the University to its employees. This Statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. As of June 30, 2013, the University reported an obligation to UCRP of \$3.4 billion, representing unfunded contributions to UCRP based upon the University's funding policy. Under GASB No. 68, the University's obligation to UCRP is expected to increase. Currently, the Medical Centers do not report an obligation to UCRP, however, under GASB No. 68, the Medical Centers will be reporting their proportionate share of the UCRP obligation.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for the University's fiscal year beginning July 1, 2014. This Statement establishes standards for accounting and financial reporting of government combinations and disposals of government operations. Government combinations include mergers, acquisitions and transfers of operations of government or nongovernment entities to a continuing government. The Statement includes guidance for measuring the assets and liabilities that are acquired in a combination, either with or without

consideration. The provisions of this Statement are applicable on a prospective basis to combinations that occur after the effective date. The Medical Centers are evaluating the effect that Statement No. 69 will have on its financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the University's fiscal year beginning July 1, 2013. This Statement establishes standards for recording a liability when a government extends a nonexchange financial guarantee for the obligations of another government, a not-for-profit organization, a private entity or an individual without receiving equal or nearly equal value in exchange. As part of the nonexchange financial guarantee, the government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. This standard requires the government that extends a nonexchange financial guarantee to record a liability when qualitative factors and historical data indicate that its more likely than not that the government will be required to make a payment on the guarantee. The Medical Centers are evaluating the effect that Statement No. 70 will have on its financial statements.

### 3. NET PATIENT SERVICE REVENUE

The Medical Centers have agreements with third-party payors that provide for payments at amounts different from the Medical Centers' 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 Centers do not believe that there are significant credit risks associated with the Medicare program.

The Medical Centers are 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 Centers' 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 Centers' have received final notices from the Medicare fiscal intermediary through June 30, 2003, for UC Davis Medical Center; through June 30, 2007, for UC Irvine Medical Center; through June 30, 2007, for Ronald Reagan UCLA Medical Center; through June 30, 2010, for the Santa Monica Hospital; through June 30, 2011, for the Resnick Neuropsychiatric Hospital; through June 30, 2007, for UCSD Medical Center; and through June 30, 2002, for the UCSF Medical Center. 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 position 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 legislation enacted by the State of California. Medi-Cal outpatient FFS services are reimbursed based on a fee schedule. The total payments made to the Medical Centers will include a combination of Medi-Cal inpatient FFS payments, Medi-Cal Disproportionate Share Hospital ("DSH") payments and the Safety Net Care Pool ("SNCP"). Effective November 2011, the Medical Centers are also eligible to receive incentive payments designed to encourage delivery system innovation in preparation for the implementation of federal health care reform.

**Assembly Bill 1383.** State of California Assembly Bill 1383 of 2009, as amended by AB 1653 on September 8, 2010, and extended through 2013, established 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 was April 1, 2009, through December 31, 2013, and was predicated, in part, on the enhanced Federal Medicaid Assistance Percentage contained in the American Reinvestment and Recovery Act ("ARRA"). The Hospital Fee Program makes supplemental payments to hospitals for various health care services and supports the state's effort to maintain health care coverage for children. The Medical Centers, designated as public hospitals, are exempt from paying the Quality Assurance Fee; however,

the Medical Centers receive supplemental payments under the Hospital Fee Program. For the years ended June 30, the Medical Centers received net patient revenues and state grants, which have been reported as net patient service revenue and non-operating revenue respectively, as follows:

*(in thousands of dollars)*

	PATIENT REVENUES		STATE GRANTS	
	2013	2012	2013	2012
Davis	\$ 11,121	\$ 3,061	\$ 3,843	\$ 2,483
Irvine	18,305	3,600	2,926	10,100
Los Angeles	9,519	2,398	3,293	2,249
San Diego	3,620	1,330	1,475	1,923
San Francisco	12,437	2,626	551	1,973
<b>Total</b>	<b>\$ 55,002</b>	<b>\$ 13,015</b>	<b>\$ 12,088</b>	<b>\$ 18,728</b>

**Assembly Bill 915.** State of California Assembly Bill 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, which are matched with federal Medicaid funds. For the years that ended June 30, the Medical Centers recorded revenue of:

*(in thousands of dollars)*

	2013	2012
Davis	\$ 5,207	\$ 12,886
Irvine	2,209	2,700
Los Angeles	9,200	9,200
San Diego	12,091	11,750
San Francisco	11,354	11,049
<b>Total</b>	<b>\$ 40,061</b>	<b>\$ 47,585</b>

**Senate Bill 1732.** State of California Senate Bill 1732 provides for supplemental Medi-Cal reimbursement to disproportionate share hospitals for costs (i.e., principal and interest) of qualified patient care capital construction. For the years ended June 30, the Medical Centers applied for and received additional revenue related to the reimbursement of costs for certain debt-financed construction projects based on the Medical Center's Medi-Cal utilization rate, as follows:

*(in thousands of dollars)*

	2013	2012
Davis	\$ 8,071	\$ 8,240
San Diego	1,775	3,100
<b>Total</b>	<b>\$ 9,846</b>	<b>\$ 11,340</b>

**Other.** The Medical Centers have entered into agreements with numerous nongovernment 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 Centers 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 HMOs and PPOs that reimburse the Medical Centers at contracted or per-diem rates, which are usually less than full charges.
- Capitated contracts with health plans that reimburse the Medical Centers on a per-member-per-month basis, regardless of whether services are actually rendered. The Medical Centers assume 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 Centers share in any surplus associated with health care utilization as defined in the related contracts. Additionally, the Medical Centers 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 Centers 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 as a percentage of net patient accounts receivable at June 30 are as follows:

	MEDICARE		MEDI-CAL	
	2013	2012	2013	2012
Davis	21.2%	20.9%	13.4%	11.8%
Irvine	18.8%	11.8%	21.7%	21.0%
Los Angeles	15.1%	16.5%	5.3%	3.7%
San Diego	14.7%	13.7%	8.4%	9.4%
San Francisco	11.0%	10.9%	6.9%	6.2%

For the years that ended June 30, net patient service revenue included amounts due to favorable (or unfavorable) cost report settlements with Medicare, Medi-Cal, County Medical Services Program and changes in estimate for settlements related to Medi-Cal as follows:

*(in thousands of dollars)*

	2013	2012
Davis	\$27,178	\$ 19,000
Irvine	(4,549)	7,400
Los Angeles	7,843	(3,373)
San Diego	9,602	5,561
San Francisco	22,212	26,101
<b>Total</b>	<b>\$62,286</b>	<b>\$54,689</b>

For the years that ended June 30, net patient accounts receivable and net patient service revenues are presented net of doubtful accounts as follows:

	PATIENT ACCOUNTS RECEIVABLE ALLOWANCE		PATIENT SERVICE REVENUE ALLOWANCE	
	2013	2012	2013	2012
Davis	\$ 49,161	\$ 47,403	\$ 87,326	\$ 82,569
Irvine	4,206	5,081	13,125	11,632
Los Angeles	76,637	84,132	55,908	39,757
San Diego	50,616	64,616	101,832	98,192
San Francisco	19,567	22,088	78,549	72,724
<b>Total</b>	<b>\$200,187</b>	<b>\$223,320</b>	<b>\$336,740</b>	<b>\$304,874</b>

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
<b>2013</b>						
Medicare (non-risk)	\$ 336,699	\$ 178,503	\$ 414,822	\$ 233,407	\$ 414,436	\$ 1,577,867
Medicare (risk)			44,813		1,673	46,486
Medi-Cal (non-risk)	286,163	174,290	145,676	188,129	164,279	958,537
Contract (discounted or per diem)	682,486	405,907	1,202,372	625,012	1,459,956	4,375,733
Contract (capitated)	121,936				2,961	124,897
County	17,404	30,929		37,289	18,985	104,607
Non-sponsored/self-pay	3,670	6,049	39,109	4,309	36,173	89,310
<b>Total</b>	<b>\$1,448,358</b>	<b>\$795,678</b>	<b>\$1,846,792</b>	<b>\$1,088,146</b>	<b>\$2,098,463</b>	<b>\$7,277,437</b>
<b>2012</b>						
Medicare (non-risk)	\$ 314,046	\$ 165,639	\$ 385,038	\$ 208,555	\$ 364,687	\$ 1,437,965
Medicare (risk)			44,980		6,646	51,626
Medi-Cal (non-risk)	240,071	156,520	149,815	192,516	183,681	922,603
Contract (discounted or per diem)	637,102	361,523	1,145,645	563,010	1,336,917	4,044,197
Contract (capitated)	112,408				2,208	114,616
County	10,443	20,476		28,171	17,234	76,324
Non-sponsored/self-pay	5,353	5,328	28,131	4,416	33,952	77,180
<b>Total</b>	<b>\$1,319,423</b>	<b>\$709,486</b>	<b>\$1,753,609</b>	<b>\$ 996,668</b>	<b>\$1,945,325</b>	<b>\$6,724,511</b>

#### 4. CHARITY CARE

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
<b>2013</b>						
Charity care at established rates	\$186,460	\$93,972	\$19,914	\$111,595	\$32,455	\$444,396
Estimated cost of charity care	43,934	19,222	7,564	32,910	8,222	111,852
Estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs	175,119	26,200	42,059	33,885	119,172	396,435
<b>2012</b>						
Charity care at established rates	\$253,708	\$77,250	\$26,224	\$108,265	\$25,697	\$491,144
Estimated cost of charity care	52,094	17,178	9,286	33,545	6,689	118,792
Estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs	121,308	31,700	42,693	28,386	80,632	304,719

## 5. RESTRICTED ASSETS, DONOR FUNDS

Restricted assets due to donor restrictions are invested and remitted to the Medical Centers 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 as of June 30 is as follows:

*(in thousands of dollars)*

	LOS ANGELES	SAN FRANCISCO	TOTAL
<b>2013</b>			
STIP	\$11,394	\$21,862	\$33,256
Mutual funds	30		30
Charitable remainder trusts	711		711
<b>Total</b>	<b>\$12,135</b>	<b>\$21,862</b>	<b>\$33,997</b>
<b>2012</b>			
STIP	\$12,946	\$16,970	\$29,916
Mutual funds	30		30
Charitable remainder trusts	4,577		4,577
<b>Total</b>	<b>\$17,553</b>	<b>\$16,970</b>	<b>\$34,523</b>

Donor restricted funds are available for the following purposes:

*(in thousands of dollars)*

	LOS ANGELES	SAN FRANCISCO	TOTAL
<b>2013</b>			
Capital projects	\$ 1,226	\$15,362	\$16,588
Endowments	337		337
Operations	10,572	6,500	17,072
<b>Total</b>	<b>\$12,135</b>	<b>\$21,862</b>	<b>\$33,997</b>
<b>2012</b>			
Capital projects	\$ 3,325	\$ 10,840	\$ 14,165
Endowments	337		337
Operations	13,891	6,130	20,021
<b>Total</b>	<b>\$17,553</b>	<b>\$16,970</b>	<b>\$34,523</b>

Gifts and pledges are included in the financial statements of the University and transferred to the Medical Centers when used. Additional gift funds and pledges received by the related campus or foundation but not used by the Medical Centers as of June 30, 2013 and 2012, are not included in the financial statements of the Medical Centers.

## 6. CAPITAL ASSETS

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

(in thousands of dollars)

DAVIS	2011	ADDITIONS	DISPOSALS	2012	ADDITIONS	DISPOSALS	2013
ORIGINAL COST							
Land	\$ 36,675			\$ 36,675			\$ 36,675
Buildings and improvements	1,226,489	\$ 50,608	\$ (263)	1,276,834	\$ 32,993	\$ (4,114)	1,305,713
Equipment	394,903	46,683	(31,832)	409,754	28,356	(31,860)	406,250
Construction in progress	58,368	(919)		57,449	(16,186)		41,263
<b>Capital assets, at cost</b>	<b>\$ 1,716,435</b>	<b>\$ 96,372</b>	<b>\$(32,095)</b>	<b>\$ 1,780,712</b>	<b>\$ 45,163</b>	<b>\$(35,974)</b>	<b>\$ 1,789,901</b>

	2011	DEPRECIATION	DISPOSALS	2012	DEPRECIATION	DISPOSALS	2013
ACCUMULATED DEPRECIATION							
Buildings and improvements	\$ 362,855	\$ 39,090	\$ (197)	\$ 401,748	\$ 40,180	\$ (3,105)	\$ 438,823
Equipment	242,258	45,731	(31,648)	256,341	48,059	(31,049)	273,351
<b>Accumulated depreciation</b>	<b>\$ 605,113</b>	<b>\$ 84,821</b>	<b>\$(31,845)</b>	<b>\$ 658,089</b>	<b>\$ 88,239</b>	<b>\$(34,154)</b>	<b>\$ 712,174</b>
<b>Capital assets, net</b>	<b>\$ 1,111,322</b>			<b>\$ 1,122,623</b>			<b>\$ 1,077,727</b>

(in thousands of dollars)

IRVINE	2011	ADDITIONS	DISPOSALS	2012	ADDITIONS	DISPOSALS	2013
ORIGINAL COST							
Land	\$ 12,394	\$ 24		\$ 12,418			\$ 12,418
Buildings and improvements	716,191	27,130	\$ (598)	742,723	\$ 36,924	\$ (311)	779,336
Equipment	234,092	36,277	(7,044)	263,325	35,134	(17,155)	281,304
Construction in progress	27,344	835		28,179	(15,342)		12,837
<b>Capital assets, at cost</b>	<b>\$ 990,021</b>	<b>\$ 64,266</b>	<b>\$(7,642)</b>	<b>\$ 1,046,645</b>	<b>\$ 56,716</b>	<b>\$(17,466)</b>	<b>\$ 1,085,895</b>

	2011	DEPRECIATION	DISPOSALS	2012	DEPRECIATION	DISPOSALS	2013
ACCUMULATED DEPRECIATION							
Buildings and improvements	\$ 158,592	\$ 27,846	\$ (598)	\$ 185,840	\$ 30,510	\$ (311)	\$ 216,039
Equipment	119,404	20,568	(5,595)	134,377	26,302	(16,801)	143,878
<b>Accumulated depreciation</b>	<b>\$ 277,996</b>	<b>\$ 48,414</b>	<b>\$(6,193)</b>	<b>\$ 320,217</b>	<b>\$ 56,812</b>	<b>\$(17,112)</b>	<b>\$ 359,917</b>
<b>Capital assets, net</b>	<b>\$ 712,025</b>			<b>\$ 726,428</b>			<b>\$ 725,978</b>



(in thousands of dollars)

LOS ANGELES	2011	ADDITIONS	DISPOSALS	2012	ADDITIONS	DISPOSALS	2013
ORIGINAL COST							
Land	\$ 17,442	\$ 13,297		\$ 30,739	\$ 21,185		\$ 51,924
Buildings and improvements	1,391,698	439,681	\$ (8,593)	1,822,786	14,076	\$ 490	1,837,352
Equipment	396,642	81,772	(33,076)	445,338	196,889	(39,128)	603,099
Construction in progress	432,031	(292,414)		139,617	(72,120)		67,497
<b>Capital assets, at cost</b>	<b>\$2,237,813</b>	<b>\$242,336</b>	<b>\$(41,669)</b>	<b>\$2,438,480</b>	<b>\$160,030</b>	<b>\$(38,638)</b>	<b>\$2,559,872</b>

	2011	DEPRECIATION	DISPOSALS	2012	DEPRECIATION	DISPOSALS	2013
ACCUMULATED DEPRECIATION							
Buildings and improvements	\$ 250,378	\$ 45,575	\$ (380)	\$ 295,573	\$ 50,113	\$ (4,420)	\$ 341,266
Equipment	259,324	58,549	(37,381)	280,492	60,850	(34,309)	307,033
<b>Accumulated depreciation</b>	<b>\$ 509,702</b>	<b>\$104,124</b>	<b>\$(37,761)</b>	<b>\$ 576,065</b>	<b>\$110,963</b>	<b>\$(38,729)</b>	<b>\$ 648,299</b>
<b>Capital assets, net</b>	<b>\$1,728,111</b>			<b>\$1,862,415</b>			<b>\$1,911,573</b>

(in thousands of dollars)

SAN DIEGO	2011	ADDITIONS	DISPOSALS	2012	ADDITIONS	DISPOSALS	2013
ORIGINAL COST							
Land	\$ 4,550	\$ 4,091		\$ 8,641			\$ 8,641
Buildings and improvements	650,196	47,187		697,383	\$ 67,988		765,371
Equipment	217,792	33,121	\$ (5,141)	245,772	25,583	\$ (7,537)	263,818
Construction in progress	129,813	70,027	(312)	199,528	71,782	(372)	270,938
<b>Capital assets, at cost</b>	<b>\$1,002,351</b>	<b>\$154,426</b>	<b>\$(5,453)</b>	<b>\$1,151,324</b>	<b>\$165,353</b>	<b>\$(7,909)</b>	<b>\$1,308,768</b>

	2011	DEPRECIATION	DISPOSALS	2012	DEPRECIATION	DISPOSALS	2013
ACCUMULATED DEPRECIATION							
Buildings and improvements	\$ 211,693	\$ 21,466		\$ 233,159	\$25,750		\$258,909
Equipment	103,046	23,644	\$ (4,883)	121,807	26,564	\$ (7,380)	140,991
<b>Accumulated depreciation</b>	<b>\$ 314,739</b>	<b>\$ 45,110</b>	<b>\$(4,883)</b>	<b>\$ 354,966</b>	<b>\$52,314</b>	<b>\$(7,380)</b>	<b>\$399,900</b>
<b>Capital assets, net</b>	<b>\$ 687,612</b>			<b>\$ 796,358</b>			<b>\$908,868</b>

(in thousands of dollars)

SAN FRANCISCO	2011	ADDITIONS	DISPOSALS	2012	ADDITIONS	DISPOSALS	2013
ORIGINAL COST							
Land	\$ 118,349	\$ 173		\$ 118,522	\$ 314		\$ 118,836
Buildings and improvements	909,935	29,470		939,405	58,279		997,684
Equipment	361,419	168,471	\$ (22,745)	507,145	63,866	\$ (25,324)	545,687
Construction in progress	288,774	232,492	(58)	521,208	315,341	(212)	836,337
<b>Capital assets, at cost</b>	<b>\$1,678,477</b>	<b>\$430,606</b>	<b>\$(22,803)</b>	<b>\$2,086,280</b>	<b>\$437,800</b>	<b>\$(25,536)</b>	<b>\$2,498,544</b>

	2011	DEPRECIATION	DISPOSALS	2012	DEPRECIATION	DISPOSALS	2013
ACCUMULATED DEPRECIATION							
Buildings and improvements	\$ 487,174	\$ 44,731		\$ 531,905	\$ 44,796		\$ 576,701
Equipment	233,897	45,528	\$ (22,121)	257,304	56,005	\$ (21,773)	291,536
<b>Accumulated depreciation</b>	<b>\$ 721,071</b>	<b>\$ 90,259</b>	<b>\$(22,121)</b>	<b>\$ 789,209</b>	<b>\$100,801</b>	<b>\$(21,773)</b>	<b>\$ 868,237</b>
<b>Capital assets, net</b>	<b>\$ 957,406</b>			<b>\$1,297,071</b>			<b>\$1,630,307</b>

