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Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

ACTION ITEM

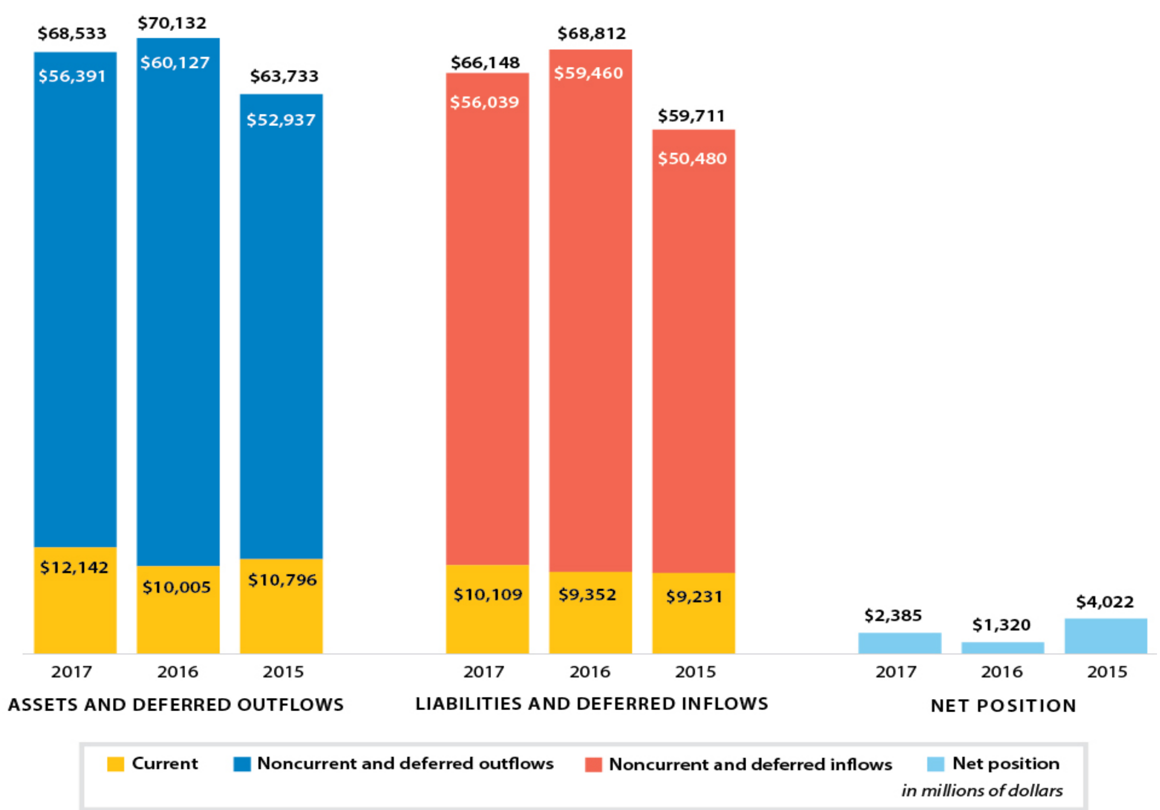
For Meeting of November 15, 2017

UNIVERSITY OF CALIFORNIA FINANCIAL REPORTS, 2017

EXECUTIVE SUMMARY

The University's financial position improved in 2017 consistent with the performance of the investment markets. Pension and retiree health benefits liabilities decreased due to strong investment performance and higher interest rates. To support growth, the University continued to invest in new facilities and renewal of existing facilities financed by debt. The loss from core operating activities decreased from investment gains. The University's diverse sources of revenues continued to grow, offset by higher salaries and benefits to support the growth.

University of California Statements of Net Position



RECOMMENDATION

The President of the University recommends that the Finance and Capital Strategies Committee recommend that the Regents adopt the 2016-17 Annual Financial Reports for the University of California, the University of California Retirement System, and the five University of California Medical Centers.

BACKGROUND

Attached are the June 30, 2017 audited financial statements for the University of California; University of California Retirement System (UCRS) – University of California Retirement Plan (UCRP), University of California Voluntary Retirement Incentive Program (PERS Plus 5 Plan), the University of California Retirement Savings Program (UCRSP), including the Defined Contribution, 403(b) and 457(b) Plans; and the five University of California Medical Centers: Davis, Irvine, Los Angeles, San Diego and San Francisco. Following is a discussion of the highlights of these reports.

The University implemented new accounting policies for retiree health benefits, which included recognition of the net retiree health benefit liability in the financial statements. Financial information presented below for 2016 and 2015 has been restated to retroactively apply these new accounting policies.

(in millions of dollars)

	2017	2016	2015
ASSETS			
Investments	$24,478	$22,209	$22,493
Investment of cash collateral	1,080	825	775
Accounts receivable, net	3,947	3,320	3,281
Capital assets, net	30,670	29,689	28,643
Other assets	2,808	3,919	3,808
Total assets	**62,983**	**59,962**	**59,000**
DEFERRED OUTFLOWS OF RESOURCES	**5,550**	**10,170**	**4,732**
LIABILITIES			
Debt, including commercial paper	20,503	19,951	19,021
Securities lending collateral	1,079	825	775
Net pension liability	10,739	15,125	10,671
Net retiree health benefits liability	19,290	21,795	18,660
Other liabilities	8,253	7,648	7,426
Total liabilities	**59,864**	**65,344**	**56,553**
DEFERRED INFLOWS OF RESOURCES	**6,284**	**3,468**	**3,157**
NET POSITION			
Net investment in capital assets	13,343	12,816	12,138
Restricted:			
Nonexpendable	1,176	1,148	1,111
Expendable	7,163	6,546	7,206
Unrestricted	(19,297)	(19,190)	(16,433)
Total net position	**$2,385**	**$1,320**	**$4,022**

Highlights of the changes in the University's statement of net position as of June 30, 2017 are as follows:

- For 2017, the General Endowment Pool (GEP) portfolio had a positive return of 15.1 percent, the Total Return Investment Pool (TRIP) had a positive return of 7.7 percent and the Short Term Investment Pool (STIP) had a positive return of 1.3 percent.

- Total additions of capital assets for 2017 were $3 billion, offset by depreciation of $1.9 billion.

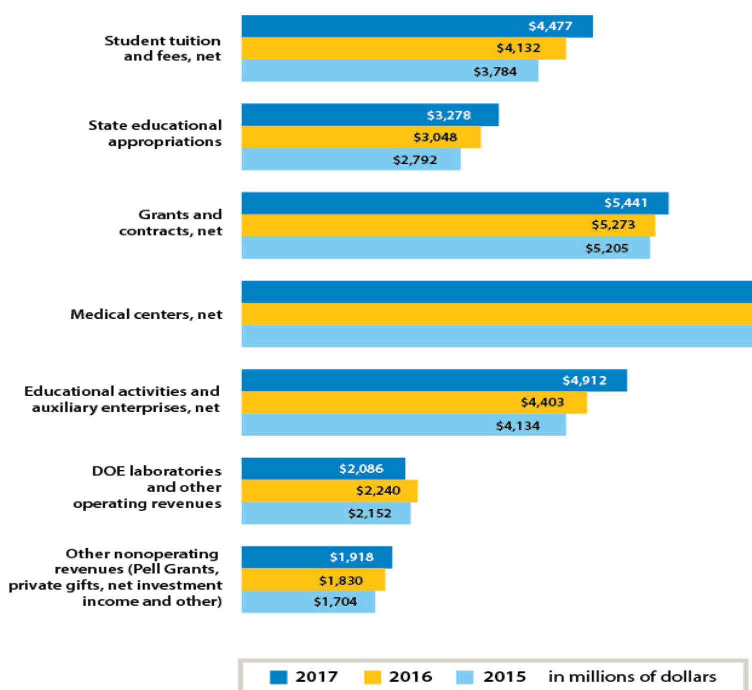
- The University issued $2.4 billion of debt, including General Revenue Bonds of $1.1 billion and Medical Center Revenue Bonds of $1 billion. Proceeds from the debt were used to refund $1.3 billion of outstanding debt and finance capital projects.

- The net pension liability decreased by $4.4 billion due to higher-than-expected investment returns of positive 14.5 percent (expected return was 7.25 percent).

- The obligation for retiree health benefits decreased $2.5 billion due to an increase in the discount rate (based on a municipal bond index rate) to 3.58 percent in 2017 from 2.85 percent in 2016.

