University of California, Los Angeles Medical Center

Report on Audits of Financial Statements
For the Years Ended June 30, 2008 and 2007

University of California, Los Angeles Medical Center
Index
June 30, 2008 and 2007

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Report of Independent Auditors

The Regents of the University of California
Oakland, California

In our opinion, the accompanying financial statements, as shown on pages 14 through 39, present fairly, in all material respects, the financial position of the University of California, Los Angeles Medical Center (the "Medical Center"), a division of the University of California ("University"), at June 30, 2008 and 2007, and changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Medical Center are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the University that is attributable to the transactions of the Medical Center. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2008 and 2007, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

October 10, 2008

Introduction

The objective of Management's Discussion and Analysis is to help readers better understand the University of California, Los Angeles Medical Center's financial position and operating activities for the year ended June 30, 2008, with selected comparative information for the years ended June 30, 2007 and 2006. 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 (2006, 2007, 2008, 2009, etc.) in this discussion refer to the fiscal years ended June 30.

Overview

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

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

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

The Medical Center offers patients of all ages comprehensive care, from routine to highly specialized medical and surgical treatment. In addition, the Westwood Campus is known for the wide range of its tertiary/quaternary care offerings that include Level 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 healthcare needs of Los Angeles's west side community. The Santa Monica facility features several nationally recognized clinical programs located within its seven-acre campus. Most of this medical center also is being replaced with the work progressing in phases. It is expected to be completed in calendar year 2010. UCLA entered a strategic alliance with Orthopaedic Hospital/Los Angeles in 1998. This alliance resulted in the relocation of Orthopaedic Hospital inpatient services to Santa Monica.

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

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

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

The Medical Center continues to maintain its outstanding national reputation. The latest *US News and World Report* survey ranked the Medical Center as the third best hospital in the nation, and the "Best in the West" for the 19th consecutive year. According to this latest survey, the Medical Center ranks in the top ten for the following specialties: cancer, digestive disorders, ear, nose and throat, geriatrics, gynecology, heart and heart surgery, kidney disease, neurology and neurosurgery, urology, psychiatry, rheumatology, and ophthalmology.

For the year ended June 30, 2008, the consolidated Medical Center reports net income before other changes in net assets of $33.3 million, generating a margin of 2.7 percent. Transition costs of $21.9 million for the relocation to the replacement hospital were included in non-operating costs. The year ended with a cash position of $124.6 million. For 2007, net income before other changes in net assets was $40.7 million and cash totaled $121.0 million.

Significant events during the year are highlighted below:

- *Opening of Ronald Reagan UCLA Medical Center*
  Many years of planning culminated in the most significant change experienced at the UCLA Medical Center since its opening day in 1955. On June 29, 2008 the new Ronald Reagan UCLA Medical Center opened its doors for business. Equipment and furniture had been installed over a period of many months prior to opening day but on June 29th the patients themselves were moved. In a flawlessly executed exercise involving hundreds of staff members, faculty and volunteers nearly 300 patients were shuttled via ambulance to the new hospital. Following opening day, the census immediately increased to capacity and patient volume in the Westwood Emergency Room increased by 25 percent. The Hospital System spent $21.9 million in FY2008 on the transition costs of moving to this new hospital.

- *Continued Development of Santa Monica-UCLA Medical Center and Orthopaedic Hospital*
  Development of the Santa Monica campus progressed during the year, with completion of the new Nethercutt Emergency Room in 2007 and subsequent completion of the new southwest hospital tower. The southwest tower now houses labor and delivery and a new clinical laboratory. Other patient services continue to move from Westwood to Santa Monica, part of the ongoing process of reallocating services appropriately across the health system.

- *Changes in Payer Mix and Volume*
  Total inpatient days increased by 1.2 percent over prior year. Inpatient volume was impacted as census was ramped down in June for the relocation to the replacement hospital.

  The Medical Center experienced an increase in Medi-Cal days of 8.7 percent over prior year. Medi-Cal is one of the lowest margin payers. Medicare discharges grew by 8.1 percent over the prior year. Medicare reimburses the Medical Center on a per-discharge basis and is one of the highest-margin payers. The other high margin payer, Contract Insurance, saw patient days grow by 0.7 percent over the prior year. The Medical Center's outpatient volume grew by 2.6 percent over prior year. The overall acute average length of stay decreased by 2.5 percent over 2007.

- *Revenue Cycle Initiatives and Cash Collections*
  During 2008, the Medical Center continued to work on ways to improve its revenue and cash position through various revenue cycle initiatives. The Medical Center successfully increased revenue by decreasing payment denials, improving charge capture, aggressive pursuit of underpayments by insurance companies, and improved billing practices. Cash collected on patient accounts increased by $101.5 million, or 10.7 percent, over 2007.

- *Refinanced Debt*
  In July 2007, Medical Center Pooled Revenue Bonds totaling $197.0 million, $7.3 million with a fixed interest rate and $189.8 million with a variable interest rate, were issued specifically for the Medical Center to refinance certain improvements to the Medical Center. Proceeds were used to refund $188.2 million of Hospital Revenue Bonds. The bonds mature at various dates through 2047. The fixed rate bonds have a weighted average interest rate of 4.3 percent. Aggregate debt service payments on the refunded bonds increased by $152.6 million due to the extension of maturities over the next 40 years and the Medical Center achieved an economic gain of $1.5 million.

- *Wage Increases and Staff Shortages*
  The nation-wide nursing shortage and shortage of other professional medical staff continues to impact significantly both the salary costs of hospital staff as well as the rate charged for staff employed from contracted registry agencies. The current nursing union contract increased the Medical Center's labor costs by approximately $8.1 million in fiscal year 2008. The Medical Center also experienced staff shortages in various technical positions requiring the use of expensive temporary labor. Overall, labor and benefit costs per hospital-paid employee increased by 4.8 percent over 2007.

Operating Statistics

The following table presents utilization statistics for the Medical Center for 2008, 2007 and 2006:

Statistics	2008	2007	2006
Admissions	40,574	39,194	38,558
Average daily census	711	704	680
Average length of stay	6.4	6.5	6.4
Patient days:			
Medicare (non-risk)	71,268	70,560	67,844
Medi-Cal (non-risk/County)	45,766	42,113	35,984
Commercial	2,048	2,493	2,184
Contracts (discounted/per diem)	123,836	123,033	123,647
Contracts (capitated)*	8,003	9,050	8,527
Non-sponsored/self-pay (Uninsured)	9,234	9,819	9,935
Total Patient Days	260,155	257,068	248,121
Outpatient visits:			
Hospital clinics	767,039	745,270	743,977
Home health/hospice	55,424	53,859	48,905
Emergency visits	66,626	67,181	69,389
Total visits	889,089	866,310	862,271

* includes Medicare (risk)

Total admissions increased by 3.5 percent in 2008 compared to 2007, due primarily to an increase in medicine, pediatrics, psychiatric and orthopaedic cases.

Total patient days in 2008 increased by 3,087, or 1.2 percent, over 2007. The largest percentage increase was in Medi-Cal. However, Capitated and Uninsured patient days decreased by 11.6 percent and 6.0 percent respectively.