(in thousands of dollars)

<b>TOTAL</b>	<b>2011</b>	<b>ADDITIONS</b>	<b>DISPOSALS</b>	<b>2012</b>	<b>ADDITIONS</b>	<b>DISPOSALS</b>	<b>2013</b>
<b>ORIGINAL COST</b>							
Land	\$ 189,410	\$ 17,585		\$ 206,995	\$ 21,499		\$ 228,494
Buildings and improvements	4,894,509	594,076	\$ (9,454)	5,479,131	210,260	\$ (3,935)	5,685,456
Equipment	1,604,848	366,324	(99,838)	1,871,334	349,828	(121,004)	2,100,158
Construction in progress	936,330	10,021	(370)	945,981	283,475	(584)	1,228,872
<b>Capital assets, at cost</b>	<b>\$ 7,625,097</b>	<b>\$ 988,006</b>	<b>\$ (109,662)</b>	<b>\$ 8,503,441</b>	<b>\$ 865,062</b>	<b>\$ (125,523)</b>	<b>\$ 9,242,980</b>
<b>ACCUMULATED DEPRECIATION</b>							
Buildings and improvements	\$ 1,470,692	\$ 178,708	\$ (1,175)	\$ 1,648,225	\$ 191,349	\$ (7,836)	\$ 1,831,738
Equipment	957,929	194,020	(101,628)	1,050,321	217,780	(111,312)	1,156,789
<b>Accumulated depreciation</b>	<b>\$ 2,428,621</b>	<b>\$ 372,728</b>	<b>\$ (102,803)</b>	<b>\$ 2,698,546</b>	<b>\$ 409,129</b>	<b>\$ (119,148)</b>	<b>\$ 2,988,527</b>
<b>Capital assets, net</b>	<b>\$ 5,196,476</b>			<b>\$ 5,804,895</b>			<b>\$ 6,254,453</b>

Equipment under financing obligations and related accumulated amortization at June 30 were as follows:

(in millions of dollars)

	<b>DAVIS</b>	<b>IRVINE</b>	<b>LOS ANGELES</b>	<b>SAN DIEGO</b>	<b>SAN FRANCISCO</b>	<b>TOTAL</b>
<b>2013</b>						
Equipment under financing obligations	\$ 85	\$ 78	\$ 123	\$ 46	\$ 57	\$ 389
Accumulated amortization	(37)	(49)	(54)	(18)	(32)	(190)
<b>Total</b>	<b>\$ 48</b>	<b>\$ 29</b>	<b>\$ 69</b>	<b>\$ 28</b>	<b>\$ 25</b>	<b>\$ 199</b>
<b>2012</b>						
Equipment under financing obligations	\$ 103	\$ 93	\$ 141	\$ 47	\$ 96	\$ 480
Accumulated amortization	(42)	(50)	(65)	(12)	(50)	(219)
<b>Total</b>	<b>\$ 61</b>	<b>\$ 43</b>	<b>\$ 76</b>	<b>\$ 35</b>	<b>\$ 46</b>	<b>\$ 261</b>

The Medical Centers are making seismic improvements in order to be in compliance with Senate Bill 1953, Hospital Facilities Seismic Safety Act. The University has acquired certain facilities and equipment to make seismic improvements under financing obligations with the State of California Public Works Board. These facilities and equipment were contributed at cost by the University to the Medical Centers to support the operations of the Medical Centers. 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 Centers. Proceeds from the lease-revenue bonds are contributed to the Medical Centers from the University and are reported as contributions for building program on the statements of revenues, expenses and changes in net position.

Each Medical Center is eligible for \$69.0 million of grant funding from the Children's Hospital Bond Act of 2004 and 2008 for capital expenditures that support pediatric services. Grant funds are received upon approval of qualifying capital expenditures and are reported as contributions for building program on the statements of revenues, expenses and changes in net position.

## 7. PAYABLES TO CAMPUSES

The UCLA Medical Center has an internal line of credit in the amount of \$75.0 million from the UCLA campus Chancellor reported as a note payable to campus. The line of credit expires in June 2024 and accrued interest at the STIP rate of an annual average of 2.1 percent for the year ended June 30, 2013. As of June 30, 2013, and June 30, 2012, \$75.0 million was outstanding. Interest expense for the years ended June 30, 2013 and 2012, was \$0. Effective July 1, 2011, the campus has agreed to waive periodic interest payments for an undetermined time period.

As of June 30, 2013 and 2012, Irvine Medical Center has a note payable in the amount of \$5.0 million to campus to be repaid over a 15-year period by June 2025.

The Medical Centers have payables to the campuses for advances received to finance capital projects and retire certain Medical Center Pooled Revenue Bonds. The advances were financed through the University's commercial paper program. The payables bear interest at the commercial paper rate and are due on demand when the University refinances these commercial paper proceeds into long-term bonds. In August 2013, the advances were refinanced into long-term bonds. The payables are reported as other current liabilities on the statements of net position. Amounts outstanding as of June 30 are as follows:

*(in thousands of dollars)*

	NOTE PAYABLE — DUE TO CAMPUS	
	2013	2012
Davis	\$ 28,964	\$ 735
Irvine	2,491	711
Los Angeles	94,911	73,652
San Diego	59,524	218
San Francisco	497	497
<b>Total</b>	<b>\$186,387</b>	<b>\$75,813</b>

## 8. INTEREST RATE SWAP AGREEMENTS

As a means to lower the UCLA and UCSF Medical Centers' borrowing costs, when compared against fixed-rate bonds at the time of issuance, the UCLA and UCSF Medical Centers entered into interest rate swap agreements in connection with their variable-rate Medical Center Pooled Revenue Bonds. Under the swap agreements, the Medical Centers pay the swap counterparty a fixed interest rate payment and receive a variable-rate interest payment to effectively change the variable-rate bonds to synthetic fixed-rate bonds. For the hedging derivatives, the notional amount of the swap matches the principal amount of the variable-rate Medical Center Pooled Revenue Bonds, and the swap agreement contains scheduled reductions to outstanding notional amounts that match scheduled reductions in the variable-rate bonds.

The UCLA Medical Center initially determined that its interest rate swap agreements were hedging derivatives that hedge future cash flows for its variable-rate Medical Center Pooled Revenue Bonds. In 2012, a portion of the variable-rate Medical Center Pooled Revenue Bonds for the UCLA Medical Center was retired, and the UCLA Medical Center reclassified the related interest rate swap from a hedging derivative to an investment derivative.

At the time of pricing the interest rate swaps, the fixed rate on each of the swaps was off-market such that the UCLA Medical Center received an up-front payment. As such, the swaps consist of a derivative instrument, an at-the-market swap, and a companion instrument, a borrowing, represented by the up-front payment. The unamortized amount of the borrowing was \$29.6 million and \$30.1 million at June 30, 2013 and 2012, respectively.

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

(in thousands of dollars)

	NOTIONAL AMOUNT		FAIR VALUE - POSITIVE (NEGATIVE)			CHANGES IN FAIR VALUE		
	2013	2012	CLASSIFICATION	2013	2012	CLASSIFICATION	2013	2012
<b>Los Angeles</b>	124,775	124,775	Other noncurrent (liabilities)	\$(34,623)	\$(52,752)	Deferred (inflows)/ outflows	\$18,129	\$(14,793)
	50,000	50,000	Other noncurrent assets (liabilities)	(16,635)	(26,132)	Increase (decrease) upon hedge termination	9,497	(26,132)
<b>San Francisco</b>	80,220	83,115	Other noncurrent (liabilities)	(11,135)	(16,743)	Deferred (inflows)/ outflows	5,608	(7,610)

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, 2013 or 2012.

Additional terms with respect to the outstanding interest rate swaps, classified as both hedging and investment derivatives, along with the credit rating of the counterparty, are as follows:

(in thousands of dollars)

TERMS	NOTIONAL AMOUNT	EFFECTIVE DATE	MATURITY DATE	CASH PAID OR RECEIVED	COUNTERPARTY CREDIT RATING
<b>LOS ANGELES</b>					
<b>Hedging Derivatives</b>					
Pay fixed 4.550 percent; receive 67 percent of 3-Month LIBOR* + 0.61 percent**	31,610	2008	2030	None	A2/A+
Pay fixed 4.625 percent; receive 67 percent of 3-Month LIBOR* + 0.67 percent**	38,670	2008	2037	None	A2/A+
Pay fixed 4.6935 percent; receive 67 percent of 3-Month LIBOR* + 0.74 percent**	54,495	2008	2043	None	A2/A+
<b>Investment Derivatives</b>					
Pay fixed 4.741 percent; receive 67 percent of 3-Month LIBOR* + 0.79 percent**	50,000	2008	2047	None	A2/A+
<b>SAN FRANCISCO</b>					
Pay fixed 3.5897 percent; receive 58 percent of 1-Month LIBOR* + 0.48 percent**	80,220	2007	2032	None	Aa1/AA

\* London Interbank Offered Rate (LIBOR)

\*\* Weighted average spread

**Credit Risk.** The Medical Centers could be exposed to credit risk if the counterparties to the swap contracts are unable to meet the terms of the contracts. Contracts with positive fair values are exposed to credit risk. The Medical Centers face a maximum possible loss equivalent to the amount of the swap contract's fair value, less any collateral held by the Medical Centers provided by the counterparties. Swap contracts with negative fair values are not exposed to credit risk. Although the Medical Centers have entered into the interest rate swap contracts with a creditworthy financial institutions, there is credit risk for losses in the event of non-performance by counterparties or unfavorable interest rate movements.