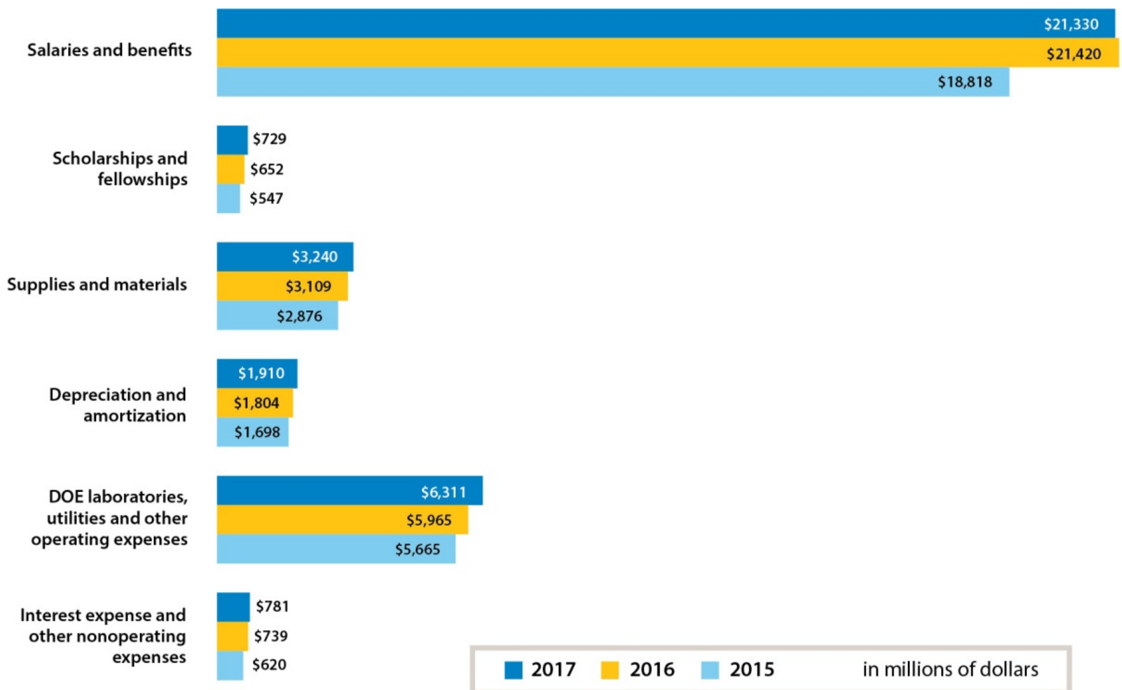
Statements of Revenues, Expenses, and Changes in Net Position

Revenues in various categories have increased and decreased as follows:



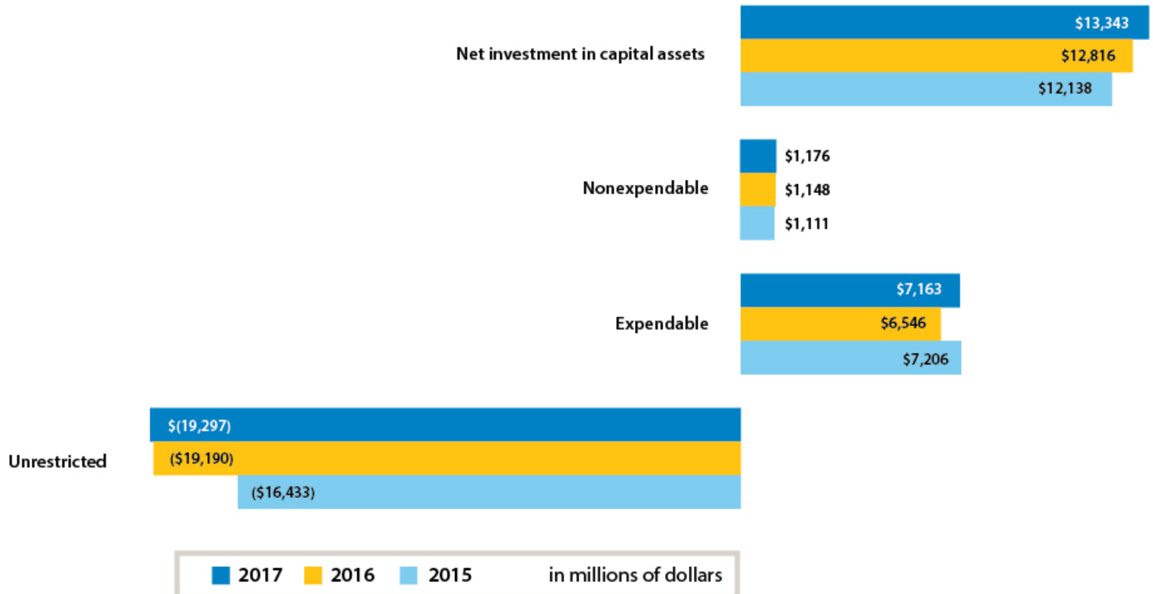
Revenues increased in 2017 in almost all categories due to continued growth in the University's operations, with the medical centers and the medical practice plans (reported as educational activities) showing the largest increases. Student tuition and fees and auxiliary enterprises (housing, food service, parking, bookstores, student centers and unions, childcare centers and certain athletic programs) increased as a result of higher enrollment. State educational appropriations increased as a result of the budget agreement with the State. Grants and contract revenues increased slightly, primarily in private grants.

Expenses in various categories have increased and decreased as follows:



Expenses increased consistent with revenues. Salaries, the University's largest expense, continued to increase due to a higher number of full-time equivalent employees and higher average salaries per full-time equivalent employee. Pension expenses decreased as a result of higher-than-expected investment returns in the UCRP portfolio and retiree health benefit expenses decreased due to a higher discount rate.

<u>Components of Net Position</u>



The University's total net position as of June 30, 2017 increased slightly due to higher investment returns in both the University's portfolio and the UCRP plan portfolio. Unrestricted net position is negative due to obligations for pension and retiree health benefits exceeding University reserves. Although unrestricted net position is not subject to externally imposed restrictions, substantially all of the University's reserves are allocated for academic and research initiatives or programs, and for capital and other purposes.

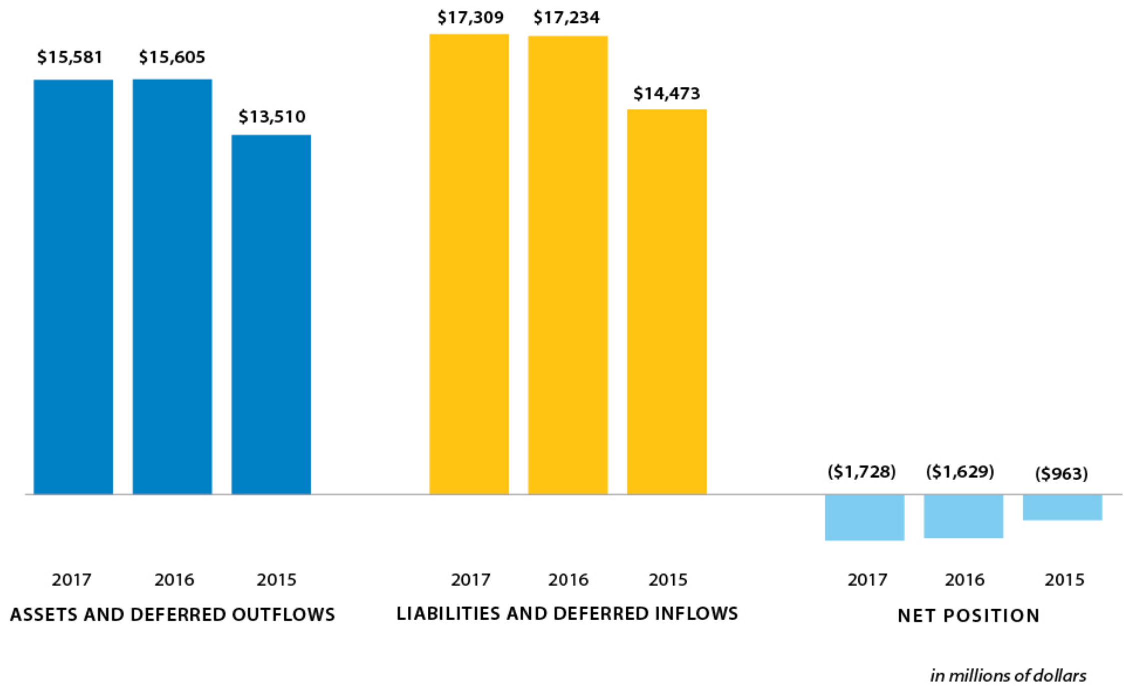
<u>University Foundations</u>

The ten campus and Lawrence Berkeley National Laboratory foundations have $8.6 billion of net position as of June 30, 2017. The campus foundations continued to show strong results in their fundraising results and transferred $940 million to campuses in 2017. Net position increased in 2017 compared to 2016 due to strong investment performance in the equity markets.