Total outpatient visits increased in 2008 by 22,779, or 2.6 percent compared to 2007. This increase was primarily in Hospital Clinics and Home Health.

Statements of Revenues, Expenses and Changes in Net Assets

This statement shows the revenues, expenses and changes in net assets for the Medical Center for 2008 compared to the prior two years.

The following table summarizes the operating results for the Medical Center for fiscal years 2008, 2007 and 2006 (dollars in thousands):

	2008	2007	2006
Net patient service revenue	$ 1,162,561	$ 1,070,021	$ 992,452
Other operating revenue	64,557	62,855	55,803
Total operating revenue	1,227,118	1,132,876	1,048,255
Total operating expenses	1,169,260	1,081,403	973,889
Income from operations	57,858	51,473	74,366
Total non-operating expenses	(24,564)	(10,771)	(4,225)
Income before other changes in net assets	$ 33,294	$ 40,702	$ 70,141
Margin	2.7 percent	3.6 percent	6.6 percent
Other changes in net assets	64,606	(46,546)	93,421
Net assets – beginning of year	1,092,711	1,098,555	934,993
Net assets – end of year	$ 1,190,611	$ 1,092,711	$ 1,098,555

Revenues

Total operating revenues for the year ended June 30, 2008 were $1,227.1 million, an increase of $94.2 million, or 8.3 percent, over 2007. Operating revenues for 2007 of $1,132.9 million increased by $84.6 million, or 8.1 percent, over 2006.

Net patient service revenue for 2008 increased by $92.5 million, or 8.6 percent, over 2007. Net patient service revenue in 2007 increased by $77.6 million, or 7.8 percent, over 2006. The increase in 2008 was due to contract rate increases, increased volume for Medicare patients, new revenue cycle initiatives, additional funding from the State under the Medi-Cal waiver payment system and an increase in outpatient volume. Patient service revenues are net of bad debts and estimated allowances from contractual arrangements with Medicare, Medi-Cal and other third-party payors and have been estimated based on the terms of reimbursement and contracts currently in effect.

Other operating revenue consisted primarily of State Clinical Teaching Support Funds ("CTS") and other non-patient services such as contributions, cafeteria and campus revenues. The increase in other operating revenue was due to various refunds and receipt of County Trauma funds.

The following table summarizes net patient service revenue for 2008, 2007 and 2006 (dollars in thousands):

Payor	2008	2007	2006
Medicare (non-risk)	$ 297,443	$ 278,502	$ 266,935
Medi-Cal (non-risk/County)	114,606	102,257	97,017
Commercial	14,283	18,303	15,667
Contracts (discounted/per diem)	686,839	623,826	568,547
Contracts (capitated)*	33,234	31,451	32,903
Non-sponsored/self-pay (Uninsured)	16,156	15,682	11,383
Total	$ 1,162,561	$ 1,070,021	$ 992,452

* Medicare (risk)

Net revenues for Medicare represent payments for services provided to patients under Title XVIII of the Social Security Act. Payments for inpatient services provided to Medicare beneficiaries are paid on a per-discharge basis at rates set at the national level with adjustments for prevailing area labor costs. The Medical Center also receives additional payments for direct and indirect costs for graduate medical education, disproportionate share of indigent patients, capital reimbursement, and outlier payments on cases with unusually high costs of care. Hospital outpatient care is reimbursed under a prospective payment system. Medicare reimburses the Medical Center for allowable costs at a tentative rate with final settlement of such items determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Settlements with the Medicare program for prior years' cost reports are recognized in the year the settlement is resolved. Net patient revenue for Medicare increased by $18.9 million over the prior fiscal year. This increase is primarily due to an increase in case mix, outlier cases and prior year cost report settlement.

Payments for Medi-Cal patients are made on a per-diem basis for inpatient services while outpatient services are paid on a fixed-fee schedule. In 2006, California implemented a new Medi-Cal Fee-For-Service (FFS) inpatient hospital payment system. In FY 2008, the Medical Center recorded additional Medi-Cal funding of $12.4 million of which $5.6 million is related to the prior year. The Medi-Cal revenue includes funding for covered outpatient services pursuant to California Assembly Bill 915. Also included are Medi-Cal patients referred by county facilities and reimbursed to the Medical Center at Medi-Cal rates.

Contract net patient revenue (discounted/per-diem) increased by $63.0 million, or 10.1 percent, due to contract rate increases, outpatient volume and revenue cycle initiatives.

The net patient service revenue for contracts that are full-risk capitation increased by $1.8 million, or 5.7 percent.

Commercial net patient revenue decreased by $4.0 million, or 22 percent, due to a decrease in volume.

The non-sponsored/self-pay net revenue increased from the prior year by $474 thousand. This category fluctuates from year to year depending on the volume and type of patients.

Operating Expenses

Total operating expenses for 2008 were $1,169.3 million, an increase of $87.9 million, or 8.1 percent, over 2007. This change was primarily due to increased salary and employee benefit costs, inflationary increases in medical supplies and increases in purchased services. Total operating expenses for 2007 increased by $107.5 million, or 11.0 percent, over 2006 due to similar reasons.

Salaries and employee benefit expenses grew by $57.1 million, or 9.3 percent, over the prior year due to volume increases, negotiated union wage increases, merits increases and higher benefit costs. Salary increases accounted for $47.7 million, due mainly to higher volume, union negotiated wage increases and equity increases for market adjustments. Temporary labor costs decreased by $3.1 million over 2007. Increases in total benefits costs were $9.2 million, with health insurance benefits higher by $6.5 million, workers' compensation insurance premiums down $739 thousand, and all other benefit expense increased by $3.4 million over 2007. Salary and employee benefit expenses increased by $75.6 million in 2007 over 2006.

Payments for professional services increased by $3.9 million, or 18.7 percent, from 2007. The increases were in legal expense and consulting fee for various consulting engagements. Professional services increased by $4.2 million, or 25.1 percent, in 2007 from 2006.

Medical supply expense increased by $1.1 million or 0.6 percent mainly due to supply reduction initiatives that began in 2008, utilization controls and better management of overall supply spending. Medical supply expense increased in 2007 by $16.4 million, or 9.9 percent over 2006, due to a 3.6 percent increase in volume and inflationary pressures of approximately 5.7 percent.

Other supplies and purchased services increased by $16.7 million, or 7.9 percent, over the prior year. The increase was primarily due to an increase in the cost of transplant organs, increase in outside clinical lab services due to volume, and increase in collection services. Other supplies and purchased services increased $13.4 million in 2007 over 2006.

Depreciation and amortization expense increased by $9.8 million over the prior year due to the completion of Ronald Reagan Medical Center and several phases of Santa Monica Hospital.

Insurance expense of $8.1 million was primarily the Medical Center's contribution to the University of California self-insured malpractice fund. This expense decreased by $719 thousand, or 8.2 percent, over the prior year.

Non-operating Revenues (Expenses)

Total non-operating expenses were $24.6 million for 2008 compared to $10.8 million in the prior year. The majority of this increase was primarily due to an increase in replacement hospital transition expense of $16.4 million. The replacement hospital transition expense is composed of salary and consulting expenses related to the planning, coordination and logistics of moving to the replacement hospitals. The transition expense was partially offset by gift funds in 2007.