There are no collateral requirements related to the swaps held by the UCSF Medical Center. Depending on the fair value of all of the swap contracts, the University, on behalf of the UCLA Medical Center, 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 \$75.0 million or the cash and investments held by all five of the University's Medical Centers fall below \$250.0 million. As of June 30, 2013 and 2012, there was no collateral required.

*Custodial Credit Risk.* Interest rate swaps do not exist in physical or book-entry form and, as a result, custodial credit risk is remote.

*Foreign Currency Risk.* The interest rates swaps are denominated in U.S. dollars, therefore there is no foreign currency risk.

*Interest Rate Risk.* There is a risk the value of the interest rate swaps 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. Effective duration is the approximate change in price of a security resulting from a 100 basis point (1 percentage point) change in the level of interest rates. It is not a measure of time. The effective duration for the interest rate swap classified as an investment derivative is 19.4.

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

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

*Termination Risk.* There is termination risk for losses on the interest rate swaps classified as hedging derivatives 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 Centers may also owe a termination payment if there is a realized loss based on the fair value of the swap.

## 9. LONG-TERM DEBT AND FINANCING OBLIGATIONS

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
<b>2013</b>						
University of California Medical Center Pooled Revenue Bonds:						
2007 Series A	\$ 62,594	\$ 60,595	\$ 240,750	\$ 18,522	\$ 42,390	\$ 424,851
2007 Series B					80,220	80,220
2007 Series C			155,905			155,905
2008 Series D	251,750					251,750
2009 Series E		65,400	2,680	13,360	1,520	82,960
2009 Series F Build America Bonds		155,854	143,320	110,355	19,620	429,149
2010 Series G & I			15,940	30,260		46,200
2010 Series H Build America Bonds					700,000	700,000
University of California Hospital Revenue Bonds 2004 (University of California, Los Angeles Medical Center, Series A and B)			77,730			77,730
Financing obligations	48,580	29,345	67,312	27,576	46,067	218,880
Other borrowing			29,107			29,107
<b>Total Bonds</b>	<b>362,924</b>	<b>311,194</b>	<b>732,744</b>	<b>200,073</b>	<b>889,817</b>	<b>2,496,752</b>
Unamortized bond premium	6,458	3,083	2,531	4,548	683	17,303
Unamortized deferred financing costs	(17,518)		(21,393)		(1,093)	(40,004)
<b>Total debt and financing obligations</b>	<b>351,864</b>	<b>314,277</b>	<b>713,882</b>	<b>204,621</b>	<b>889,407</b>	<b>2,474,051</b>
Less: Amounts due within one year	(31,721)	(18,455)	(10,716)	(14,269)	(46,450)	(121,611)
<b>Noncurrent portion of debt and financing obligations</b>	<b>\$ 320,143</b>	<b>\$ 295,822</b>	<b>\$ 703,166</b>	<b>\$ 190,352</b>	<b>\$ 842,957</b>	<b>\$ 2,352,440</b>

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
<b>2012</b>						
University of California Medical Center Pooled Revenue Bonds:						
2007 Series A	\$ 63,344	\$ 61,320	\$ 243,635	\$ 18,742	\$ 42,899	\$ 429,940
2007 Series B					83,115	83,115
2007 Series C			156,280			156,280
2008 Series D	266,530					266,530
2009 Series E		71,320	2,680	13,360	1,600	88,960
2009 Series F Build America Bonds		155,854	143,320	110,355	19,620	429,149
2010 Series G & I			17,410	33,930		51,340
2010 Series H Build America Bonds					700,000	700,000
University of California Hospital Revenue Bonds 2004 (University of California, Los Angeles Medical Center, Series A and B)			80,795			80,795
University of California General Revenue Bonds:						
2003 Series A		2,123				2,123
2003 Series B	10,089		8,246	10,789		29,124
Financing obligations	64,011	44,044	72,367	37,993	68,007	286,422
Other borrowing			29,556			29,556
<b>Total Bonds</b>	<b>403,974</b>	<b>334,661</b>	<b>754,289</b>	<b>225,169</b>	<b>915,241</b>	<b>2,633,334</b>
Unamortized bond premium	7,276	3,269	3,334	5,109	704	19,692
Unamortized deferred financing costs	(19,814)		(22,382)		(1,195)	(43,391)
<b>Total debt and financing obligations</b>	<b>391,436</b>	<b>337,930</b>	<b>735,241</b>	<b>230,278</b>	<b>914,750</b>	<b>2,609,635</b>
Less: Amounts due within one year	(35,660)	(21,783)	(12,627)	(15,907)	(25,343)	(111,320)
<b>Noncurrent portion of debt and financing obligations</b>	<b>\$355,776</b>	<b>\$ 316,147</b>	<b>\$722,614</b>	<b>\$214,371</b>	<b>\$889,407</b>	<b>\$2,498,315</b>

Significant terms of the Medical Centers' outstanding debt are as follows:

	INTEREST RATE	INTEREST PAYMENT FREQUENCY	PRINCIPAL PAYMENT TERMS
University of California Medical Center Pooled Revenue Bonds:			
2007 Series A	4.5 percent to 5.0 percent	Semi-annually	Beginning in 2012 through 2047
2007 Series B	0.04 percent	Monthly	Through 2032
2007 Series C	1.1 percent	Quarterly	Through 2045
2008 Series D	3.5 percent to 5.3 percent	Semi-annually	Through 2027
2009 Series E	3.0 percent to 5.5 percent	Semi-annually	Beginning in 2012 through 2038
2009 Series F Build America Bonds	4.3 percent, after 35 percent federal subsidy	Semi-annually	Beginning in 2012 through 2049
2010 Series G & I	2.9 percent to 5.8 percent	Semi-annually	Beginning in 2012 through 2025
2010 Series H Build America Bonds	4.2 percent, after 35 percent federal subsidy	Semi-annually	Beginning in 2021 through 2048
University of California Hospital Revenue Bonds 2004 (University of California, Los Angeles Medical Center, Series A and B)	4.0 percent to 5.5 percent	Semi-annually	Through 2039
Financing obligations (primarily for computer and medical equipment, collateralized by underlying equipment)	Fixed interest rates of 1.1 percent to 9.4 percent	Monthly, Quarterly	Through 2019

Total interest expense and interest capitalized during the years ended June 30 are as follows:

*(in thousands of dollars)*

	2013		2012		
	INTEREST EXPENSE	INTEREST CAPITALIZED	INTEREST EXPENSE	INTEREST CAPITALIZED	INVESTMENT INCOME CAPITALIZED
Davis	\$ 18,290	\$ 901	\$ 18,996	\$ 794	
Irvine	17,306		17,486	424	\$ 1,149
Los Angeles	37,653		33,777	5,536	194
San Diego	8,964	1,963	7,020	3,978	
San Francisco	16,350	37,801	37,290	19,854	
<b>Total</b>	<b>\$98,563</b>	<b>\$ 40,665</b>	<b>\$114,569</b>	<b>\$30,586</b>	<b>\$ 1,343</b>



The activity with respect to current and noncurrent debt is as follows:

(in thousands of dollars)

<b>DAVIS</b>	<b>REVENUE BONDS</b>	<b>FINANCING OBLIGATIONS</b>	<b>TOTAL</b>
<i>Year ended June 30, 2013</i>			
Long-term debt and financing obligations at June 30, 2012	\$327,426	\$64,010	\$391,436
New obligations		6,048	6,048
Principal payments and bond retirements	(25,619)	(21,480)	(47,099)
Amortization of bond premium	(817)		(817)
Amortization of deferred financing costs	2,296		2,296
<b>Long-term debt and financing obligations at June 30, 2013</b>	<b>303,286</b>	<b>48,578</b>	<b>351,864</b>
Less: Current portion of long-term debt and financing obligations	(14,591)	(17,130)	(31,721)
<b>Noncurrent portion of long-term debt and financing obligations at June 30, 2013</b>	<b>\$288,695</b>	<b>\$31,448</b>	<b>\$320,143</b>
<i>Year ended June 30, 2012</i>			
Long-term debt and financing obligations at June 30, 2011	\$341,954	\$58,165	\$400,119
New obligations		36,043	36,043
Principal payments and bond retirements	(16,078)	(30,198)	(46,276)
Amortization of bond premium	(862)		(862)
Amortization of deferred financing costs	2,412		2,412
<b>Long-term debt and financing obligations at June 30, 2012</b>	<b>327,426</b>	<b>64,010</b>	<b>391,436</b>
Less: Current portion of long-term debt and financing obligations	(14,770)	(20,890)	(35,660)
<b>Noncurrent portion of long-term debt and financing obligations at June 30, 2012</b>	<b>\$312,656</b>	<b>\$43,120</b>	<b>\$355,776</b>

(in thousands of dollars)

<b>IRVINE</b>	<b>REVENUE BONDS</b>	<b>FINANCING OBLIGATIONS</b>	<b>TOTAL</b>
<i>Year ended June 30, 2013</i>			
Long-term debt and financing obligations at June 30, 2012	\$293,888	\$44,042	\$337,930
New obligations		53	53
Principal payments and bond retirements	(8,769)	(14,750)	(23,519)
Amortization of bond premium	(187)		(187)
<b>Long-term debt and financing obligations at June 30, 2013</b>	<b>284,932</b>	<b>29,345</b>	<b>314,277</b>
Less: Current portion of long-term debt and financing obligations	(6,945)	(11,510)	(18,455)
<b>Noncurrent portion of long-term debt and financing obligations at June 30, 2013</b>	<b>\$277,987</b>	<b>\$17,835</b>	<b>\$295,822</b>
<i>Year ended June 30, 2012</i>			
Long-term debt and financing obligations at June 30, 2011	\$ 300,724	\$ 39,204	\$ 339,928
New obligations		19,950	19,950
Principal payments and bond retirements	(6,774)	(15,112)	(21,886)
Amortization of bond premium	(62)		(62)
<b>Long-term debt and financing obligations at June 30, 2012</b>	<b>293,888</b>	<b>44,042</b>	<b>337,930</b>
Less: Current portion of long-term debt and financing obligations	(6,645)	(15,138)	(21,783)
<b>Noncurrent portion of long-term debt and financing obligations at June 30, 2012</b>	<b>\$ 287,243</b>	<b>\$28,904</b>	<b>\$316,147</b>