<u>Medical Centers</u>

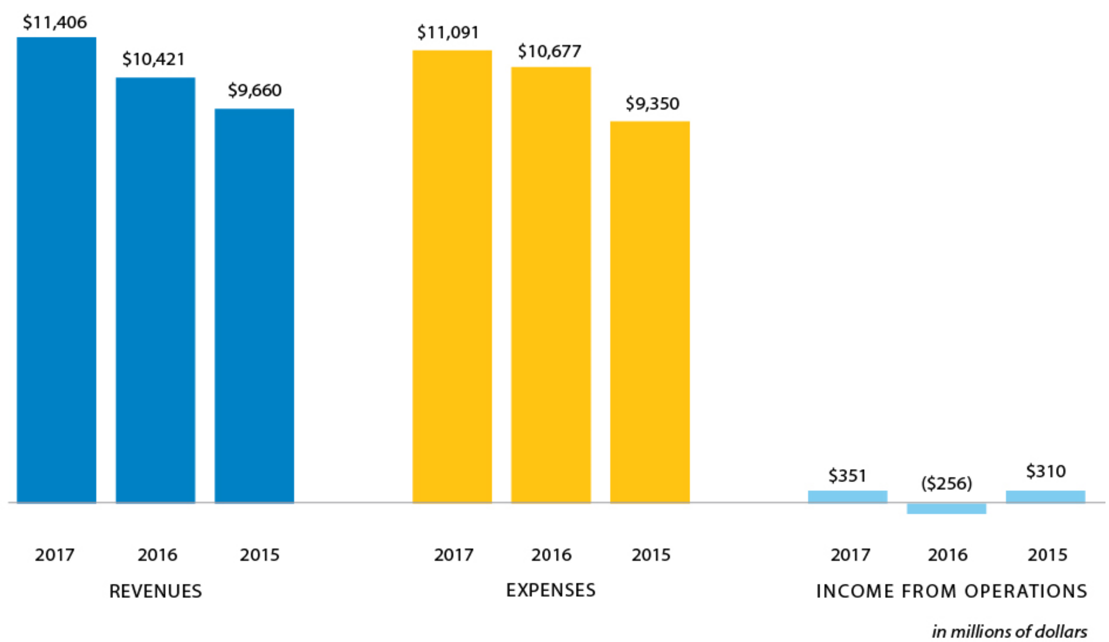
The Medical Centers implemented new accounting policies for retiree health benefits, which included recognition of each medical center's prorate share of the net retiree health benefit liability in the financial statements. The operating margins include recognition of retiree health benefit expense using a systematic method, designed to match the cost of the retiree health benefits with the service periods for eligible employees. Financial information presented below for 2016 and 2015 has been restated to retroactively apply these new accounting policies.

Statements of Net Position



Net position figures for the Medical Centers are negative because the financial statements include net pension liabilities of $4.3 billion and net retiree health benefits liabilities of $5.8 billion in 2017. The net position for the Medical Centers declined in 2017 since support for the Schools of Medicine exceeding operating margins.

Statements of Revenues, Expenses, and Changes in Net Position



Revenues increased due to higher patient volumes for both inpatients and outpatients and increases in supplemental revenues. Revenues also increased in 2017 due to the opening of the new UCSD Jacobs Medical Center in November 2016. Revenues increased in 2016 due to the February 2015 opening of the new UCSF Mission Bay facility, which was open for all of 2016. Expenses increased at the medical centers consistent with growth; however, higher-than-expected returns on the UCRP plan portfolio resulted in lower pension expenses by $171 million in 2017.

Retirement Plans (UCRP, UCRSP and PERS-VERIP)

Investment returns for the UC Retirement Plan (UCRP) were positive 14.5 percent for 2017. As of June 30, 2017, there were over 73,000 retirees and beneficiaries receiving payments from UCRP as compared to 70,000 in 2016. Contributions to UCRP in 2017 were $4.8 billion as compared to $4.6 billion in 2016. Contributions in 2017 and 2016 included $171 million and $96 million, respectively, received from the State of California under the budget agreement with the State.

Attachments:

Attachment 1: University of California Financial Report
Attachment 2: University of California Retirement System Financial Report
Attachment 3: University of California Medical Centers Financial Report

Key Acromyms

GEP	General Endowment Pool
PERS Plus 5	University of California Voluntary Retirement Incentive Program
STIP	Short Term Investment Pool
TRIP	Total Return Investment Pool
UCRP	University of California Retirement Plan
UCRS	University of California Retirement System
UCRSP	University of California Retirement Savings Program

Attachment 1

UNIVERSITY
OF
CALIFORNIA

Annual Financial Report

16/17

For nearly 150 years, the University of California has educated the brightest minds and helped California become a beacon of innovation. UC is a national leader in developing new knowledge and moving our discoveries into the market so they can benefit our society, our economy and our planet.

UNIVERSITY OF CALIFORNIA

16/17 Annual Financial Report

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Letter from the President

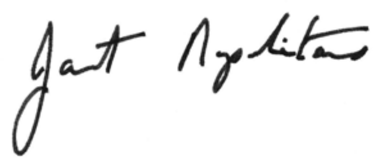
This has been a transformative year for the University of California. Our commitment to diversity, innovation and affordability remains strong as we continue to navigate shifting political and economic environments.

The University reaffirmed its commitment to California students by enrolling its largest class of incoming freshman and transfer students this year, and establishing limits on nonresident enrollment at our nine undergraduate campuses. A powerful engine of socioeconomic mobility, UC continues to broaden access to higher education for low-income and first-generation students.

In addition, our campuses have continued to open their doors to undocumented students, postdoctoral fellows and researchers, who represent some of our nation's brightest minds. In 2016, I committed $8.4 million per year through 2018 to expand financial, legal and support services for undocumented students. The principles of diversity and tolerance are central to our mission, and the University will continue to defend these values with vigor as we foster an inclusive environment for all students, faculty and staff.

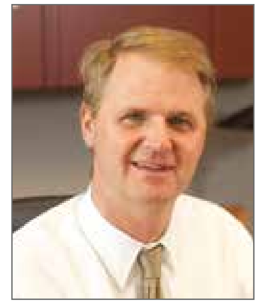
The University's dedication to combatting global climate change remains unwavering. This year, we have made great strides toward our goal of achieving carbon neutrality by 2025. UC has reduced systemwide emissions by 15 percent since 2009, largely through the adoption of renewable energy sources. In 2016, we made the largest solar energy purchase ever made by a U.S. university, which will eventually supply 14 percent of the University's total energy. As the nation's largest research university, UC performs nearly 10 percent of all academic research and development conducted in the United States. Our scientists and researchers are working diligently to develop innovative and scalable solutions to climate change for the benefit of generations to come.

The University proudly recognizes its ever-growing role in the California economy. UC is the third largest employer in the state of California. Furthermore, 430,000 (or 1 in 46) California jobs are supported by UC operations. UC researchers produce an average of five inventions per day, and 934 startups have been founded on UC patents to date. By sustaining the quality, access and affordability of a UC education, we strive to further our mission of teaching, research and public service to ensure that California remains at the forefront of innovation.



JANET NAPOLITANO
PRESIDENT, UNIVERSITY OF CALIFORNIA

Letter from the Executive Vice President, CFO



Over the past year, the University of California has made great progress against our ambitious plans to boost college opportunity for students across California. We saw the largest one-year increase in California undergraduate enrollment since World War II with an increase of over 7,400 new California undergraduates entering the University as compared to the last year. In addition to enrolling a greater number of students, we also maintained our commitment to accessibility and affordability with 57% of our undergraduates paying no tuition.

We also continued our long history of enrolling and graduating large numbers of first-generation and low-income students. Almost 90,000 of our students (42% of our 210,369 undergraduates) are first-generation students and 41% of our students are Pell Grant recipients. The New York Times annual survey which ranks U.S. colleges that did the most for low-income students found that the top five (and six of the top ten) were UC campuses. The role the University plays in promoting social mobility for our students is transformational, not only for the students but also for the state of California.

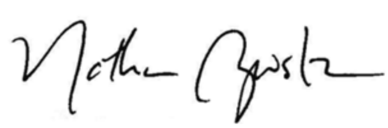
Tuition was moderately increased by less than $300 per student, augmenting the funds available for financial aid by approximately $50 million, demonstrating our commitment to affordability. These additional financial aid funds will cover the tuition increase for 100,000 California undergraduates and provide funds for rent, food, books and other expenses. Despite this modest increase, our tuition remains very low relative to our peer universities and we continue to offer an unmatched return on investment in terms of the quality of education delivered.

In fact, two of our campuses, UC Berkeley and UCLA, were recognized in Forbes as the #1 and #2 best value colleges based on "tuition costs, school quality, post-grad earnings, student debt and graduation success."