Income before Other Changes in Net Assets

The Medical Center's income before other changes in net assets was $33.3 million for 2008 compared to $40.7 million for 2007 and $70.1 million in 2006. The Medical Center's net income decreased in 2008 mainly due to the increase in transition costs for the relocation to the replacement hospital.

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

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

- Proceeds received and receivable from the Federal Emergency Management Agency ("FEMA") for the hospitals' replacement projects were $2.1 million in 2008. The total anticipated funding from FEMA for the replacement hospitals' project is $556 million. The total received to date from FEMA is $523 million.

- Contributions from the University for the building program of $10.9 million are related to the hospitals' replacement projects and represent funding from the State Public Works Board Bonds totaling $9.9 million, state matching funds of $1.8 million and funding from the line of credit of $(.8) million.

- Donated assets represent gift funds that have been used for the hospitals' replacement. The gift funds are only recorded on the Medical Center's financial statements when an expenditure for the project has been incurred. In prior years, gift funds were used for the replacement hospital and increased the equity of the Medical Center. The Medical Center recorded $117.5 million of gift funds.

- Health system support represents transfers to the School of Medicine for academic and clinical support including the Primary Care Network. The Medical Center transferred $33.1 million in 2008.

In total, the net assets increased for the year by $97.9 million to $1,190.6 million. The majority of this increase was in capital assets due to increase in new equipment and the capitalization of the Replacement hospital.

Statements of Net Assets

The following table is an abbreviated statement of net assets at June 30, 2008, 2007 and 2006 (dollars in thousands).

	2008	2007	2006
Current assets:			
Cash	$ 124,596	$ 120,978	$ 130,161
Patient accounts receivable (net)	217,973	220,714	185,359
Other current assets	51,341	38,813	41,484
Total current assets	393,910	380,505	357,004
Capital assets (net)	1,567,561	1,427,158	1,243,184
Other assets	60,022	125,409	75,427
Total assets	2,021,493	1,933,072	1,675,615
Current liabilities	191,397	195,976	174,462
Long-term debt	639,485	644,385	402,598
Total liabilities	830,882	840,361	577,060
Net assets:			
Invested in capital assets (net)	988,051	866,283	926,769
Restricted	51,822	114,464	67,556
Unrestricted	150,738	111,964	104,230
Total net assets	$ 1,190,611	$ 1,092,711	$ 1,098,555

Total current assets increased in 2008 by $13.4 million, or 3.5 percent, compared to 2007 due to an increase in cash of $3.6 million, a decrease in net patient accounts receivable of $2.7 million and an increase of $12.5 million in other current assets.

Cash increased by $3.6 million in 2008. This increase was mainly due to an increase in working capital from operations.

Net patient accounts receivable decreased by $2.7 million from 2007, due to increased cash collections. Cash collections increased by $101.5 million or 10.7 percent over prior year.

Other current assets, including non-patient receivables, inventory and prepaid expenses increased by $12.5 million over the prior fiscal year. The increase was primarily related to an increase in supply inventory of $6.6 million and other receivable by $5.1 million.

Capital assets increased by $140.4 million over 2007 with the majority of this increase related to the hospitals' replacement projects. Most funding for these costs comes from FEMA, gift funds and contributions from the University.

Other assets, including the long-term portion of cash held by trustees, the Santa Monica Hospital Foundation assets, the restricted funds for the hospitals' replacement building projects and the bond issuance costs decreased by $65.4 million from 2007. This decrease is primarily due to the use of restricted cash for the building program.

Current liabilities decreased by $4.6 million in 2008 due to a decrease in accounts payable of $5.1 million, an increase in accrued payroll of $11.4 million, a decrease in the current portion of long-term debt of $6.3 million, a decrease of $5.2 million in third-party payor settlement, and an increase of $611 thousand in other liabilities. Accounts payable decreased due to the timely processing of invoices and reduction in outstanding checks. The increase in accrued payroll is due to the timing of the pay periods.

Long-term debt includes the 2004 Series A and Series B Hospital Revenue Bonds, 2003 General Revenue Bonds, 2002 Hospital Revenue Bonds, 2007 Hospital Revenue Bonds, and long-term capital leases. The Medical Center also financed $7.7 million of capital equipment through leases during 2008. The note payable to campus is for long-term operating capital needs.

Liquidity and Capital Resources

During 2008, the Medical Center generated $100.7 million from operating activities.

Cash flows from non-capital financing activities shows the Medical Center's cash was reduced by $33.1 million for transfers to the University for health system support and general support and $21.9 million for the replacement hospital transition costs.

Included in cash flows from capital and related financing activities are the proceeds from FEMA $12.5 million, contributions from the University for funding from the State Public Works Board Bonds $10.9 million, purchase of capital assets (including construction in process for replacement hospitals) $225.4 million, proceeds from refinanced new debt of $197.0 million, bond costs $2.7 million, refinanced of outstanding debt $194.4 million, principal payments on long-term debt and capital leases $17.6 million, interest payments $9.4 million and replenishment of campus gift funds $117.5 million.

Cash flows from investment activities show that $6.3 million was provided by interest income, $62.4 million from a change in restricted assets, primarily proceeds from debt for the building project and $703 thousand from the Santa Monica Foundation. Overall cash increased to $124.6 million in 2008 from $121.0 million in 2007.

The following table shows key liquidity and capital ratios for 2008, 2007 and 2006:

	2008	2007	2006
Days cash on hand	40.8	42.5	51.1
Days of revenue in accounts receivable	67.0	72.0	67.0
Debt service coverage ratio	2.2	1.9	3.5

Days cash on hand decreased to 40.8 days in 2008 from 42.5 days in 2007. Days cash on hand measures the average number of days' expenses the Medical Center maintains in cash. The goal set by the University of California Office of the President is 60 days.

The days of revenue in accounts receivable measures the average number of days it takes to collect patient accounts receivable. In 2008, days in accounts receivable decreased to 67. The main reason for this decrease was due to the ongoing Revenue Cycle process improvements and increased cash collections. Ideally, the Medical Center would like the days in accounts receivable to be under 65 days.

Debt service coverage ratio measures the amount of funds available to cover the principal and interest on long-term debt. The Medical Center's ratio for 2008 is 2.2 versus 1.9 in 2007. The increase was due to increased operating income. This ratio is higher than the 1.1 required by the Bond Indenture.

The Medical Center will continue to be challenged with cash management and capital needs as it completes the replacement hospital for the Santa Monica campus.

Looking Forward

The Hospital Facilities Seismic Safety Act (SB 1953)
During 2008, the UCLA Medical Center's capital program continued to address the requirements in State of California Senate Bill 1953 (SB 1953), Hospital Facilities Seismic Safety Act. The projected cost for the Santa Monica-UCLA Medical Center and Orthopaedic Hospital, which will be compliant with the requirements by 2011, is $424 million. The capital cost of compliance will be financed through the use of state lease revenue bond funds, Federal Emergency Management Administration ("FEMA") funds, Hospital Reserves, gift funds and the debt. In 2008, $90.4 million was spent on these requirements.