(in thousands of dollars)

<b>LOS ANGELES</b>	<b>REVENUE BONDS</b>	<b>FINANCING OBLIGATIONS</b>	<b>OTHER BORROWINGS*</b>	<b>TOTAL</b>
<i>Year ended June 30, 2013</i>				
Long-term debt and financing obligations at June 30, 2012	\$633,319	\$72,365	\$29,557	\$735,241
New obligations		(702)	127	(575)
Principal payments and bond retirements	(16,043)	(4,351)	(24)	(20,418)
Amortization of bond premium	(802)			(802)
Amortization of deferred financing costs	989		(553)	436
<b>Long-term debt and financing obligations at June 30, 2013</b>	<b>617,463</b>	<b>67,312</b>	<b>29,107</b>	<b>713,882</b>
Less: Current portion of long-term debt and financing obligations	(7,503)	(2,604)	(609)	(10,716)
<b>Noncurrent portion of long-term debt and financing obligations at June 30, 2013</b>	<b>\$609,960</b>	<b>\$64,708</b>	<b>\$28,498</b>	<b>\$703,166</b>
<i>Year ended June 30, 2012</i>				
Long-term debt and financing obligations at June 30, 2011	\$ 666,301	\$ 16,931	\$ 30,079	\$ 713,311
New obligations		62,140		62,140
Principal payments and bond retirements	(33,629)	(6,706)		(40,335)
Amortization of bond premium	(207)			(207)
Amortization of deferred financing costs	854		(522)	332
<b>Long-term debt and financing obligations at June 30, 2012</b>	<b>633,319</b>	<b>72,365</b>	<b>29,557</b>	<b>735,241</b>
Less: Current portion of long-term debt and financing obligations	(7,737)	(4,337)	(553)	(12,627)
<b>Noncurrent portion of long-term debt and financing obligations at June 30, 2012</b>	<b>\$ 625,582</b>	<b>\$68,028</b>	<b>\$ 29,004</b>	<b>\$ 722,614</b>

\*Other borrowings includes \$103 long-term loan from the University as of June 30, 2013.

(in thousands of dollars)

<b>SAN DIEGO</b>	<b>REVENUE BONDS</b>	<b>FINANCING OBLIGATIONS</b>	<b>TOTAL</b>
<i>Year ended June 30, 2013</i>			
Long-term debt and financing obligations at June 30, 2012	\$ 192,285	\$ 37,993	\$ 230,278
Principal payments and bond retirements	(14,679)	(10,417)	(25,096)
Amortization of bond premium	(561)		(561)
<b>Long-term debt and financing obligations at June 30, 2013</b>	<b>177,045</b>	<b>27,576</b>	<b>204,621</b>
Less: Current portion of long-term debt and financing obligations	(4,606)	(9,663)	(14,269)
<b>Noncurrent portion of long-term debt and financing obligations at June 30, 2013</b>	<b>\$172,439</b>	<b>\$17,913</b>	<b>\$ 190,352</b>
<i>Year ended June 30, 2012</i>			
Long-term debt and financing obligations at June 30, 2011	\$ 197,619	\$ 27,918	\$ 225,537
New obligations		18,535	18,535
Principal payments and bond retirements	(4,773)	(8,460)	(13,233)
Amortization of bond premium	(561)		(561)
<b>Long-term debt and financing obligations at June 30, 2012</b>	<b>192,285</b>	<b>37,993</b>	<b>230,278</b>
Less: Current portion of long-term debt and financing obligations	(5,490)	(10,417)	(15,907)
<b>Noncurrent portion of long-term debt and financing obligations at June 30, 2012</b>	<b>\$ 186,795</b>	<b>\$ 27,576</b>	<b>\$ 214,371</b>

(in thousands of dollars)

<b>SAN FRANCISCO</b>	<b>REVENUE BONDS</b>	<b>FINANCING OBLIGATIONS</b>	<b>TOTAL</b>
<i>Year ended June 30, 2013</i>			
Long-term debt and financing obligations at June 30, 2012	\$ 846,743	\$ 68,007	\$ 914,750
Principal payments and bond retirements	(3,484)	(21,940)	(25,424)
Amortization of bond premium	(21)		(21)
Amortization of deferred financing costs	102		102
<b>Long-term debt and financing obligations at June 30, 2013</b>	<b>843,340</b>	<b>46,067</b>	<b>889,407</b>
Less: Current portion of long-term debt and financing obligations	(3,537)	(42,913)	(46,450)
<b>Noncurrent portion of long-term debt and financing obligations at June 30, 2013</b>	<b>\$839,803</b>	<b>\$ 3,154</b>	<b>\$842,957</b>
<i>Year ended June 30, 2012</i>			
Long-term debt and financing obligations at June 30, 2011	\$ 850,024	\$ 129,643	\$ 979,667
Principal payments and bond retirements	(3,365)	(61,636)	(65,001)
Amortization of bond premium	(21)		(21)
Amortization of deferred financing costs	105		105
<b>Long-term debt and financing obligations at June 30, 2012</b>	<b>846,743</b>	<b>68,007</b>	<b>914,750</b>
Less: Current portion of long-term debt and financing obligations	(3,403)	(21,940)	(25,343)
<b>Noncurrent portion of long-term debt and financing obligations at June 30, 2012</b>	<b>\$843,340</b>	<b>\$ 46,067</b>	<b>\$889,407</b>

(in thousands of dollars)

<b>TOTAL</b>	<b>REVENUE BONDS</b>	<b>FINANCING OBLIGATIONS</b>	<b>OTHER BORROWINGS</b>	<b>TOTAL</b>
<i>Year ended June 30, 2013</i>				
Long-term debt and financing obligations at June 30, 2012	\$ 2,293,661	\$ 286,417	\$ 29,557	\$ 2,609,635
New obligations		5,399	127	5,526
Principal payments and bond retirements	(68,594)	(72,938)	(24)	(141,556)
Amortization of bond premium	(2,388)			(2,388)
Amortization of deferred financing costs	3,387		(553)	2,834
<b>Long-term debt and financing obligations at June 30, 2013</b>	<b>2,226,066</b>	<b>218,878</b>	<b>29,107</b>	<b>2,474,051</b>
Less: Current portion of long-term debt and financing obligations	(37,182)	(83,820)	(609)	(121,611)
<b>Noncurrent portion of long-term debt and financing obligations at June 30, 2013</b>	<b>\$2,188,884</b>	<b>\$135,058</b>	<b>\$28,498</b>	<b>\$2,352,440</b>
<i>Year ended June 30, 2012</i>				
Long-term debt and financing obligations at June 30, 2011	\$ 2,356,622	\$ 271,861	\$ 30,079	\$ 2,658,562
New obligations		136,668		136,668
Principal payments and bond retirements	(64,619)	(122,112)		(186,731)
Amortization of bond premium	(1,713)			(1,713)
Amortization of deferred financing costs	3,371		(522)	2,849
<b>Long-term debt and financing obligations at June 30, 2012</b>	<b>2,293,661</b>	<b>286,417</b>	<b>29,557</b>	<b>2,609,635</b>
Less: Current portion of long-term debt and financing obligations	(38,045)	(72,722)	(553)	(111,320)
<b>Noncurrent portion of long-term debt and financing obligations at June 30, 2012</b>	<b>\$2,255,616</b>	<b>\$213,695</b>	<b>\$29,004</b>	<b>\$2,498,315</b>

Medical Centers' 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 Centers' operating revenues to pay for the annual principal and interest on the bonds and sets forth requirements for certain other financial covenants.

The University of California Hospital Revenue Bonds 2004 series have also financed certain improvements at the UCLA Medical Center. The Hospital Revenue Bonds are collateralized solely by revenues of the UCLA Medical Center. In addition, under the bond indentures, the UCLA 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.

The Medical Center Pooled Revenue Bonds 2007 Series B totaling \$80.2 million are variable-rate demand obligations subject to daily remarketing. The University has entered into a standby bond purchase agreement if a failed remarketing was to occur and the redemption of any of the bonds is required. The standby bond purchase agreement is scheduled to terminate on June 30, 2015. In addition, the UCSF Medical Center has access to the hospital working capital program from the University described below for any amounts that would be obligated for repayment to the University.

The UCSF Medical Center entered into a land lease for approximately 10 acres of undeveloped land at Mission Bay, the site of a proposed new hospital campus. The lease includes base rent payments of \$3 million per year through 2013, after which the base rent will be \$2.8 million per year, escalated starting in 2015 by the changes in the Consumer Price Index (CPI) with a minimum increase of 2 percent and a maximum increase of 5 percent. The lease expires on December 31, 2103. The Medical Center has an option to purchase the land on January 1, 2014, and has accounted for the lease as financing obligations by recording an increase in capital assets and an obligation for the present value of annual lease payments for the period until the first option to purchase.

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

The Medical Centers' 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 Centers' revenues under Medical Center Pooled Revenue Bonds is on parity with interest rate swap agreements and subordinate to the Hospital Revenue Bonds. The Medical Centers' 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 that allows each Medical Center to receive internal advances. Advances may not exceed 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 Centers under the working capital program is not collateralized by a pledge of revenues. Currently, there are no advances to the Medical Centers. 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 Centers.