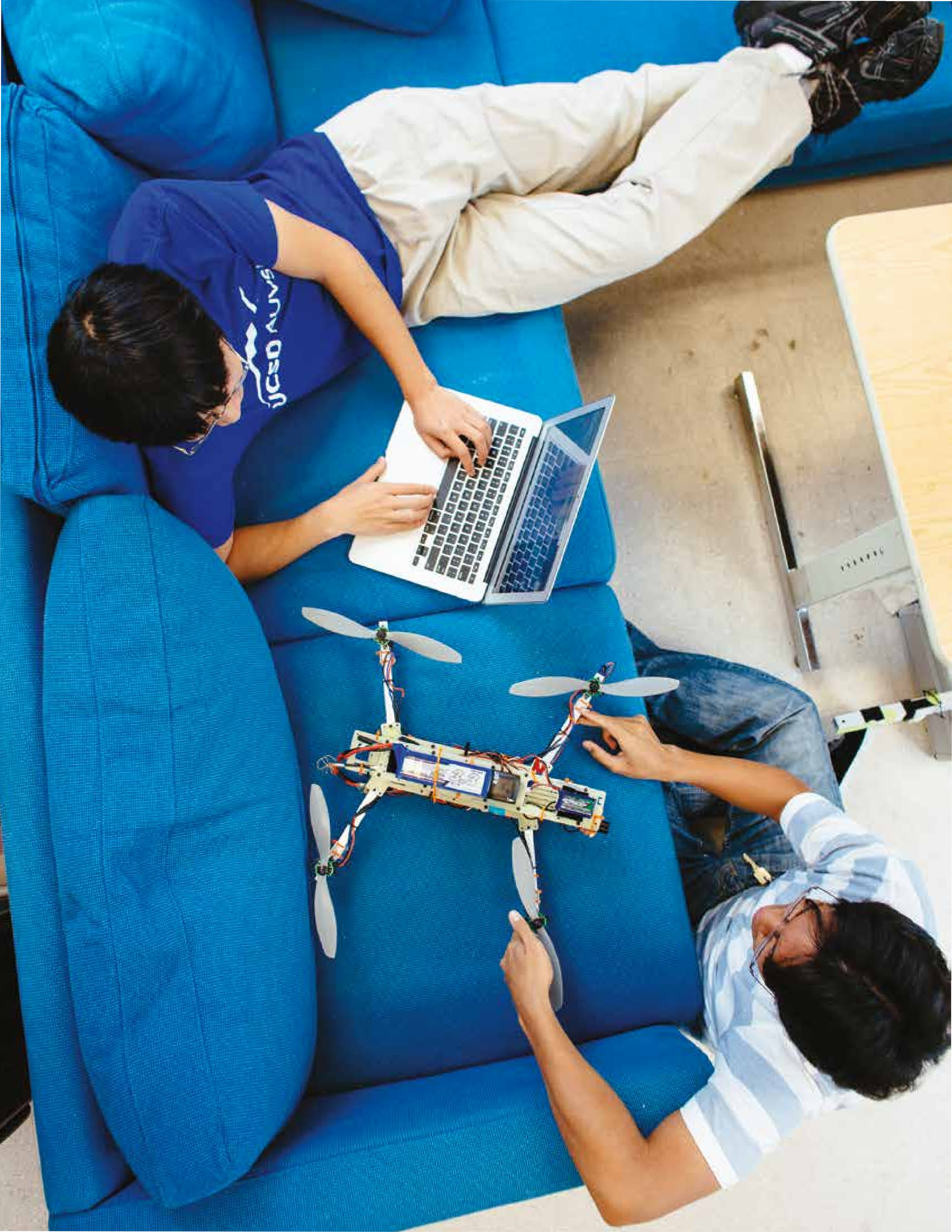
I am happy to report that the Office of the Chief Investment Officer produced exceptional returns for the year. The office, which manages approximately $111 billion in assets, beat benchmarks across asset classes and returned 14.5% for our pension and 15.1% for our endowment. These returns will certainly help to solidify the University's financial position.

While we have continued to deliver on our mission of affordability, accessibility and quality, we must continue to address our capital needs and long-term liabilities. We have developed viable plans to address the liabilities from our retirement plan and retiree health benefits, however maintaining existing buildings and adding new facilities to house and educate our growing student body remains challenging. We are actively looking to harness alternate sources of capital and utilize different delivery models to meet our capital needs in the coming years.

Quality, access and affordability are the hallmark of all UC campuses. We have had a strong year in delivering on these values, but we must remain diligent going forward in order to sustain these qualities for future generations.



NATHAN BROSTROM
EXECUTIVE VICE PRESIDENT, CFO
UNIVERSITY OF CALIFORNIA



Facts in Brief *(Unaudited)*

	2017	2016*	2015*	2014	2013
STUDENTS					
Undergraduate fall enrollment	210,369	199,127	195,078	191,369	183,498
Graduate fall enrollment	59,743	58,311	57,185	52,757	55,188
Total fall enrollment	**270,112**	**257,438**	**252,263**	**244,126**	**238,686**
University Extension enrollment	346,365	371,240	374,442	367,355	343,758
FACULTY AND STAFF *(full-time equivalents)*	**154,522**	**149,312**	**144,765**	**139,208**	**137,667**
SUMMARY FINANCIAL INFORMATION *(in thousands of dollars, except for retirement plan participation)*					
UNIVERSITY OF CALIFORNIA					
PRIMARY REVENUE SOURCES					
Student tuition and fees, net[1]	$4,477,213	$4,132,352	$3,784,046	$3,585,859	$3,402,946
Grants and contracts, net	5,440,977	5,272,595	5,204,761	5,117,736	5,078,750
Medical centers, educational activities and auxiliary enterprises, net	16,153,092	14,638,715	13,611,153	12,108,409	10,890,244
State educational, financing and capital appropriations	3,279,520	3,052,540	2,812,634	2,683,315	2,484,877
Federal Pell Grants	381,650	376,264	376,186	316,064	345,910
Private gifts, net	1,167,395	1,091,519	971,245	890,614	801,940
Capital gifts and grants, net	255,559	248,705	186,836	473,464	256,670
Department of Energy laboratories	1,147,233	1,259,768	1,234,509	1,250,820	1,032,350
OPERATING EXPENSES BY FUNCTION					
Instruction	6,966,479	6,814,684	6,200,694	5,477,857	5,477,776
Research	4,579,067	4,618,459	4,366,909	3,837,361	4,287,561
Public service	670,757	639,022	580,693	581,069	554,231
Academic support	2,416,824	2,460,694	2,022,401	1,835,476	2,008,866
Student services	1,168,883	1,099,934	1,012,422	923,284	819,209
Institutional support	1,443,208	1,583,783	1,597,486	1,463,248	1,361,439
Operation and maintenance of plant	677,034	656,635	590,602	618,030	640,712
Student financial aid[2]	721,538	649,258	553,340	580,807	603,805
Medical centers	10,451,455	10,004,181	8,513,134	7,965,944	7,201,528
Auxiliary enterprises	1,300,590	1,265,535	1,187,777	1,104,050	1,153,775
Depreciation and amortization	1,909,870	1,804,046	1,661,033	1,709,672	1,555,254
Impairment of capital assets	7,354	10,127	11,219	11,201	31,441
Department of Energy laboratories	1,139,232	1,271,260	1,234,958	1,244,335	1,026,088
Other	66,936	71,573	72,200	81,061	123,513
INCREASE (DECREASE) IN NET POSITION	1,065,376	(2,701,762)	(233,459)	1,381,385	(1,334,155)
FINANCIAL POSITION					
Investments, at fair value	24,478,362	22,208,767	22,492,804	21,748,774	18,942,008
Capital assets, at net book value	30,669,753	29,688,815	28,642,779	27,645,157	26,179,885
Other assets and deferred outflows	13,384,911	18,234,126	12,596,994	11,652,661	14,808,621
Outstanding debt, including capital leases	(20,502,876)	(19,951,287)	(19,020,755)	(18,030,749)	(17,236,225)
Obligations for pension and retiree health benefits	(30,029,779)	(36,920,138)	(29,331,031)	(16,165,378)	(19,915,231)
Other liabilities and deferred inflows	(15,615,037)	(11,940,325)	(11,359,071)	(15,137,452)	(12,866,312)
Net position	2,385,334	1,319,958	4,021,720	11,713,013	9,912,746

[1] Scholarship allowances, including both financial aid and fee waivers that are not paid directly to students, are recorded primarily as a reduction of student tuition and fees in the statement of revenues, expenses and changes in net position.

[2] Includes only financial aid paid directly to students. The state-administered California grant awards are not included as expenses since the government determines grantees. College work study expenses are shown in the programs in which the student worked.

** Certain revisions in classifications, or restatements, have been made to prior year information in order to conform to current year presentation.*