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

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

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

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

University of California Retirement Plan
The University of California Retirement Plan ("UCRP") costs are funded by a combination of investment earnings, employee member and employer contributions. Since 1990, there have not been any Medical Center contributions to the UCRP. In addition, since 1990, the required employee member contributions to the UCRP have been suspended. However, employee member contributions are required to be made to the separate defined contribution plan maintained by the University.

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

Replacement Hospital's Depreciation Expense
The financial statements will be adversely affected in 2009 and beyond with the opening of the new Ronald Reagan Medical Center and portions of the Santa Monica campus as there will be a significant increase in depreciation expense for the buildings due to approximately $1.0 billion of assets that will begin to be depreciated. A small portion of this depreciation expense was recorded in FY 2008.

Cautionary Note Regarding Forward-Looking Statements

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

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

University of California, Los Angeles Medical Center
Statements of Net Assets
June 30, 2008 and 2007
(Dollars in thousands)

	2008	2007
Assets		
Current assets:		
Cash	$ 124,596	$ 120,978
Patient accounts receivable, net of estimated uncollectibles of $63,420 and $49,345, respectively	217,973	220,714
Other receivables, net of estimated uncollectibles of $93 and $93, respectively	15,907	10,821
Inventory	22,674	16,090
Prepaid expenses	12,760	11,902
Total current assets	393,910	380,505
Restricted assets:		
Cash restricted for replacement hospital	27,570	89,509
Donor funds	24,252	24,955
Capital assets, net	1,567,561	1,427,158
Deferred costs of issuance	5,487	9,002
Other assets	2,713	1,943
Total assets	2,021,493	1,933,072
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	67,659	72,737
Accrued salaries and benefits	74,659	63,284
Third-party payor settlements	26,052	31,254
Current portion of long-term debt and capital leases	15,025	21,310
Other liabilities	8,002	7,391
Total current liabilities	191,397	195,976
Note payable to campus	75,000	75,000
Long-term debt and capital leases, net of current portion	564,485	569,385
Total liabilities	830,882	840,361
Net Assets		
Invested in capital assets, net of related debt	988,051	866,283
Restricted:		
Nonexpendable:		
Endowments	337	337
Expendable:		
Capital projects	35,524	97,536
Other	15,961	16,591
Unrestricted	150,738	111,964
Total net assets	$ 1,190,611	$ 1,092,711

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

University of California, Los Angeles Medical Center
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2008 and 2007
(Dollars in thousands)

	2008	2007
Net patient service revenue, net of provision for doubtful accounts of $33,090 and $30,154, respectively	$ 1,162,561	$ 1,070,021
Other operating revenue:		
Clinical teaching support	21,840	22,641
Other	42,717	40,214
Total other operating revenue	64,557	62,855
Total operating revenue	1,227,118	1,132,876
Operating expenses:		
Salaries and employee benefits	673,324	616,215
Professional services	24,618	20,748
Medical supplies	184,419	183,306
Other supplies and purchased services	227,152	210,460
Depreciation and amortization	51,680	41,888
Insurance	8,067	8,786
Total operating expenses	1,169,260	1,081,403
Income from operations	57,858	51,473
Non-operating revenues (expenses):		
Interest income	6,348	7,259
Interest expense	(11,304)	(10,892)
Replacement hospital transition expense	(21,882)	(5,508)
Gain (loss) on disposal of capital assets	2,274	(1,630)
Total non-operating expenses	(24,564)	(10,771)
Income before other changes in net assets	33,294	40,702
Other changes in net assets:		
Proceeds received or receivable from FEMA	2,092	30,939
Contributions from University for building program	10,905	6,237
Donated assets	117,524	21,842
Transfer to University for building program	(32,790)	(75,887)
Health system support	(33,125)	(29,677)
Total other changes in net assets	64,606	(46,546)
Increase (decrease) in net assets	97,900	(5,844)
Net assets – beginning of year	1,092,711	1,098,555
Net assets – end of year	$ 1,190,611	$ 1,092,711

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

University of California, Los Angeles Medical Center
Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007
(Dollars in thousands)

	2008	2007
Cash flows from operating activities:		
Receipts from patients and third-party payors	$ 1,159,320	$ 1,029,744
Payments to employees	(542,779)	(497,793)
Payments to suppliers	(448,087)	(404,055)
Payments for benefits	(119,171)	(108,862)
Other receipts, net	51,404	58,015
Net cash provided by operating activities	100,687	77,049
Cash flows from noncapital financing activities:		
Health system support	(33,125)	(29,677)
Replacement hospital transition costs	(21,882)	(5,508)
Net cash used by noncapital financing activities	(55,007)	(35,185)
Cash flows from capital and related financing activities:		
Proceeds from FEMA	12,547	24,868
Proceeds from contributions from University for building program	10,905	6,237
Purchases of capital assets	(225,399)	(209,965)
Proceeds from debt issuance	197,030	252,079
Bond issuance cost	(2,738)	(3,324)
Refinancing of outstanding debt	(194,408)	–
Principal paid on long-term debt and capital leases	(17,579)	(16,053)
Interest paid on long-term debt and capital leases	(9,432)	(11,189)
Transfer to University for building program	–	(75,887)
Gifts and donated funds	117,524	21,842
Net cash used by capital and related financing activities	(111,550)	(11,392)
Cash flows from investing activities:		
Interest income received	6,348	7,259
Change in restricted assets, held by trustee	62,437	(37,273)
Change in Foundation investments	703	(9,641)
Net cash provided (used) by investing activities	69,488	(39,655)
Net increase (decrease) in cash	3,618	(9,183)
Cash – beginning of year	120,978	130,161
Cash – end of year	$ 124,596	$ 120,978

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

University of California, Los Angeles Medical Center
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2008 and 2007
(Dollars in thousands)

	2008	2007
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	$ 57,858	$ 51,473
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization expense	51,680	41,888
Provision for doubtful accounts	33,090	30,154
Changes in operating assets and liabilities:		
Patient accounts receivable	(30,349)	(65,509)
Other receivables	(5,086)	3,946
Inventory	(6,584)	199
Prepaid expenses and other assets	(1,628)	(4,542)
Accounts payable and accrued expenses	(5,078)	12,278
Accrued salaries and benefits	11,375	9,560
Third-party payor settlements	(5,202)	(4,828)
Other liabilities	611	2,430
Net cash provided by operating activities	$ 100,687	$ 77,049
Supplemental noncash activities information:		
Capitalized interest	$ 19,740	$ 7,918
Capital assets acquired through capital lease obligations	$ 7,657	$ 11,455
Reimbursement pending from FEMA	$ 32,908	$ 45,414
Amortization of bond premium	$ 91	$ 430
Amortization of deferred financing costs	$ 14	$ 132
Transfer of capital assets to University	$ 31,822	$ –