### **Subsequent Event**

In August 2013, tax-exempt Medical Center Pooled Revenue Bonds totaling \$650.0 million, including \$618.6 million bonds and \$31.3 million variable-rate demand bonds, were issued to finance and refinance certain facilities and projects of the Medical Centers. Proceeds, including a bond premium of \$6.3 million, were used to pay for project construction, issuance costs and refund \$28.8 million of outstanding Medical Center Revenue Bonds. The fixed-rate bonds mature at various dates through 2048 and the variable-rate bonds mature in 2047. The interest rates on the variable-rate demand bonds reset weekly and an interest rate swap, previously classified as an investment derivative, is being used to limit exposure to changes in market interest rates, and, in the event of a failed remarketing the variable-rate demand bonds, can be put back to the Regents for tender. The tax-exempt bonds have a stated weighted average interest rate of 5.0 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

## Future Debt Service and Interest Rate Swaps

Future debt service payments for the Medical Centers' 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, 2013 and thereafter are shown below. Although not a prediction by the Medical Centers 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.

(in thousands of dollars)

DAVIS	REVENUE BONDS	FINANCING AND OTHER OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
<i>Year ending June 30</i>					
2014	\$ 31,233	\$ 17,800	\$ 49,033	\$ 33,124	\$ 15,909
2015	30,891	14,377	45,268	30,391	14,877
2016	30,546	10,522	41,068	27,137	13,931
2017	30,197	6,533	36,730	23,711	13,019
2018	29,821	623	30,444	18,335	12,109
2019–2023	143,065		143,065	96,170	46,895
2024–2028	109,986		109,986	88,330	21,656
2029–2033	18,326		18,326	8,765	9,561
2034–2038	18,324		18,324	10,950	7,374
2039–2043	18,323		18,323	13,645	4,678
2044–2048	13,725		13,725	12,366	1,359
<b>Total future debt service</b>	<b>474,437</b>	<b>49,855</b>	<b>524,292</b>	<b>\$362,924</b>	<b>\$161,368</b>
Less: Interest component of future payments	(160,093)	(1,275)	(161,368)		
Principal portion of future payments	314,344	48,580	362,924		
Adjusted by:					
Unamortized bond premium	6,458		6,458		
Unamortized deferred financing costs	(17,518)		(17,518)		
<b>Total debt</b>	<b>\$ 303,284</b>	<b>\$48,580</b>	<b>\$ 351,864</b>		

(in thousands of dollars)

IRVINE	REVENUE BONDS	FINANCING AND OTHER OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
<i>Year ending June 30</i>					
2014	\$ 23,076	\$ 12,011	\$ 35,087	\$ 18,455	\$ 16,632
2015	23,073	9,464	32,537	16,431	16,106
2016	23,061	5,379	28,440	12,814	15,626
2017	16,094	2,780	18,874	3,625	15,249
2018	16,089	649	16,738	1,555	15,183
2019–2023	93,626		93,626	19,485	74,141
2024–2028	96,522		96,522	28,595	67,927
2029–2033	95,603		95,603	36,095	59,508
2034–2038	93,030		93,030	44,955	48,075
2039–2043	88,308		88,308	54,800	33,508
2044–2048	78,327		78,327	62,900	15,427
2049–2053	12,241		12,241	11,484	757
<b>Total future debt service</b>	<b>659,050</b>	<b>30,283</b>	<b>689,333</b>	<b>\$311,194</b>	<b>\$378,139</b>
Less: Interest component of future payments	(377,201)	(938)	(378,139)		
Principal portion of future payments	281,849	29,345	311,194		
Adjusted by:					
Unamortized bond premium	3,083		3,083		
<b>Total debt</b>	<b>\$284,932</b>	<b>\$29,345</b>	<b>\$314,277</b>		

(in thousands of dollars)

LOS ANGELES	REVENUE BONDS	FINANCING AND OTHER OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
<i>Year ending June 30</i>					
2014	\$ 41,763	\$ 6,514	\$ 48,277	\$ 10,779	\$ 37,498
2015	41,764	4,384	46,148	9,114	37,034
2016	41,754	3,202	44,956	8,313	36,643
2017	41,755	3,331	45,086	8,864	36,222
2018	41,768	3,464	45,232	9,460	35,772
2019–2023	212,482	19,511	231,993	61,751	170,242
2024–2028	207,946	23,738	231,684	79,089	152,595
2029–2033	203,112	28,881	231,993	102,349	129,644
2034–2038	200,593	35,138	235,731	136,387	99,344
2039–2043	197,208	30,183	227,391	168,126	59,265
2044–2048	119,947		119,947	101,170	18,777
2049–2053	8,777		8,777	8,235	542
<b>Total future debt service</b>	<b>1,358,869</b>	<b>158,346</b>	<b>1,517,215</b>	<b>\$703,637</b>	<b>\$813,578</b>
Less: Interest component of future payments	(722,544)	(91,034)	(813,578)		
Principal portion of future payments	636,325	67,312	703,637		
Adjusted by:					
Unamortized bond premium	2,531		2,531		
Other borrowings	29,107		29,107		
Unamortized deferred financing costs	(21,393)		(21,393)		
<b>Total debt</b>	<b>\$ 646,570</b>	<b>\$ 67,312</b>	<b>\$ 713,882</b>		

(in thousands of dollars)

SAN DIEGO	REVENUE BONDS	FINANCING AND OTHER OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
<i>Year ending June 30</i>					
2014	\$ 14,186	\$ 10,065	\$ 24,251	\$ 13,707	\$ 10,544
2015	14,174	8,584	22,758	12,558	10,200
2016	14,171	6,947	21,118	11,213	9,905
2017	14,164	2,722	16,886	7,263	9,623
2018	14,156		14,156	4,765	9,391
2019–2023	64,347		64,347	20,665	43,682
2024–2028	59,586		59,586	21,105	38,481
2029–2033	57,293		57,293	26,035	31,258
2034–2038	54,365		54,365	32,140	22,225
2039–2043	50,216		50,216	39,065	11,151
2044–2048	12,529		12,529	11,557	972
<b>Total future debt service</b>	<b>369,187</b>	<b>28,318</b>	<b>397,505</b>	<b>\$ 200,073</b>	<b>\$ 197,432</b>
Less: Interest component of future payments	(196,690)	(742)	(197,432)		
Principal portion of future payments	172,497	27,576	200,073		
Adjusted by:					
Unamortized bond premium	4,548		4,548		
<b>Total debt</b>	<b>\$ 177,045</b>	<b>\$ 27,576</b>	<b>\$ 204,621</b>		

(in thousands of dollars)

<b>SAN FRANCISCO</b>	<b>REVENUE BONDS</b>	<b>FINANCING AND OTHER OBLIGATIONS</b>	<b>TOTAL PAYMENTS</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>
<i>Year ending June 30</i>					
2014	\$ 54,409	\$ 44,050	\$ 98,459	\$ 46,533	\$ 51,926
2015	54,616	3,193	57,809	6,915	50,894
2016	54,843		54,843	3,915	50,928
2017	55,053		55,053	4,060	50,993
2018	54,224		54,224	4,215	50,009
2019–2023	315,661		315,661	68,610	247,051
2024–2028	336,371		336,371	113,825	222,546
2029–2033	320,310		320,310	132,585	187,725
2034–2038	282,709		282,709	136,445	146,264
2039–2043	266,183		266,183	167,965	98,218
2044–2048	242,736		242,736	203,624	39,112
2049–2053	1,190		1,190	1,125	65
<b>Total future debt service</b>	<b>2,038,305</b>	<b>47,243</b>	<b>2,085,548</b>	<b>\$889,817</b>	<b>\$1,195,731</b>
Less: Interest component of future payments	(1,194,555)	(1,176)	(1,195,731)		
Principal portion of future payments	843,750	46,067	889,817		
Adjusted by:					
Unamortized bond premium	683		683		
Unamortized deferred financing costs	(1,093)		(1,093)		
<b>Total debt</b>	<b>\$ 843,340</b>	<b>\$46,067</b>	<b>\$ 889,407</b>		

(in thousands of dollars)

<b>TOTAL</b>	<b>REVENUE BONDS</b>	<b>FINANCING AND OTHER OBLIGATIONS</b>	<b>TOTAL PAYMENTS</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>
<i>Year ending June 30</i>					
2014	\$ 164,667	\$ 90,440	\$ 255,107	\$ 122,599	\$ 132,508
2015	164,518	40,002	204,520	75,409	129,111
2016	164,375	26,050	190,425	63,393	127,032
2017	157,263	15,366	172,629	47,522	125,107
2018	156,058	4,736	160,794	38,330	122,464
2019–2023	829,181	19,511	848,692	266,681	582,011
2024–2028	810,411	23,738	834,149	330,944	503,205
2029–2033	694,644	28,881	723,525	305,829	417,696
2034–2038	649,021	35,138	684,159	360,877	323,282
2039–2043	620,238	30,183	650,421	443,601	206,820
2044–2048	467,264		467,264	391,616	75,648
2049–2053	22,208		22,208	20,844	1,364
<b>Total future debt service</b>	<b>4,899,848</b>	<b>314,045</b>	<b>5,213,893</b>	<b>\$2,467,645</b>	<b>\$2,746,248</b>
Less: Interest component of future payments	(2,651,083)	(95,165)	(2,746,248)		
Principal portion of future payments	2,248,765	218,880	2,467,645		
Adjusted by:					
Unamortized bond premium	17,303		17,303		
Other borrowings	29,107		29,107		
Unamortized deferred financing costs	(40,004)		(40,004)		
<b>Total debt</b>	<b>\$ 2,255,171</b>	<b>\$ 218,880</b>	<b>\$ 2,474,051</b>		

Additional information on the revenue bonds can be obtained from the 2012–2013 annual report of the University of California.