	2017	2016	2015	2014	2013
SUMMARY FINANCIAL INFORMATION *(in thousands of dollars, except for participant information)*					
UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS					
PRIMARY REVENUE SOURCES					
Private gifts, net	$866,190	$780,983	$765,445	$789,573	$711,363
PRIMARY EXPENSES					
Grants to campuses	939,784	889,278	827,467	958,873	632,132
INCREASE (DECREASE) IN NET POSITION	1,065,307	(13,479)	455,416	849,091	746,263
FINANCIAL POSITION					
Investments, at fair value	8,206,990	7,115,278	7,084,587	6,496,649	5,799,788
Pledges receivable, net	865,979	842,423	822,530	861,005	713,710
Net position	8,602,157	7,536,850	7,550,329	7,094,913	6,245,822
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM					
PLAN PARTICIPATION					
Plan membership	289,429	280,185	266,254	262,988	243,140
Retirees and beneficiaries currently receiving payments	72,995	70,077	67,321	64,191	58,934
PRIMARY REVENUE SOURCES					
Contributions[1]	$4,779,464	$4,551,152	$4,458,802	$3,215,712	$2,175,983
Interest, dividends and other investment income, net	1,435,299	1,316,116	1,323,449	1,344,731	1,254,981
Net appreciation (depreciation) in the fair value of investments	8,616,400	(2,300,033)	1,320,388	9,137,618	5,106,081
PRIMARY EXPENSES					
Benefit payments	3,185,062	2,974,331	2,803,627	2,583,223	2,396,577
Participant and member withdrawals	1,514,990	1,367,528	1,730,362	1,369,641	1,364,304
INCREASE IN NET POSITION	10,079,633	(831,668)	2,515,920	9,701,107	4,731,316
FINANCIAL POSITION					
Investments, at fair value	82,574,019	73,196,935	71,595,607	68,747,604	60,104,811
Members' defined benefit pension plan benefits	62,179,236	54,225,589	55,122,875	52,853,829	45,404,828
Participants' defined contribution plan benefits	22,482,632	20,356,646	20,291,028	20,044,154	17,792,048
ACTUARIAL INFORMATION *(as of the beginning of the year)*					
Actuarial value of assets	57,228,542	53,762,286	48,327,981	43,572,353	42,965,028
Actuarial accrued liability	69,305,423	65,841,255	60,417,177	57,380,961	54,619,620
UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST					
PLAN PARTICIPATION					
Plan membership	164,089	161,072	157,221	154,930	151,458
Retirees and beneficiaries currently receiving benefits	41,157	39,774	38,488	37,207	35,872
PRIMARY REVENUE SOURCES					
Contributions	$328,057	$310,320	$315,586	$343,395	$267,886
Interest, dividends and other investment income, net	606	155	41	13	
PRIMARY EXPENSES					
Insurance premiums	290,234	284,836	327,019	318,490	313,105
INCREASE (DECREASE) IN NET POSITION	34,173	21,896	(14,539)	20,884	(45,219)
FINANCIAL POSITION					
Investments, at fair value	97,801	53,604	24,250	37,125	7,750
Net position for retiree health benefits	106,714	72,541	50,645	65,184	44,300
ACTUARIAL INFORMATION *(as of the beginning of the year)*					
Actuarial value of assets	72,541	50,645	65,184	44,300	97,435
Actuarial accrued liability	21,168,812	17,320,301	14,093,786	13,253,215	14,559,017

[1] *Total contributions to the University of California Retirement Plan and the University of California Retirement Savings Plan.*

Campus Facts in Brief *(Unaudited)*

	BERKELEY	DAVIS	IRVINE	LOS ANGELES	MERCED	RIVERSIDE
STUDENTS						
Undergraduate fall enrollment	29,310	29,557	27,331	30,873	6,815	19,814
Graduate fall enrollment	10,863	7,840	6,136	14,074	521	3,176
Total fall enrollment	**40,173**	**37,397**	**33,467**	**44,947**	**7,336**	**22,990**
University Extension enrollment[1]	37,361	61,876	27,282	116,785	14	26,418
DEGREES CONFERRED[2]						
Bachelor	7,457	7,560	6,570	8,163	1,161	4,392
Advanced	3,892	2,113	2,132	4,410	75	848
Cumulative	637,843	276,913	192,513	564,773	6,274	113,682
FACULTY AND STAFF *(full-time equivalents)*	14,077	23,607	14,590	35,497	1,877	5,510
LIBRARY COLLECTIONS[3] *(volumes)*	12,397,095	4,689,374	3,762,070	10,397,818	1,537,725	3,949,901
CAMPUS LAND AREA *(in acres)*	8,163	7,331	1,527	465	8,195	2,050
CAMPUS FINANCIAL FACTS[4] *(in thousands of dollars)*						
OPERATING EXPENSES BY FUNCTION						
Instruction	$771,410	$873,746	$720,220	$2,170,179	$61,915	$314,352
Research	554,857	537,670	261,634	790,148	24,622	116,345
Public service	79,946	93,117	13,168	139,301	5,852	6,016
Academic support	131,756	277,291	180,450	692,741	24,863	43,778
Student services	222,631	151,953	105,006	176,063	25,741	88,177
Institutional support	261,518	161,677	83,408	262,520	60,847	71,847
Operation and maintenance of plant	87,679	101,185	52,539	98,876	18,570	40,859
Student financial aid	135,583	87,817	83,666	120,937	16,583	61,976
Medical centers		1,874,451	1,010,205	2,108,305		
Auxiliary enterprises	148,553	105,441	131,192	374,550	28,657	71,609
Depreciation and amortization	228,367	230,530	199,508	374,672	29,906	68,619
Impairment of capital assets		1,384	771	2,305		67
Other[5]	13,921	7,080	9,290	19,106	2,315	3,452
Total	**$2,636,221**	**$4,503,342**	**$2,851,057**	**$7,329,703**	**$299,871**	**$887,097**
GRANTS AND CONTRACTS REVENUE						
Federal government	$377,872	$396,905	$200,535	$588,609	$19,117	$81,825
State government	79,555	131,982	18,167	55,982	1,286	9,339
Local government	12,978	18,208	2,900	62,259	88	1,965
Private	179,739	141,431	77,000	241,527	4,960	29,010
Total	**$650,144**	**$688,526**	**$298,602**	**$948,377**	**$25,451**	**$122,139**
UNIVERSITY ENDOWMENTS						
Nonspendable endowments	$394,464	$121,212	$13,549	$283,219	$16,414	$14,118
Funds functioning as endowments	2,108,514	595,108	466,679	2,003,748	19,821	56,743
Annual income distribution	87,377	32,870	6,576	42,664	1,717	2,310
CAMPUS FOUNDATIONS' ENDOWMENTS						
Nonspendable endowments	1,123,333	245,988	241,030	1,111,481	8,327	100,685
Funds functioning as endowments	786,645	159,667	131,997	849,747	2,937	59,553
CAPITAL ASSETS						
Capital assets, at net book value	3,816,390	3,298,211	2,737,928	6,179,054	699,261	1,135,739
Capital expenditures	83,639	309,833	254,645	505,626	129,265	101,892

[1] *For academic year 2016-17.*
[2] *As of academic year 2015-16.*
[3] *As of June 30, 2016.*
[4] *Excludes DOE laboratories.*
[5] *Includes non-capitalized expenses associated with capital projects and write-off, cancellation and bad debt expenses for loans.*

	SAN DIEGO	SAN FRANCISCO	SANTA BARBARA	SANTA CRUZ	SYSTEMWIDE[6]
STUDENTS					
Undergraduate fall enrollment	28,127		21,580	16,962	
Graduate fall enrollment	7,689	4,857	2,766	1,821	
Total fall enrollment	**35,816**	**4,857**	**24,346**	**18,783**	
University Extension enrollment[1]	56,995		5,449	14,185	
DEGREES CONFERRED[2]					
Bachelor	6,203		5,235	4,016	
Advanced	2,054	938	956	552	
Cumulative	194,943	53,612	230,468	114,608	
FACULTY AND STAFF *(full-time equivalents)*	23,197	22,501	6,303	4,489	2,874
LIBRARY COLLECTIONS[3] *(volumes)*	4,395,656	1,172,468	3,206,594	2,527,566	
CAMPUS LAND AREA *(in acres)*	2,162	205	1,127	6,088	27
CAMPUS FINANCIAL FACTS[4] *(in thousands of dollars)*					
OPERATING EXPENSES BY FUNCTION					
Instruction	$918,520	$330,576	$292,259	$182,899	$330,403
Research	788,647	996,963	176,311	89,204	242,666
Public service	23,142	124,406	12,830	19,990	152,989
Academic support	480,042	315,062	61,101	36,211	173,529
Student services	142,428	26,019	98,802	90,170	41,893
Institutional support	191,125	195,064	76,800	52,458	25,944
Operation and maintenance of plant	100,863	73,692	44,728	35,831	22,212
Student financial aid	63,157	19,952	87,014	41,776	3,077
Medical centers	1,528,988	3,732,262			197,244
Auxiliary enterprises	160,731	31,271	104,558	104,159	39,869
Depreciation and amortization	288,735	342,704	75,129	59,138	12,562
Impairment of capital assets	1,691	653	119	364	
Other[5]	6,062	3,726	6,121	128	(4,265)
Total	**$4,694,131**	**$6,192,350**	**$1,035,772**	**$712,328**	**$1,238,123**
GRANTS AND CONTRACTS REVENUE					
Federal government	$671,047	$704,068	$120,567	$67,685	$30,296
State government	33,489	66,514	4,686	4,426	48,781
Local government	16,868	184,092	1,547	139	5,448
Private	234,400	405,834	54,725	22,660	30,466
Total	**$955,804**	**$1,360,508**	**$181,525**	**$94,910**	**$114,991**
UNIVERSITY ENDOWMENTS					
Nonspendable endowments	$44,858	$140,719	$32,502	$11,310	$70,701
Funds functioning as endowments	678,720	1,341,300	105,466	80,937	1,237,798
Annual income distribution	24,739	41,879	5,297	3,190	28,600
CAMPUS FOUNDATIONS' ENDOWMENTS					
Nonspendable endowments	420,533	611,579	126,898	44,071	
Funds functioning as endowments	213,784	495,294	67,562	52,429	
CAPITAL ASSETS					
Capital assets, at net book value	4,761,686	4,555,316	1,560,417	1,172,711	753,040
Capital expenditures	695,889	290,705	190,545	101,440	313,198

[1] *For academic year 2016-17.*

[2] *As of academic year 2015-16.*

[3] *As of June 30, 2016.*

[4] *Excludes DOE laboratories.*

[5] *Includes non-capitalized expenses associated with capital projects and write-off, cancellation and bad debt expenses for loans.*

[6] *Includes expenses for systemwide education and research programs, systemwide support services and administration. Full-time equivalents count, as of fall 2015, includes employees at all campuses involved in systemwide activities, including Agriculture and Natural Resources.*

Management's Discussion and Analysis *(Unaudited)*

The objective of Management's Discussion and Analysis is to help readers of the University of California's financial statements better understand the financial position and operating activities for the year ended June 30, 2017, with selected comparative information for the years ended June 30, 2016 and 2015. 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 (2015, 2016, 2017 etc.) in this discussion refer to the fiscal years ended June 30.