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

1. Organization

The University of California, Los Angeles Medical Center (the "Medical Center") is a part of the University of California (the "University"), a California public corporation established under Article IX, Section 9 of the California Constitution. The University is administered by The Regents of the University of California ("The Regents"), an independent board composed of 26 members. The Medical Center's activities are monitored by The Regents' Committee on Health Services, with direct management authority being delegated to the Vice Chancellor, Medical Sciences by the Chancellor of the Los Angeles campus. The Medical Center operates licensed bed facilities including the 456 bed Ronald Reagan UCLA Medical Center, the 315 bed Santa Monica – UCLA Medical Center and Orthopaedic Hospital, and the 74 bed Resnick Neuropsychiatric Hospital at UCLA. The financial statements also include the activities of Tiverton House, a 100-room facility for patients and their families.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* was adopted by the Medical Center during the fiscal year ended June 30, 2008. The Medical Center's participation in the University's postemployment benefit program is effectively as a cost-sharing employer participating in a plan administered as a trust. As a result, the Medical Center recognizes as an expense in the statement of revenues, expenses and changes in net assets the amount associated with the University's common assessment rate on an accrual basis. Accordingly, implementation of Statement No. 45 did not have any significant effect on its financial statements other than to the extent the University changed the common assessment rate from the prior year.

Cash

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

2. Summary of Significant Accounting Policies (Continued)

Cash (Continued)

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

The Medical Center's cash at June 30, 2008 and 2007 was $124,596 and $120,978, respectively. None of these amounts are insured by the Federal Deposit Insurance Corporation.

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

Additional information on cash and investments can be obtained from the 2008 annual report of the University.

Inventory

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

Prepaid Expenses

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

Restricted Assets, Replacement Hospitals

Proceeds from the Medical Center Pooled Revenue Bonds are held by the Treasurer of The Regents. Bond proceeds remain on deposit with the Treasurer until the project is constructed.

Restricted Assets, Donor Funds

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

Capital Assets

The Medical Center's capital assets are reported at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets. Equipment under capital lease is amortized over the shorter period of the lease term or the estimated useful life of the equipment. Lease amortization is included in depreciation and amortization expense. The range of the estimated useful lives for buildings and land improvements is 10 to 40 years and for equipment is 5 to 20 years. Interest on borrowings to finance facilities is capitalized during construction. University guidelines mandate that land purchased with Medical Center funds be recorded as an asset of the Medical Center. Land utilized by the Medical Center but purchased with other sources of funds is recorded as an asset of the University. Incremental costs including salaries and employee benefits, directly related to the acquisition, development and installation of major software projects are included in the cost of the capital asset.

2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

2. Summary of Significant Accounting Policies (Continued)

Revenues and Expenses

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

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

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

Non-operating revenue and expense includes interest income and expense, replacement hospital transition expenses and the gain or loss on the disposal of capital assets.

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

Retiree Health Benefits Expense

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

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

UCRP Benefits Expense

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

2. Summary of Significant Accounting Policies (Continued)

Charity Care

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

Transactions with the University and University Affiliates

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

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

Compensated Absences

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

Interest Rate Swap Agreements

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

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

2. Summary of Significant Accounting Policies (Continued)

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

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Although management believes these estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made and actual amounts could differ from those estimates.

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

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for the Medical Center's fiscal year beginning July 1, 2009. This statement requires capitalization of identifiable intangible assets in the statement of net assets and provides guidance for amortization of intangible assets unless they are considered to have an indefinite useful life.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, also effective for the Medical Center's fiscal year beginning July 1, 2009. This Statement requires the Medical Center to report its derivative instruments at fair value. Changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferrals in the statement of net assets. Derivative instruments that either do not meet the criteria for an effective hedge or are associated with investments that are already reported at fair value are to be classified as investment derivative instruments. Changes in fair value of those derivative instruments are to be reported as investment revenue.

The Medical Center is currently evaluating the effect, if any, that Statements No. 49, 51 and 53 will have on its financial statements.

3. Net Patient Service Revenue

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

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

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

  The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement of such items determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Center hospitals' (the Ronald Reagan UCLA Medical Center, the Santa Monica – UCLA Medical Center and Orthopaedic Hospital, and the Resnick Neuropsychiatric Hospital at UCLA) Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2002 for the Ronald Reagan UCLA Medical Center, June 30, 2006 for Santa Monica and June 30, 2004 for Resnick Neuropsychiatric Hospitals.

- ***Medi-Cal*** – The federal Medicaid program is referred to as Medi-Cal in California. Medi-Cal fee-for-service (FFS) inpatient hospital payments are made in accordance with the federal Medicaid hospital financing waiver and State of California Senate Bill 1100 (SB 1100). Medi-Cal Outpatient FFS services are reimbursed based on a fee schedule. SB 1100 also allows the Medical Center to receive additional waiver growth funding subject to the availability of funds. The total payments made to the Medical Center under SB 1100 will include a combination of Medi-Cal inpatient FFS payments, Medi-Cal Disproportionate Share (DSH) payments, and Safety Net Care Pool (SNCP). The SNCP is a new federal allotment available under the waiver. For the year ended June 30, 2008 and 2007, the Medical Center recorded total Medi-Cal inpatient and outpatient revenue of $114,606 and $102,257, respectively.

3. Net Patient Service Revenue (Continued)

- ***Assembly Bill 915*** – State of California Assembly Bill ("AB") 915, *Public Hospital Outpatient Services Supplemental Reimbursement Program*, provides for supplemental reimbursement equal to the federal share of unreimbursed facility costs incurred by public hospital outpatient departments. This supplemental payment covers only Medi-Cal fee-for-service outpatient services. The supplemental payment is based on each eligible hospital's certified public expenditures ("CPE"), which are matched with federal Medicaid funds. For the years ended June 30, 2008 and 2007, the Medical Center recorded revenue of $5,745 and $4,437, respectively.

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

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

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

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

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

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

The most common payment arrangement for inpatient services is a prospectively determined per-diem rate. The most common payment arrangement for outpatient care is a prospective payment system that uses ambulatory payment classifications.

Amounts due from Medicare and Medi-Cal represent 24.0 percent and 20.0 percent of net patient accounts receivable at June 30, 2008 and 2007, respectively.

(Dollars in thousands)

3. Net Patient Service Revenue (Continued)

For the years ended June 30, 2008 and 2007, net patient service revenue included favorable cost report settlements of $9,308 and $6,776, respectively, from Medicare and Medi-Cal.

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

	2008	2007
Medicare (non-risk)	$ 297,443	$ 278,502
Medicare (risk)	33,234	31,451
Medi-Cal (non-risk)	110,914	98,535
Commercial	14,283	18,303
Contract (discounted or per diem)	686,839	623,826
County	3,692	3,722
Non-sponsored/self-pay (uninsured)	16,156	15,682
Total	$ 1,162,561	$ 1,070,021

4. Charity Care

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

	2008	2007
Charity care at established rates	$ 21,078	$ 22,214
Estimated cost of charity care	$ 7,436	$ 7,411

Estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs was $46,802 and $36,100 for the years ended June 30, 2008 and 2007, respectively.