As rates vary, variable-rate bond interest payments and net swap payments will vary. Although not a prediction by the Medical Centers of the future interest cost of the variable-rate bonds or the impact of the interest rate swaps, using rates as of June 30, 2013, debt service requirements of the variable-rate debt and net swap payments are as follows:

(in thousands of dollars)

LOS ANGELES	VARIABLE-RATE BOND			TOTAL
	PRINCIPAL	INTEREST	INTEREST RATE SWAP, NET	
<i>Year ending June 30</i>				
2014		\$ 1,332	\$ 5,265	\$ 6,597
2015		1,332	5,265	6,597
2016		1,332	5,265	6,597
2017		1,332	5,265	6,597
2018		1,332	5,265	6,597
2019–2023	\$ 3,365	6,661	26,327	36,353
2024–2028	19,260	6,230	24,313	49,803
2029–2033	24,075	5,374	20,348	49,797
2034–2038	30,175	4,241	15,372	49,788
2039–2043	55,030	2,506	8,196	65,732
2044–2048	17,120	206	2,266	19,592
<b>Total future debt service</b>	<b>\$149,025</b>	<b>\$ 31,878</b>	<b>\$ 123,147</b>	<b>\$304,050</b>

(in thousands of dollars)

SAN FRANCISCO	VARIABLE-RATE BOND			TOTAL
	PRINCIPAL	INTEREST	INTEREST RATE SWAP, NET	
<i>Year ending June 30</i>				
2014	\$ 3,000	\$ 15	\$ 1,122	\$ 4,137
2015	3,110	14	1,080	4,204
2016	3,230	14	1,036	4,280
2017	3,340	13	991	4,344
2018	3,465	13	944	4,422
2019–2023	19,315	53	3,959	23,327
2024–2028	23,090	33	2,507	25,630
2029–2033	21,670	11	772	22,453
<b>Total future debt service</b>	<b>\$80,220</b>	<b>\$ 166</b>	<b>\$12,411</b>	<b>\$92,797</b>

(in thousands of dollars)

TOTAL	VARIABLE-RATE BOND			TOTAL
	PRINCIPAL	INTEREST	INTEREST RATE SWAP, NET	
<i>Year ending June 30</i>				
2014	\$ 3,000	\$ 1,347	\$ 6,387	\$ 10,734
2015	3,110	1,346	6,345	10,801
2016	3,230	1,346	6,301	10,877
2017	3,340	1,345	6,256	10,941
2018	3,465	1,345	6,209	11,019
2019–2023	22,680	6,714	30,286	59,680
2024–2028	42,350	6,263	26,820	75,433
2029–2033	45,745	5,385	21,120	72,250
2034–2038	30,175	4,241	15,372	49,788
2039–2043	55,030	2,506	8,196	65,732
2044–2048	17,120	206	2,266	19,592
<b>Total future debt service</b>	<b>\$229,245</b>	<b>\$32,044</b>	<b>\$ 135,558</b>	<b>\$396,847</b>



## 10. OPERATING LEASES

The Medical Centers lease certain buildings and equipment under agreements recorded as operating leases. The terms of the operating leases extend through the year 2043. Operating lease expense for the years ended June 30 was as follows:

*(in thousands of dollars)*

	2013	2012
Davis	\$ 16,436	\$ 14,510
Irvine	2,239	2,213
Los Angeles	10,990	10,715
San Diego	9,568	7,475
San Francisco	30,237	28,339
<b>Total</b>	<b>\$ 69,470</b>	<b>\$ 63,252</b>

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

*(in thousands of dollars)*

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
<b>Minimum Annual Lease Payments</b>						
Year ending June 30						
2014	\$ 16,318	\$ 1,386	\$ 13,086	\$ 9,061	\$ 12,377	\$ 52,228
2015	13,904	1,212	11,908	8,318	9,968	45,310
2016	9,429	1,212	10,669	6,705	8,597	36,612
2017	7,274	1,013	9,599	4,977	7,844	30,707
2018	5,305	1,026	8,317	4,091	7,098	25,837
2019–2043	20,113	934	160,071	13,356	10,110	204,584
<b>Total</b>	<b>\$72,343</b>	<b>\$6,783</b>	<b>\$213,650</b>	<b>\$46,508</b>	<b>\$55,994</b>	<b>\$395,278</b>

## 11. 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 Centers, 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 Centers 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 Centers 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 Centers, are required to contribute at a rate assessed each year by the University. The contribution requirements are based upon projected pay-as-you-go financing requirements. The assessment rates were \$1.80, \$3.72 and \$3.51 per \$100 of UCRP covered payroll effective January 1, 2013, July 1, 2012, and July 1, 2011, respectively. The Medical Centers' contributions for the years ended June 30 were as follows:

*(in thousands of dollars)*

	2013	2012
Davis	\$ 14,554	\$ 18,217
Irvine	7,787	9,553
Los Angeles	16,756	21,182
San Diego	8,611	11,202
San Francisco	18,095	23,229
<b>Total</b>	<b>\$ 65,803</b>	<b>\$83,383</b>

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, 2012, the date of the latest actuarial valuation, were \$97.4 million and \$77.9 million, respectively. The net position held in trust for pension benefits on the UCRHBT's Statement of Plan Fiduciary Net position were \$44.3 million at June 30, 2013. For the years ended June 30, 2013 and 2012, combined contributions from the University's campuses and Medical Centers were \$311.2 million and \$346.4 million, respectively, including an implicit subsidy of \$86.2 million and \$54.1 million, respectively. The University's annual retiree health benefit expense for its campuses and Medical Centers was \$1.4 billion and \$1.5 billion for the years ended June 30, 2013 and 2012. 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 \$7.4 billion and \$6.3 billion at June 30, 2013 and 2012, respectively, increased by \$1.1 billion and \$1.2 billion for the years ended June 30, 2013 and 2012, 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 2012–2013 annual reports of the University of California.

## 12. RETIREMENT PLANS

Substantially all full-time employees of the Medical Centers 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 the 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 Centers 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 Centers and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements.

Contributions were as follows during the years ended June 30:

(in thousands of dollars)

	2013			2012		
	MEDICAL CENTER	EMPLOYEE	TOTAL	MEDICAL CENTER	EMPLOYEE	TOTAL
Davis	\$ 55,904	\$ 27,952	\$ 83,856	\$ 36,481	\$ 18,165	\$ 54,646
Irvine	29,756	12,427	42,183	19,576	7,980	27,556
Los Angeles	63,712	31,856	95,568	43,903	21,952	65,855
San Diego	34,966	16,440	51,406	24,320	9,678	33,998
San Francisco	69,455	29,869	99,324	48,046	19,752	67,798
	<b>\$253,793</b>	<b>\$118,544</b>	<b>\$ 372,337</b>	<b>\$172,326</b>	<b>\$77,527</b>	<b>\$249,853</b>

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, 2012, the date of the latest actuarial valuation, were \$35.7 billion and \$45.8 billion, respectively, resulting in a funded ratio of 78.1 percent. The net position held in trust for pension benefits on the UCRP Statement of Plan's Fiduciary Net position were \$45.3 billion and \$41.8 billion at June 30, 2013 and 2012, respectively.

For the years ended June 30, 2013 and 2012, the University's campuses and Medical Centers contributed a combined \$0.9 billion and \$1.5 billion, respectively. The University's annual UCRP benefits expense for its campuses and Medical Centers was \$2.1 billion and \$1.9 billion for the years ended June 30, 2013 and 2012, respectively. 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 \$1.2 billion and \$361.8 million for the years ended June 30, 2013 and 2012, respectively.

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 Centers may also make contributions on behalf of certain members of management. Benefits from the plans are based on participants' mandatory and voluntary contributions, plus earnings, and are immediately vested.

Information related to 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 2012–2013 annual report of the University of California Retirement System.

### 13. UNIVERSITY SELF-INSURANCE

The Medical Centers are insured through the University's malpractice, general liability, workers' compensation, and health and welfare self-insurance programs. All operating departments of the University are charged premiums to finance the workers' compensation and health and welfare programs. The University's Medical Centers are charged premiums to finance the malpractice insurance. All claims and related expenses are paid from the University's self-insurance funds. Such risks are subject to various per claim and aggregate limits, with excess liability coverage provided by an independent insurer. The Medical Centers received a refund of premiums from the University that reduced the overall workers' compensation cost for the year.