The University of California's financial report communicates financial information for the University of California (the "University"), the University of California campus foundations ("campus foundations"), the University of California Retirement System ("UCRS") and the University of California Retiree Health Benefit Trust ("UCRHBT") through five primary financial statements and notes to the financial statements. Three of the primary statements, the statements of net position, the statements of revenues, expenses and changes in net position and the statements of cash flows, present the financial position, changes in financial position and cash flows for the University and the affiliated campus foundations. The financial statements for the campus foundations are presented discretely from the University. Two of the primary statements, the statements of plans' and trust's fiduciary net position and the statements of changes in plans' and trust's fiduciary net position, present the financial position and operating activities for UCRS and UCRHBT. The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements.

THE UNIVERSITY OF CALIFORNIA

The University of California, one of the largest and most acclaimed institutions of higher learning in the world, is dedicated to excellence in teaching, research, health care and public service. The University has annual resources of nearly $33.4 billion and encompasses ten campuses, five medical centers, four law schools and a statewide Division of Agriculture and Natural Resources. The University is also involved in the operation and management of three national laboratories for the U.S. Department of Energy ("DOE").

Campuses. The ten campuses are located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara and Santa Cruz. All of the campuses, except San Francisco, offer undergraduate, graduate and professional education; the San Francisco campus is devoted exclusively to graduate and professional education in health sciences.

Health sciences. The University operates one of the nation's largest health science and medical training programs. The instructional program is conducted in 16 health professional schools on six campuses. Our health programs include five medical centers, two dental schools, three nursing schools, two public health schools and two pharmacy schools, in addition to a school of optometry and a school of veterinary medicine. The University's medical schools play a leading role in the development of health services and advancement of medical science and research.

Law schools. The University has law schools at Berkeley, Davis, Irvine and Los Angeles. Also, the Hastings College of the Law in San Francisco is affiliated with the University, although not included in the financial reporting entity.

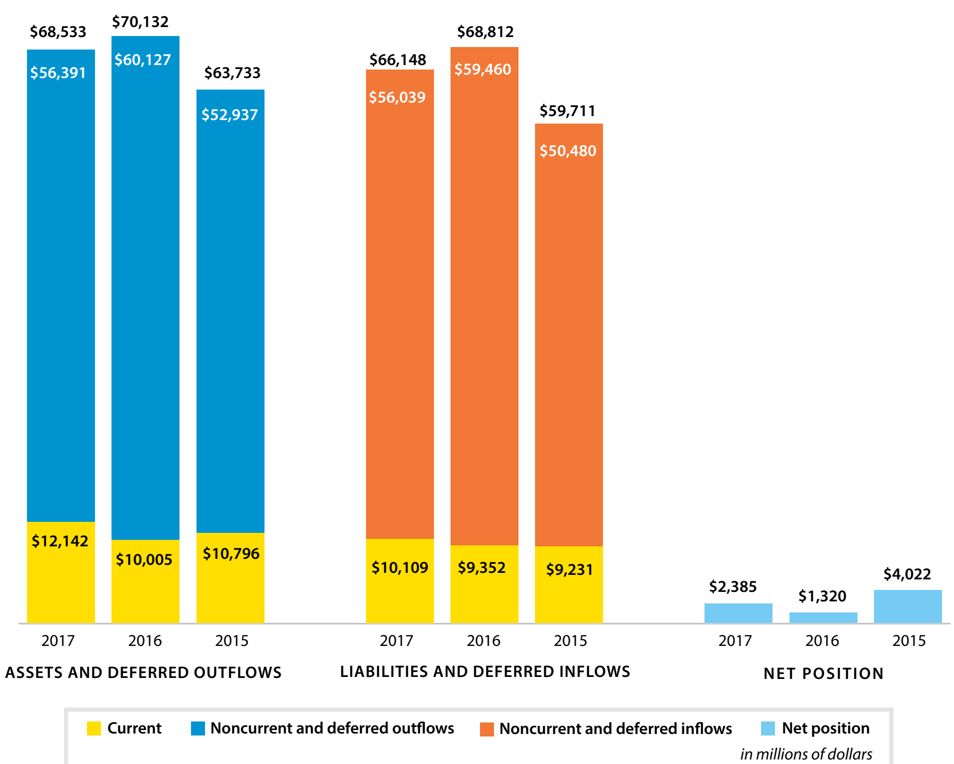
Agriculture and Natural Resources. The Division of Agriculture and Natural Resources is a statewide research and public service organization that serves a large and diverse agricultural community. The division collaborates on research with all campuses, and conducts studies at nine research and extension centers and on private land in cooperation with California producers. In addition, research and educational programs are conducted in each of the state's 58 counties.

University Extension. The foremost continuing education program of its kind in size, scope and quality of instruction, University Extension offers almost 20,000 self-supporting courses statewide and in several foreign countries.

National laboratories. Under contract with the DOE, the University operates and manages the Ernest Orlando Lawrence Berkeley National Laboratory (LBNL) in California. The University is also a member in two separate joint ventures, Los Alamos National Security, LLC (LANS) and Lawrence Livermore National Security, LLC (LLNS) that operate and manage the Los Alamos National Laboratory (LANL) and Lawrence Livermore National Laboratory (LLNL), respectively, under contracts directly with the DOE. The laboratories conduct broad and diverse basic and applied research in nuclear science, energy production, national defense and environmental and health areas.

THE UNIVERSITY'S FINANCIAL POSITION

The University implemented new accounting policies for retiree health benefits. These changes in accounting policies are designed to improve transparency by requiring recognition of the net retiree health benefits liability in the financial statements. This standard requires recognition of retiree health benefit expense using a systematic method, designed to match the cost of retiree health benefits with service periods for eligible employees. Financial information for 2016 and 2015 have been restated to retroactively apply these new accounting policies.



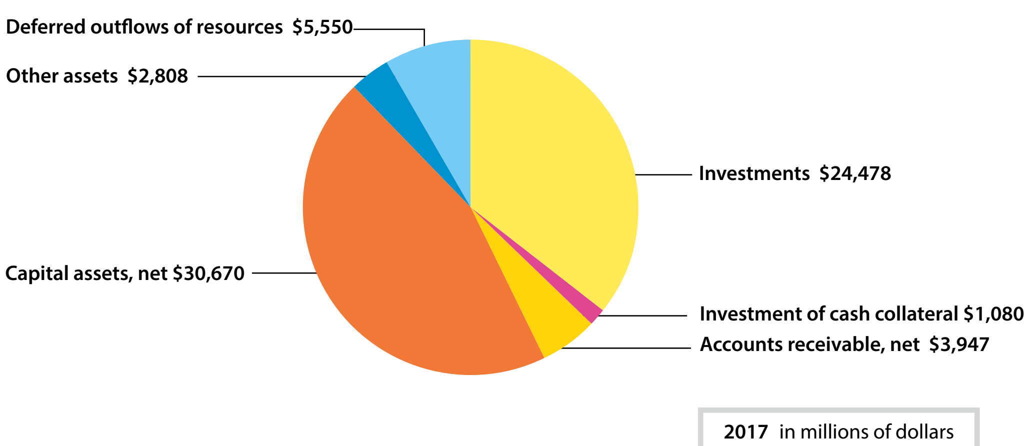
The statement of net position presents the financial position of the University at the end of each year. It displays all of the University's assets, deferred outflows, liabilities and deferred inflows. The difference between assets, deferred outflows, liabilities and deferred inflows is net position.

The major components of the assets, deferred outflows, liabilities, deferred inflows and net position as of June 30, 2017, 2016 and 2015 are as follows:

(in millions of dollars)

	2017	2016	2015
ASSETS			
Investments	$24,478	$22,209	$22,493
Investment of cash collateral	1,080	825	775
Accounts receivable, net	3,947	3,320	3,281
Capital assets, net	30,670	29,689	28,643
Other assets	2,808	3,919	3,808
Total assets	**62,983**	**59,962**	**59,000**
DEFERRED OUTFLOWS OF RESOURCES	**5,550**	**10,170**	**4,732**
LIABILITIES			
Debt, including commercial paper	20,503	19,951	19,021
Securities lending collateral	1,079	825	775
Net pension liability	10,739	15,125	10,671
Net retiree health benefits liability	19,290	21,795	18,660
Other liabilities	8,253	7,648	7,426
Total liabilities	**59,864**	**65,344**	**56,553**
DEFERRED INFLOWS OF RESOURCES	**6,284**	**3,468**	**3,157**
NET POSITION			
Net investment in capital assets	13,343	12,816	12,138
Restricted:			
Nonexpendable	1,176	1,148	1,111
Expendable	7,163	6,546	7,206
Unrestricted	(19,297)	(19,190)	(16,433)
Total net position	**$2,385**	**$1,320**	**$4,022**

The University's Assets and Deferred Outflows



The University's total assets and deferred outflows of resources have decreased to $68.5 billion in 2017, compared to $70.1 billion in 2016 and $63.7 billion in 2015. Capital assets have increased due to continued investments in facilities and investments changed due to financial market returns. Deferred outflows fluctuate due to changes in the University's net pension and retiree health benefits liabilities.