5. Restricted Assets, Donor Funds

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

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

	2008	2007
Mutual funds	$ 17,528	$ 17,920
Real property	2,100	2,100
Charitable remainder trusts	4,624	4,935
Total	$ 24,252	$ 24,955

(Dollars in thousands)

5. Restricted Assets, Donor Funds (Continued

Donor restricted funds are available for the following purposes:

	2008	2007
Capital purposes	$ 7,954	$ 8,027
Endowments	337	337
Operations	15,961	16,591
Total	$ 24,252	$ 24,955

6. Capital Assets

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

	2006	Additions	Disposals	2007	Additions	Disposals	2008
Original Cost							
Land	$ 12,098	$ –	$ –	$ 12,098	$ –	$ –	$ 12,098
Buildings and improvements	440,918	1,588	–	442,506	1,006,240	(228,514)	1,220,232
Equipment	299,587	26,490	(32,958)	293,119	85,305	(65,512)	312,912
Construction in progress	1,015,846	199,414	(1,524)	1,213,736	(869,913)	–	343,823
Capital assets, at cost	$ 1,768,449	$ 227,492	$ (34,482)	$ 1,961,459	$ 221,632	$ (294,026)	$ 1,889,065
	2006	**Depreciation**	**Disposals**	**2007**	**Depreciation**	**Disposals**	**2008**
Accumulated Depreciation and Amortization							
Buildings and improvements	$ 295,921	$ 16,288	$ –	$ 312,209	$ 692	$ (185,830)	$ 127,071
Equipment	229,344	25,600	(32,852)	222,092	50,988	(78,647)	194,433
Accumulated depreciation and amortization	$ 525,265	$ 41,888	$ (32,852)	$ 534,301	$ 51,680	$ (264,477)	$ 321,504
Capital assets, net	$ 1,243,184			$ 1,427,158			$ 1,567,561

Equipment under capital lease obligations and related accumulated amortization is $81,560 and $54,007 in 2008, respectively, and $80,008 and $47,346 in 2007, respectively.

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

6. Capital Assets (Continued)

The new Ronald Reagan UCLA Medical Center was completed and occupied on June 29, 2008. The Santa Monica – Medical Center and Orthopaedic Hospital is still under construction. Both projects were under construction during the current year in order to be in compliance with Senate Bill 1953, the *Hospital Facilities Seismic Safety Act*. A portion of the construction is financed by the University under a lease-revenue bond with the State of California Public Works Board. These amounts totaling $9,929 and $39,878 for the years ending June 30, 2008 and 2007, respectively, are included in Contributions from University for building program on the statement of revenues, expenses and changes in net assets.

Donated assets represent gift funds that have been used for the hospitals' replacement. The gift funds are only recorded on the Medical Center's financial statements when expenditures for the project have been incurred. Prior to 2007, gift funds were used for the replacement hospitals and increased the equity of the Medical Center. In 2007, the Medical Center used part of the bond proceeds to replenish these gift accounts, thereby making the funds available for future equipment purchases for the replacement hospital. In 2007, the plant expenditures were $21.9 million and contributions to the University for building program was $75.9 million resulting in an overall transfer back to the University of $54.0 million.

In conjunction with the relocation to the new Ronald Reagan UCLA Medical Center, a majority of the old hospital space was transferred back to the campus. As a result, the net book value of capital assets at June 30, 2008 was decreased by $31.8 million. The Medical Center continues to occupy approximately 256,537 of assignable square feet in the old hospital for clinical services.

7. Note Payable to Campus

The Medical Center has an internal line of credit in the amount of $75 million from the Chancellor. The line of credit is due in February 2014 and accrues interest at the STIP rate. As of June 30, 2008, $75 million was outstanding. Interest expense for the years ended June 30, 2008 and 2007 was $3.3 million and $3.4 million, respectively.

(Dollars in thousands)

8. Long-term Debt and Capital Leases

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

	2008	2007
University of California Medical Center Pooled Revenue Bonds, Series 2007 A, interest rates ranging from 4.3 percent to 5.0 percent, payable semi-annually, with annual principle payments beginning in 2012 through 2047	$ 250,000	$ 250,000
University of California Medical Center Pooled Revenue Bonds, Series 2007 C, variable interest rate, with annual principal payments through 2047	197,030	–
University of California Hospital Revenue Bonds 2004 (University of California, Los Angeles Medical Centers, Series A and B), interest rates from 2.0 percent to 5.5 percent, payable semi-annually, with annual principal payments through 2039	91,710	251,760
University of California General Revenue Bonds 2003, interest rates from 2.0 percent to 5.3 percent, payable semi-annually, with annual principal payments through 2023	10,357	10,833
University of California Hospital Revenue Bonds, 2002 Series A, interest rate is 4.6 percent, payable semi-annually, with annual principal payments through 2009	–	29,820
Capital lease obligations, primarily for computer equipment, with fixed interest rates ranging from 0.0 percent to 9.4 percent, payable through 2007, collateralized by underlying equipment	27,547	35,265
The University Pool 2 Loan, interest rate of 5.7 percent payable annually, with annual principal payments through 2019	275	324
Unamortized bond premium	2,795	14,511
Unamortized deferred financing costs	(204)	(1,818)
Total debt and capital leases	579,510	590,695
Less: Current portion of debt and capital leases	(15,025)	(21,310)
Noncurrent portion of debt and capital leases	$ 564,485	$ 569,385

(Dollars in thousands)

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

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

	Revenue Bonds	Capital Lease Obligations	Total
Year Ended June 30, 2008			
Current portion at June 30, 2007	$ 5,936	$ 15,374	$ 21,310
Reclassification from noncurrent	197,711	11,876	209,587
Defeased 2002 and 2004 revenue bonds	(188,190)	–	(188,190)
Write off of unamortized bond premium	(10,026)	–	(10,026)
Principal payments	(2,205)	(15,374)	(17,579)
Amortization of bond premium	(91)	–	(91)
Amortization of deferred financing costs	14	–	14
Current portion at June 30, 2008	$ 3,149	$ 11,876	$ 15,025
Noncurrent portion at June 30, 2007	$ 549,495	$ 19,890	$ 569,385
New obligations	197,030	7,657	204,687
Reclassification to current	(197,711)	(11,876)	(209,587)
Noncurrent portion at June 30, 2008	$ 548,815	$ 15,670	$ 564,485
Year Ended June 30, 2007			
Current portion at June 30, 2006	$ 5,752	$ 13,484	$ 19,236
Reclassification from noncurrent	5,936	15,374	21,310
Principal payments	(5,454)	(13,484)	(18,938)
Amortization of bond premium	(430)	–	(430)
Amortization of deferred financing costs	132	–	132
Current portion at June 30, 2007	$ 5,936	$ 15,374	$ 21,310
Noncurrent portion at June 30, 2006	$ 303,377	$ 24,221	$ 327,598
New obligations	250,000	11,043	261,043
Bond premium	2,054	–	2,054
Reclassification to current	(5,936)	(15,374)	(21,310)
Noncurrent portion at June 30, 2007	$ 549,495	$ 19,890	$ 569,385

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

Medical Center Pooled Revenue Bonds are issued to finance the University's medical centers and are collateralized by a joint and several pledge of the operating revenues, as defined in the indenture, of all five of the University's medical centers. The Medical Center Pooled Revenue Bond indenture requires the medical centers to set rates, charges and fees each year sufficient for the medical center operating revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. Total Medical Center Pooled Revenue Bonds outstanding at June 30, 2008 are $1.1 billion of which $447.0 million are specifically for capital projects at the Medical Center. Combined operating revenues of the University's five medical centers for the years ended June 30, 2008 and 2007 were $5.0 and $4.6 billion, respectively.