Malpractice and general liability premiums are recorded as insurance expense in the statements of revenues, expenses and changes in net position. Workers' compensation premiums, net of refunds, included as UCRP, retiree health and other employee benefits in the statements of revenues, expenses and changes in net position for the years ended June 30 were as follows:

*(in thousands of dollars)*

	2013	2012
Davis	\$ 4,694	\$ 2,747
Irvine	3,374	4,395
Los Angeles	9,658	10,751
San Diego	3,884	3,688
San Francisco	6,309	7,386
<b>Total</b>	<b>\$27,919</b>	<b>\$28,967</b>

#### 14. 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 position for the years ended June 30 as follows:

*(in thousands of dollars)*

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
<b>2013</b>						
Professional services	\$ 63,230	\$ 4,197	\$ 9,900	\$ 43,230		\$ 120,557
Insurance	9,304	5,158	11,178	5,852	\$ 6,367	37,859
Salaries and employee benefits	4,694			16,187	5,466	26,347
Other supplies and purchased services	7,876	32,178	88,402	(6,454)	407,894	529,896
Administrative costs		(4,339)				(4,339)
Medical supplies			(5,445)	(1,257)	(4,989)	(11,691)
Interest income, net	(14,841)	(2,464)	(15,996)	(1,057)	(16,082)	(50,440)
<b>Total</b>	<b>\$70,263</b>	<b>\$34,730</b>	<b>\$88,039</b>	<b>\$ 56,501</b>	<b>\$398,656</b>	<b>\$648,189</b>
<b>2012</b>						
Professional services	\$ 54,393	\$ 3,386	\$ 9,000	\$ 38,607		\$ 105,386
Insurance	9,875	4,441	11,389	5,946	\$ 6,482	38,133
Salaries and employee benefits	2,768			10,749	5,349	18,866
Other supplies and purchased services	2,103	28,053	58,909	(4,464)	367,038	451,639
Administrative costs		(4,406)				(4,406)
Medical supplies			(4,335)	(930)	(5,550)	(10,815)
Interest income, net	(16,373)	(3,413)	(16,098)	(2,380)	(24,461)	(62,725)
<b>Total</b>	<b>\$52,766</b>	<b>\$28,061</b>	<b>\$58,865</b>	<b>\$ 47,528</b>	<b>\$348,858</b>	<b>\$536,078</b>

Additionally, the Medical Centers make payments to the Schools of Medicine. Services purchased from the Schools of Medicine include physician services that benefit the Medical Centers, such as emergency room coverage, physicians providing medical direction to the Medical Centers and the Medical Centers' allocation of malpractice insurance. Such expenses are reported as operating expenses in the statements of revenue, expenses and changes in net position. Health system support includes amounts paid by the Medical Centers to fund the Schools of Medicine operating activities, payments to support clinical research, transfers to faculty practice plans, as well as other payments made to support various programs of the Schools of Medicine.

The payments made by the Medical Centers for the years that ended June 30 were as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
<b>2013</b>						
Reported as operating expenses	\$ 70,263	\$ 34,730	\$ 88,039	\$ 56,501	\$ 398,656	\$ 648,189
Reported as health system support	24,230	41,123	102,990	52,724	58,224	279,291
<b>Total payments to the University</b>	<b>\$94,493</b>	<b>\$75,853</b>	<b>\$191,029</b>	<b>\$109,225</b>	<b>\$456,880</b>	<b>\$927,480</b>
<b>2012</b>						
Reported as operating expenses	\$ 52,766	\$ 28,061	\$ 58,865	\$ 47,528	\$ 348,858	\$ 536,078
Reported as health system support	1,077	53,182	88,768	46,712	59,484	249,223
<b>Total payments to the University</b>	<b>\$53,843</b>	<b>\$81,243</b>	<b>\$147,633</b>	<b>\$ 94,240</b>	<b>\$408,342</b>	<b>\$785,301</b>

## 15. FACULTY PRACTICES

The financial statements include the activities of the UCSF Medical Group. Condensed financial statement information related to the faculty practices of the UCSF Medical Group and the UCSF Medical Center Hospital Practice are as follows:

(in thousands of dollars)

	UCSF MEDICAL CENTER HOSPITAL PRACTICE	UCSF MEDICAL GROUP	TOTAL
<i>Year ended June 30, 2013</i>			
Operating revenues	\$1,737,865	\$426,444	\$2,164,309
Operating expenses	(1,615,337)	(425,989)	(2,041,326)
Net non-operating income	11,878		11,878
<b>Income before other changes in net position</b>	<b>\$ 134,406</b>	<b>\$ 455</b>	<b>\$ 134,861</b>
<i>Year ended June 30, 2012</i>			
Operating revenues	\$1,581,630	\$395,504	\$1,977,134
Operating expenses	(1,479,687)	(401,862)	(1,881,549)
Net non-operating income	5,161		5,161
<b>Income (loss) before other changes in net position</b>	<b>\$ 107,104</b>	<b>\$ (6,358)</b>	<b>\$ 100,746</b>

## 16. COMMITMENTS AND CONTINGENCIES

The health care 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 Centers are 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 Centers' financial statements.

The state of California authorized the University to use \$600 million in lease-revenue bond funds for earthquake safety renovations for the Medical Centers. The lease-revenue bonds are allocated to the Medical Centers as follows:

(in thousands of dollars)

Davis	\$ 120,000
Irvine	235,000
Los Angeles	180,000
San Diego	40,000
San Francisco	25,000
<b>Total</b>	<b>\$600,000</b>

Any repayments the Medical Centers may be obligated to make under these financing arrangements are dependent upon continued appropriations for the lease payments to the University by the state. In October 2013, the University refinanced all of the state's lease-revenue bonds with University General Revenue Bonds.

The Medical Centers have entered into various construction contracts. The remaining cost of these Medical Center projects, excluding interest, as of June 30 is estimated to be approximately:

<i>(in thousands of dollars)</i>	
	<b>2013</b>
Davis	\$ 5,167
Irvine	22,564
Los Angeles	4,700
San Diego	676,000
San Francisco	322,659
<b>Total</b>	<b>\$1,031,090</b>

Concurrent with execution of the 2010 purchase of the approximately 4.6 acres of land in Mission Bay known as Block X3 for the Mission Bay Medical Center Site, The Regents entered into a Disposition and Development Agreement (DDA) with the Redevelopment Agency of the City and County of San Francisco (Agency) under which the Agency agreed to sell and convey an additional acre of land on the west end of Block 7 in Mission Bay to The Regents for \$1.2 million for affordable housing. The DDA required The Regents to develop the affordable housing upon breaking ground on the second phase of the hospital (currently not scheduled prior to 2035), at Regents' expense, subject to design review, and to operate the project in accordance with affordability and other leasing restrictions for UC students and employees. Should The Regents elect not to develop the project, it becomes obligated to pay the Agency liquidated damages in the amount of \$2.4 million and give up any interest in Block 7.

On August 1, 2013, the UCSF Medical Center entered into a memorandum of understanding for an affiliation agreement with Children's Hospital & Research Center at Oakland (CHRCO). The agreement is expected to become effective early 2014, subject to Children's Hospital meeting certain financial covenants for calendar year 2013, at which time UCSF shall become the sole corporate and voting member of CHRCO.

In September 2013, the United States Department of Health and Human Services and the Centers for Medicare and Medicaid Services entered into a settlement agreement regarding the calculation of the rural floor neutrality adjustment for Medicare's inpatient prospective payment system. The Medical Centers are eligible for payments as a result of this settlement agreement as follows:

<i>(in thousands of dollars)</i>	
	<b>2013</b>
Davis	\$ 7,350
Irvine	3,376
Los Angeles	7,494
San Diego	5,110
San Francisco	10,044
<b>Total</b>	<b>\$33,374</b>



# Regents and Officers

## APPOINTED REGENTS

*(In order of accession to the Board)*

Sherry L. Lansing  
Norman J. Pattiz  
Richard C. Blum  
Frederick R. Ruiz  
Eddie R. Island  
Russell S. Gould  
William C. De La Peña  
Bruce D. Varner  
Bonnie M. Reiss  
Hadi Makarechian  
George D. Kieffer  
Charlene R. Zettel  
Jonathan Stein  
Cinthia Flores

## EX OFFICIO REGENTS

Jerry Brown, *Governor of California*  
Gavin Newsom, *Lieutenant Governor of California*  
John A. Pérez, *Speaker of the Assembly*  
Tom Torlakson, *State Superintendent of Public Instruction*  
Janet Napolitano, *President of the University*  
Ken Feingold, *President,*  
*Alumni Associations of the University of California*  
Van Schultz, *Vice President,*  
*Alumni Associations of the University of California*

## REGENTS DESIGNATE

Sheldon Engelhorn, *Secretary,*  
*Alumni Associations of the University of California*  
Karen Leong Clancy, *Treasurer,*  
*Alumni Associations of the University of California*  
Sadia Saifuddin, *Student Regent Designate*

## OFFICERS OF THE REGENTS

Sheryl Vacca, *Senior Vice President-Chief Compliance and Audit Officer*  
Charles F. Robinson, *General Counsel and Vice President-Legal Affairs*  
Melvin Stanton & Randolph Wedding, *Acting Co-Chief Investment Officers*  
Marsha Kelman, *Secretary and Chief of Staff*

## OFFICE OF THE PRESIDENT

Janet Napolitano, *President of University*  
Aimée Dorr, *Provost and Executive Vice President-Academic Affairs*  
Barbara Allen-Díaz, *Vice President for Agriculture and Natural Resources*  
Steven V.W. Beckwith, *Vice President-Research and Graduate Studies*  
Nathan Brostrom, *Executive Vice President-Business Operations*  
Daniel M. Dooley, *Senior Vice President-External Relations and Vice President*  
Dwaine B. Duckett, *Vice President-Human Resources*  
Patrick J. Lenz, *Vice President-Budget and Capital Resources*  
Glenn Mara, *Vice President-Laboratory Management*  
Charles F. Robinson, *General Counsel and Vice President-Legal Affairs*  
Judy K. Sakaki, *Vice President-Student Affairs*  
John D. "Jack" Stobo, M.D., *Senior Vice President-Health Sciences and Services*  
Peter J. Taylor, *Executive Vice President and Chief Financial Officer*  
Sheryl Vacca, *Senior Vice President-Chief Compliance and Audit Officer*

## MEDICAL CENTER CHIEF EXECUTIVE OFFICERS

Ann Madden Rice, *Davis*  
Terry Belmont, *Irvine*  
David Feinberg, *Los Angeles*  
Paul Viviano, *San Diego*  
Mark Laret, *San Francisco*

## MEDICAL CENTER CHIEF FINANCIAL OFFICERS

Tim Maurice, *Davis*  
Morris Frieling, *Irvine*  
Paul Staton, *Los Angeles*  
Lori R. Donaldson, *San Diego*  
Barrie Strickland, *San Francisco*