Investments

Investments held by the University are principally carried in three investment pools: the Short Term Investment Pool (STIP), the Total Return Investment Pool (TRIP) and the General Endowment Pool (GEP). Cash for operations and bond proceeds for construction expenditures are invested in STIP. The University uses STIP to meet operational liquidity needs. TRIP provides the opportunity to maximize the return on long-term capital by taking advantage of the economies of scale of investing in a large pool across a broad range of asset classes. TRIP seeks to maximize to a total return objective and is intended to supplement STIP. The University maximizes its use of TRIP while still maintaining sufficient funds in STIP to meet operational and liquidity needs. The GEP is a balanced portfolio and the primary investment vehicle for individual endowments and funds functioning as endowments.

The Regents of the University of California ("The Regents") utilize asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. GEP had a positive return of 15.1 percent in 2017, a negative return of 3.5 percent in 2016 and a positive return of 6.1 percent in 2015. TRIP had positive returns of 7.7 percent, 0.3 percent and 2.6 percent in 2017, 2016 and 2015, respectively. STIP had positive returns of 1.3 percent, 1.3 percent and 1.4 percent in 2017, 2016 and 2015, respectively.

Investment of cash collateral

The University participates in a securities lending program incorporating securities owned by both the University and UCRS as a means to augment income. Cash collateral fluctuates in response to changes in demand from borrowers and the availability of securities based upon the University's asset allocation mix.

Accounts receivable, net

Accounts receivable include amounts due from state and federal governments on contracts and grants, patient receivables for medical centers and professional fees, investment income, proceeds from security sales and amounts due for private grants and contracts. Receivables fluctuate based on the timing of collections and investment sales activity.

Capital assets, net

The University's enrollment growth requires new facilities, in addition to continuing needs for renewal, modernization and seismic correction of existing facilities. Capital spending continues at a brisk pace in order to provide the facilities necessary to support the University's teaching, research and public service mission and for patient care. Capital spending includes constructing and renovating academic buildings, research laboratories, libraries, student services, housing facilities, medical centers and clinical facilities, parking structures and infrastructure projects at all ten campuses and five medical centers. The largest project in 2017 and 2016 was the Jacobs Medical Center in San Diego. Total additions of capital assets were $3.0 billion in 2017 as compared to $3.0 billion in 2016 and $2.8 billion in 2015.

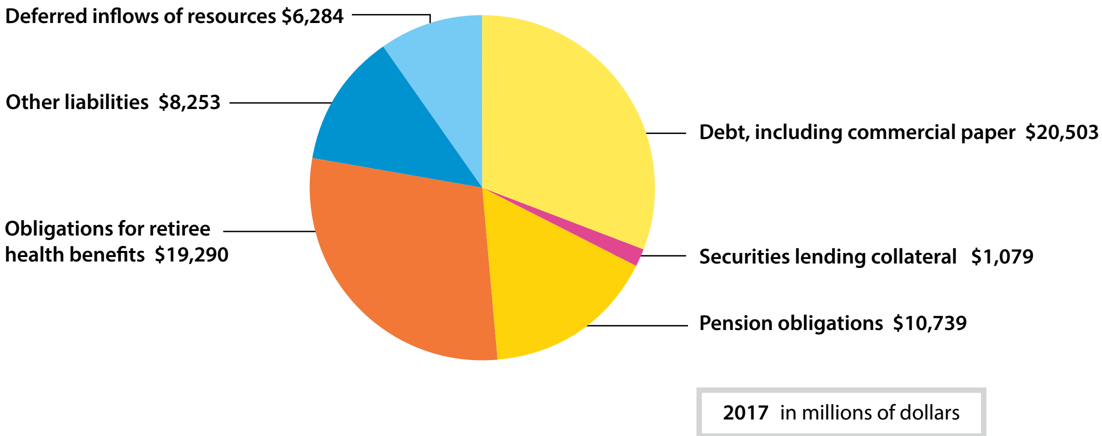
Other assets

Other assets include cash, investments held by trustees, pledge receivables, note and mortgage receivables, inventories and receivables from the DOE. The noncurrent receivable from the DOE, which fluctuates with the net pension and retiree health benefits liabilities due to the DOE's continuing responsibility to contribute for retired and terminated vested members of LLNS and LANL, decreased by $337.8 million in 2017 as compared to 2016 and decreased by $22.7 million in 2016 as compared to 2015. Investments held by trustees decreased by $0.7 billion in 2017 due to the transfer of self-insurance reserves to the University's wholly-owned captive insurance company. Since the captive insurance company is blended with the University, the captive's investments are included with the University's investments.

Deferred outflows of resources

Changes in fair values of the University's interest rate swaps that are determined to be hedging derivatives, losses on debt refundings and certain changes in the net pension and net retiree health benefits liabilities are reported as deferred outflows of resources. In 2017, deferred outflows decreased due to higher than expected investment returns in the University of California Retirement Plan (UCRP) portfolio. In 2016, deferred outflows increased due to lower than expected investment returns in the UCRP portfolio.

The University's Liabilities and Deferred Inflows



The University's liabilities and deferred inflows of resources decreased to $66.2 billion in 2017 as compared to $68.8 billion in 2016 and $59.7 billion in 2015. The changes in both 2017 and 2016 were primarily related to the issuance of additional debt to finance capital projects and the changes in the liabilities for pension and retiree health benefits.

Debt, including commercial paper

Capital assets are financed from a variety of sources, including University equity contributions, federal and state support, revenue bonds, bank loans and leases or structures that involve separate legal entities. Commercial paper and bank loans provide interim financing for capital assets during the construction period.

Outstanding debt increased by $551.6 million and $931.0 million in 2017 and 2016, respectively. A summary of the activity follows:

(in millions of dollars)

	2017	2016
ADDITIONS TO OUTSTANDING DEBT		
General Revenue Bonds	$1,136	$813
Medical Center Pooled Revenue Bonds	1,046	
Limited Project Revenue Bonds		532
Capital leases	55	67
Other borrowings	126	200
Blended Component Unit Revenue Bonds	54	283
Bond premium, net	223	195
Additions to outstanding debt	**2,640**	**2,090**
REDUCTIONS TO OUTSTANDING DEBT		
Refinancing and prepayments	(1,321)	(528)
Scheduled principal payments	(400)	(340)
Payments on other borrowings	(64)	(180)
Commercial paper, net	(225)	(47)
Amortization of bond premium	(78)	(64)
Reductions to outstanding debt	**(2,088)**	**(1,159)**
Net increase in outstanding debt	**$552**	**$931**

The University's debt, which is used to primarily finance capital assets, includes $812.7 million, $1.0 billion and $1.1 billion of commercial paper outstanding at the end of 2017, 2016 and 2015, respectively. Total debt outstanding was $20.5 billion at the end of 2017 compared to $20.0 billion and $19.0 billion at the end of 2016 and 2015, respectively.

In 2017, $2.2 billion of debt was issued, including General Revenue Bonds totaling $1.1 billion and Medical Center Pooled Revenue Bonds totaling $1.0 billion to finance and refinance certain facilities and projects. Reductions to outstanding debt in 2017 were $2.1 billion, including $1.3 billion for one-time principal payments for the refinancing or refunding of previously outstanding debt. The refinancing and refunding of previously outstanding debt resulted in an economic gain of $151.2 million.

In August 2016, the University entered into an agreement with a developer to design, construct, finance, operate and maintain certain auxiliary, administrative, academic and research facilities of one of its campuses, for which the University will finance $600 million of the total costs. Other borrowings at June 30, 2017 include $43.7 million for the present value of the payments expected to be made over the term of the agreement through 2055 for the repayment of the private debt incurred by the developer during the construction phase. In the event that the agreement with the developer were terminated, the outstanding portion of the private debt incurred by the developer from the construction phase would become an obligation of the University.

Subsequent to year-end, in August 2017, $148.6 million of revenue bonds were issued through a conduit issuer to finance the construction of student housing facilities and the University issued $860.4 million of Limited Project Revenue Bonds.

In 2016, $1.6 billion of debt was issued. The University issued General Revenue Bonds totaling $813.1 million and Limited Project Revenue Bonds totaling $532.1 million to finance and refinance certain facilities and projects of the University. In addition, $282.6 million of revenue bonds were issued through a conduit issuer to refund outstanding bonds which financed the construction of student housing facilities. Reductions to outstanding debt in 2016 were $1.2 billion, including $527.9 million for one-time principal payments for the refinancing or refunding of previously outstanding debt. The refinancing and refunding of previously outstanding debt resulted in an economic gain of $31.5 million.