In July 2007, Medical Center Pooled Revenue Bonds, Series 2007 C totaling $197.0 million, $7.3 million with a fixed interest rate and $189.7 million with a variable interest rate, were issued specifically for the Medical Center to refinance certain improvements to the Medical Center. Proceeds were used to refund $188.2 million of 2002 and 2004 Hospital Revenue Bonds. The bonds mature at various dates through 2047. The fixed rate bonds have a weighted average interest rate of 4.3 percent. Aggregate debt service payments on the refunded bonds increased by $152.6 million due to the extension of maturities over the next 40 years and the Medical Center achieved an economic gain of $1.5 million.

In January 2007, Medical Center Pooled Revenue Bonds, Series 2007 A totaling $250,000 were issued specifically for the Medical Center to finance or refinance certain improvements to the Medical Center. Proceeds, including a bond premium of $2,079, were used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds. The bonds require interest only payments through November 2011, mature at various dates through 2047 and have a weighted average interest rate of 4.6 percent.

University of California Hospital Revenue Bonds 2004 series have also financed certain improvements at the Medical Center. The majority of these bonds were refunded during the year ended June 30, 2008. The Hospital Revenue Bonds are collateralized solely by revenues of the Medical Center. In addition, under the bond indentures, the Medical Center is required to maintain a debt service ratio of 1.1 to 1 and has limitations as to additional borrowings and the purchase or sale of assets.

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

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

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

Interest Rate Swap Agreements

As a means to lower the Medical Center's borrowing costs when compared against fixed-rate bonds at the time of issuance of the variable interest rate Medical Center Pooled Revenue Bonds, the Medical Center entered into four interest rate swap agreements with a financial institution. The intention of the swap transactions was to effectively change the variable interest rate on the bonds to a weighted average fixed interest rate of 4.7 percent.

The bonds and the related swap agreements mature in 2047. The swap agreements contain scheduled reductions to outstanding notional amounts that match scheduled reductions in the bonds. Under the swaps, the Medical Center pays the bondholders a variable rate that matches the variable payment it receives from the interest rate swaps, resulting in a weighted average fixed rate of 4.7 percent as the net payment obligation for the transaction.

Because swap interest rates have changed since execution of the swaps, the swaps have an estimated negative fair value of $20.8 million as of June 30, 2008. The fair value of the interest rate swap is the estimated amount the Medical Center would have paid if the swap agreement was terminated on June 30, 2008 and was estimated by a financial institution using quoted market prices when available or a forecast of expected discounted future net cash flows.

The swaps do not expose the Medical Center to basis or tax risk since the variable rate the Medical Center pays to the bondholders matches the variable rate payments received from the swap counterparty. Although the Medical Center has entered into the interest rate swaps with credit worthy financial institutions, there is credit and termination risk to losses in the event of non-performance by counterparties or unfavorable interest rate movements. Swap contracts with positive fair values are exposed to credit risk. The Medical Center faces a maximum possible loss equivalent to the amount of the swaps' fair value. Swap contracts with negative fair value are not exposed to credit risk. The swaps may be terminated if the Medical Center Pooled Revenue Bonds or the swap counterparty's credit quality rating, as issued by Fitch Ratings or Standard & Poor's, falls below "Baa2A" or BBB , thereby canceling the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. At termination, the Medical Center may also owe a termination payment if there is a realized loss based on the fair value of the swaps.

(Dollars in thousands)

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

Interest Rate Swap Agreements (Continued)

As rates vary, variable rate bond interest payments and net swap payments will vary. Although not a prediction by the Medical Center of the future interest cost of the variable rate bonds or the impact of the interest rate swaps, using rates as of June 30, 2008, debt service requirements of the variable rate debt and net swap payments are as follows:

	Variable-Rate Bond			
Year Ending June 30,	Principal	Interest	Interest Rate Swap, Net	Total
2009	$ –	$ 4,766	$ 4,100	$ 8,866
2010	–	4,766	4,100	8,866
2011	–	4,766	4,100	8,866
2012	–	4,766	4,100	8,866
2013	–	4,766	4,100	8,866
2014 – 2018	–	23,828	20,502	44,330
2019 – 2023	3,365	23,828	20,502	47,695
2024 – 2028	19,260	22,542	19,350	61,152
2029 – 2033	24,075	20,001	17,080	61,156
2034 – 2038	30,175	16,762	14,154	61,091
2039 – 2043	55,030	11,989	10,105	77,124
2044 – 2047	57,870	3,819	3,199	64,888
Total	$ 189,775	$ 146,599	$ 125,392	$ 461,766

The Medical Center's counterparty in the interest rate swap agreement entered into in connection with Medical Center Pooled Revenue Bonds with a notional amount of $189.8 million is Lehman Brothers Special Financing Inc. The guarantor is Lehman Brothers Holdings Inc. On September 14, 2008, Lehman Brothers Holdings Inc. filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. On October 3, 2008, Lehman Brothers Special Financing Inc. filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. The University is exploring various options, including terminating the existing swap agreement and substituting a new interest rate swap agreement with a new counterparty, to reduce the credit risk resulting from these bankruptcy filings and to provide funds to pay the cost of terminating the existing swap agreement. On October 10, 2008, this interest rate swap has an estimated negative fair value of $37.3 million.

(Dollars in thousands)

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

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to June 30, 2008 and thereafter are as follows:

Year Ending June 30,	Revenue Bonds	Capital Leases	Total Payments	Principal	Interest
2009	$ 29,044	$ 12,696	$ 41,740	$ 14,947	$ 26,793
2010	29,047	6,290	35,337	8,989	26,348
2011	29,044	4,937	33,981	7,978	26,003
2012	31,798	3,723	35,521	9,847	25,674
2013	32,161	1,688	33,849	8,587	25,262
2014 – 2018	160,840	–	160,840	40,391	120,449
2019 – 2023	159,330	–	159,330	50,360	108,970
2024 – 2028	152,412	–	152,412	56,050	96,362
2029 – 2033	152,411	–	152,411	70,665	81,746
2034 – 2038	152,339	–	152,339	88,750	63,589
2039 – 2043	152,415	–	152,415	111,325	41,090
2044 – 2048	121,929	–	121,929	109,030	12,899
Total future debt service	1,202,770	29,334	1,232,104	$ 576,919	$ 655,185
Less: Interest component of future payments	(653,398)	(1,787)	(655,185)		
Principal portion of future payments	549,372	27,547	576,919		
Adjusted by:					
Unamortized bond premium	2,795	–	2,795		
Unamortized deferred financing costs	(204)	–	(204)		
Total debt	$ 551,963	$ 27,547	$ 579,510		

Additional information on the revenue bonds can be obtained from the 2008 annual report of the University.

(Dollars in thousands)

9. Operating Leases

The Medical Center leases certain buildings and equipment under agreements recorded as operating leases. Operating lease expense for the years ended June 30, 2008 and 2007 was $6,807 and $5,735, respectively. The terms of the operating leases extend through the year 2015.

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

Year Ending June 30,	Minimum Annual Lease Payments
2009	$ 6,683
2010	5,628
2011	4,561
2012	4,349
2013	2,777
2014 – 2015	15,515
Total	$ 39,513

10. Retiree Health Plans

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

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

Participating University locations, such as the Medical Center, are required to contribute at a rate assessed each year by the UCRHBT. The contribution requirements are based upon projected pay-as-you-go financing requirements. The assessment rates were $2.86, $2.75 and $2.55 per $100 of UCRP covered payroll resulting in Medical Center contributions of $13.0 million, $11.2 million and $9.4 million for the years ended June 30, 2008, 2007 and 2006, respectively.

10. Retiree Health Plans (Continued)

The University has estimated the unfunded liability for retiree health benefits as approximately $12 billion as of July 1, 2007. Additional information on the retiree health plans can be obtained from the 2007–2008 annual report of the University of California Health and Welfare Plans.

11. Retirement Plans

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

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

Contributions to the UCRP may be made by the Medical Center and the employees. The rates for employer and employee contributions as a percentage of payroll are determined annually pursuant to The Regents’ funding policy based upon recommendations of the consulting actuary. Employee contributions are subject to collective bargaining. As a result of the funded status of the UCRP, during the years ended June 30, 2008 and 2007, there were no required Medical Center or employee contributions.

The actuarial value of UCRP assets and the actuarial accrued liability using the entry age normal cost method as of July 1, 2007, the date of the latest actuarial valuation, were $43.3 billion and $41.3 billion, respectively. The net assets held in trust for pension benefits on the UCRP Statement of Plan’s Fiduciary Net assets were $42.02 billion at June 30, 2008. For the years ended June 30, 2008 and 2007, University contributions were $2,657 and $23,934, respectively. The annual UCRP expense was equal to the actuarially determined contributions. As a result, there was no obligation to UCRP at the end of either year.

The UCRSP plans (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 403(b) and 457(b) plans accept pre-tax employee contributions. The Medical Center may also make contributions on behalf of certain members of management. Benefits from the plans are based on participants’ mandatory and voluntary contributions, plus earnings, and are immediately vested.

Information related to contributions made, plan assets and liabilities, as they relate to Medical Center employees, is not readily available. Additional information on the retirement plans can be obtained from the 2007–2008 annual reports of the University of California Retirement plan, the University of California Retirement Savings Plan and the University of California PERS–VERIP.

(Dollars in thousands)

12. University Self-insurance

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

Workers' compensation premiums, included as salaries and employee benefits expense in the statement of revenues, expenses and changes in net assets, were $14,735 and $15,327 for the years ended June 30, 2008 and 2007, respectively. During 2008, as a result of actuarial analysis, the Medical Center received a refund of premiums of $1,495 from the University that reduced the overall workers' compensation cost for the year.

Combined malpractice and general liability premiums, recorded as insurance expense in the statements of revenues, expenses and changes in net assets, were $8,067 and $8,786 for the years ended June 30, 2008 and 2007, respectively.

13. Transactions with Other University Entities

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

	2008	2007
Professional services	$ 11,826	$ 8,161
Medical supplies	(2,198)	(1,589)
Other supplies and purchased services	40,049	42,074
Interest income (net)	(3,042)	(3,901)
Insurance	8,067	8,700
Total	$ 54,701	$ 53,445

(Dollars in thousands)

13. Transactions with Other University Entities (Continued)

Additionally, the Medical Center makes payments to the University of California, Los Angeles School of Medicine ("School of Medicine"). Services purchased from the School of Medicine include physician services that benefit the Medical Center, such as emergency room coverage, physicians providing medical direction to the Medical Center, and the Medical Center's allocation of malpractice insurance. Such expenses are reported as operating expenses in the statements of revenue, expenses and changes in net assets. Health system support includes amounts paid by the Medical Center to fund School of Medicine operating activities, payments to support clinical research, transfers to faculty practice plans, as well as other payments made to support various School of Medicine programs.

The total net amounts of payments made by the Medical Center to the School of Medicine were $87,826 and $83,122 in 2008 and 2007, respectively. Of these amounts, $54,701 and $53,445 are reported as operating expenses for the years ended June 30, 2008 and 2007, respectively, and $33,125 and $29,677 are reported as health system support for the years ended June 30, 2008 and 2007, respectively.

14. Federal Emergency Management Administration

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

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

*includes the Orthopaedic Hospital funds; see Note 15

Under the terms of the agreement, the Medical Center will be reimbursed for eligible costs of rebuilding the acute care facilities. The Medical Center capitalizes construction costs based on cash receipts and pending reimbursements from FEMA. For the years ended June 30, 2008 and 2007, total cash received from FEMA was $12,548 and $21,066, respectively.

The grants are subject to final settlement after completion of construction and submission of reports and audits thereof by FEMA. If the results of the audit determine that the construction costs incurred were ineligible for reimbursement, the University would be required to find alternative financing sources. As of June 30, 2008, FEMA has not completed any audits.

(Dollars in thousands)

15. Commitments and Contingencies

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

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

State of California Senate Bill 1953, *Hospital Facilities Seismic Safety Act*, specifies certain requirements that must be met within a specified time in order to increase the probability that the hospital could maintain uninterrupted operations following major earthquakes. By January 1, 2030, all general acute care inpatient buildings must be operational after an earthquake. Previously, the state of California's budget authorized the University to use $600 million in lease-revenue bond funds for earthquake safety renovations. The Regents have approved the allocation of the $600 million among the University's medical centers, of which $182 million was allocated to the Medical Center. The Medical Center spent $9,929 and $39,878 of its allocation during the years ended June 30, 2008 and 2007, respectively. As of June 30, 2008, any repayment the Medical Center may be obligated for under these financing arrangements is still being determined.

The replacement hospital at the UCLA Medical Center has been completed and is now in use. The Santa Monica – Medical Center is still under construction. The total cost of these Medical Center projects is currently estimated to be $1.3 billion, excluding interest. The estimated financing sources for the replacement hospitals are estimated as follows:

FEMA	$ 511,803
State Matching Funds	43,886
Gift Funds	96,457
State Lease Revenue Bonds	181,957
Medical Center Revenue Bond 2004	172,429
Medical Center Revenue Bond 2007	248,907
Chancellor Loan Funds	39,800
State Children's Hospital Program Grant	29,828
Hospital Reserves	6,724
Campus Funds	822
Total	$ 1,332,613

Gifts used for construction totaling $117.5 million and $21.8 million for the years ended June 30, 2008 and 2007, respectively, and are reflected in the statements of revenues, expenses and changes in net assets. Additional gifts and pledges received but not used as of June 30, 2008 are not included in the financial statements of the Medical Center. These gifts and pledges are included in the financial statements of the University and transferred to the Medical Center when used.