The University's General Revenue Bond ratings are currently affirmed at Aa2, AA and AA by Moody's Investors Service, Standard & Poor's and Fitch, respectively, all with stable outlooks. The University's Limited Project Revenue Bonds and Medical Center Pooled Revenue Bonds are currently affirmed at Aa3, AA- and AA- by Moody's Investors Service, Standard & Poor's and Fitch, respectively, all with stable outlooks.

Commercial paper borrowings decreased by $225.2 million in 2017 as compared to 2016, and decreased by $47.1 million in 2016 compared to 2015. Commercial paper is primarily used as interim financing for construction projects and equipment financing. Commercial paper fluctuates based upon the timing of refinancing construction projects with the issuance of long-term revenue bonds. The University has various revolving credit agreements totaling $1.1 billion with major financial institutions for the purpose of providing additional liquidity for certain variable-rate demand bonds, commercial paper and for other liquidity needs.

Securities lending collateral

Under the securities lending program, the University records a liability to the borrower for cash collateral received and held by the University for securities on loan at the end of the year. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of the securities lent. The amount of the securities lending collateral liability fluctuates directly with securities lending opportunities and the investment of cash collateral.

Net pension liability and retiree health benefits

The University has a financial responsibility for pension benefits associated with its defined benefit plans and for retiree health benefits. The University's net pension liability was $10.7 billion, $15.1 billion and $10.7 billion in 2017, 2016 and 2015, respectively. The change in net pension liability for 2017 was primarily driven by higher than expected investment returns on the UCRP investment portfolio. The change in net pension liability for 2016 was primarily driven by lower than expected investment returns on the UCRP investment portfolio. UCRP's total investment rate of return was positive 14.5 percent in 2017, negative 2.0 percent in 2016 and positive 4.5 percent in 2015. The discount rate used to estimate the net pension liability was 7.25 percent in 2017, 2016 and 2015.

LBNL participates in the University's defined benefit pension plan, although the DOE has an ongoing financial responsibility to reimburse the University for LBNL's share of the obligation to UCRP. In addition, under certain circumstances the University makes contributions to UCRP for LANL and LLNL retirees and, based upon contractual arrangements with the DOE, is reimbursed by the DOE. The University recorded receivables from the DOE of $615.1 million, $974.7 million and $1.0 billion for 2017, 2016 and 2015, respectively, representing the DOE's share of the net pension liability.

The University's 2016 and 2015 financial statements have been restated as a result of adopting new accounting standards for retiree health benefits. The University's net retiree health benefits liability was $19.3 billion, $21.8 billion and $18.7 billion, in 2017, 2016 and 2015, respectively. The University funds the retiree health benefits through UCRHBT based on a projection of benefits on a pay-as-you-go basis and the assets in the trust are not sufficient to fund retiree health benefits. Therefore, the Bond Buyer 20-year tax-exempt general obligations municipal bond index rate is used to discount the retiree health benefit liabilities. The changes in net retiree health benefits liability have been primarily driven by the changes in discount rates used to estimate the retiree health benefit liability. The discount rates as of June 30, 2017, 2016 and 2015 were 3.58 percent, 2.85 percent and 3.80 percent, respectively.

LBNL participates in the University's retiree health benefit plans and, based on contractual arrangements with the DOE, the University is reimbursed for retiree health benefit costs associated with retirees who previously worked at LBNL. The University recorded receivables from the DOE of $642.8 million, $621.1 million and $577.4 million for 2017, 2016 and 2015, respectively, representing the DOE's share of the net retiree health benefits liability.

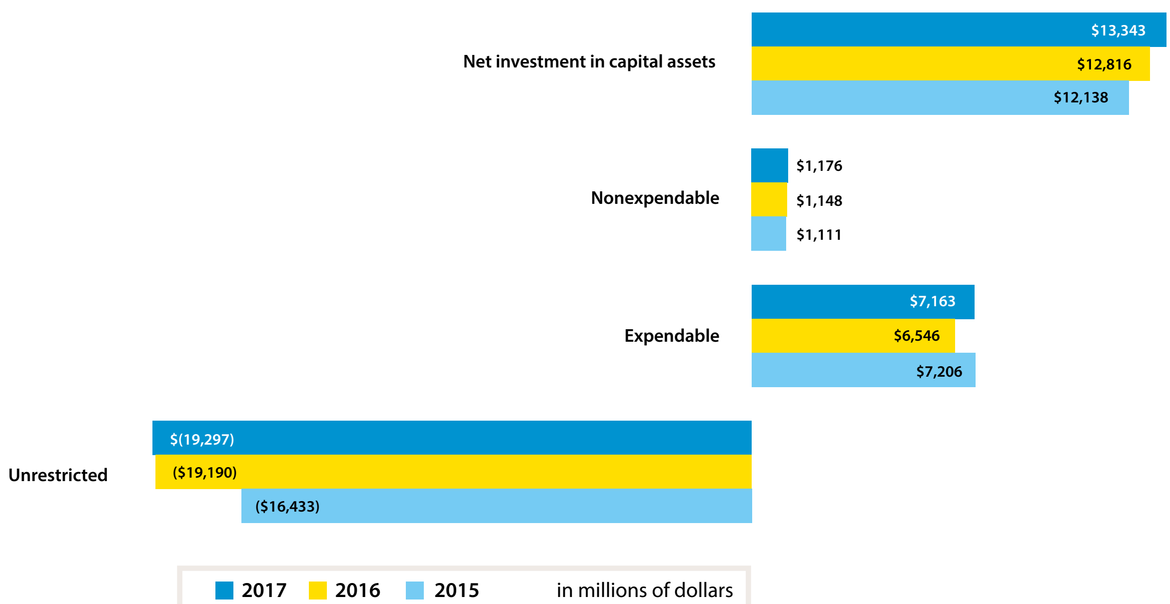
Other liabilities

Other liabilities consist of accounts payable, accrued salaries, other employee benefits, unearned revenue, funds held for others, DOE laboratories' liabilities, federal refundable loans, self-insurance and obligations under life income agreements.

Deferred inflows of resources

Deferred inflows of resources are related to the University's service concession arrangements, gains on debt refundings, sales of certain future patent royalty revenues and certain changes in the net pension and net retiree health benefits liabilities. Deferred inflows of resources increased in 2017 by $2.8 billion due to the increase in the discount rate for estimating the net retiree health benefit liability. Deferred inflows of resources increased slightly in 2016 due to lower than expected investment returns on the UCRP portfolio offset by sales of certain future royalty revenues and the decrease in the discount rate for estimating the net retiree health benefit liability.

The University's Net Position



Net position represents the residual interest in the University's assets and deferred outflows after all liabilities and deferred inflows are deducted. Net position was restated for 2016 and 2015 as a result of adopting new accounting rules. The University's net position was $2.4 billion in 2017 compared to $1.3 billion in 2016 and $4.0 billion in 2015. Net position is reported in the following categories: net investment in capital assets; restricted, nonexpendable; restricted, expendable; and unrestricted.

Net investment in capital assets

The portion of net position invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of these capital assets, was $13.4 billion in 2017 compared to $12.8 billion and $12.1 billion for the years ended June 30, 2016 and 2015, respectively. The University continues to invest in its physical facilities to support growth.

Restricted, nonexpendable

Restricted, nonexpendable net position includes the corpus of the University's permanent endowments and the estimated fair value of certain planned giving arrangements. In 2017 and 2016, the increase in restricted nonexpendable net position was principally due to the receipt of new gifts.

Restricted, expendable

Restricted, expendable net position is subject to externally imposed restrictions governing their use. Net position may be spent only in accordance with the restrictions placed upon them and may include endowment income and gains, subject to the University's spending policy; support received from gifts, appropriations or capital projects; trustee-held investments; or other third-party receipts. The increases or decreases in restricted, expendable funds are principally due to unrealized appreciation or depreciation respectively in the fair value of investments related to restricted gifts and funds functioning as endowments.

Unrestricted

Under generally accepted accounting principles, net position that is not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Unrestricted net position is negative due primarily to obligations for pension and retiree health benefits exceeding University assets available to pay such obligations. Although unrestricted net position is not subject to externally imposed restrictions, substantially all of the University's reserves are allocated for academic and research initiatives or programs and for capital and other purposes.

THE UNIVERSITY'S RESULTS OF OPERATIONS

The statement of revenues, expenses and changes in net position is a presentation of the University's operating results, and indicates whether the financial condition has improved or deteriorated. In accordance with the Governmental Accounting Standards Board (GASB) requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the University are required to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income. Results of operations for 2016 and 2015 have been restated as a result of adopting new accounting policies for retiree health benefits. A summarized comparison of the operating results for 2017, 2016 and 2015, arranged in a format that matches the revenue supporting the core activities of the University with the expenses associated with core activities, is as follows:

(in millions of dollars)

	2017			2016			2015		
	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL
REVENUES									
Student tuition and fees, net	$4,477		$4,477	$4,132		$4,132	$3,784		$3,784
State educational appropriations		$3,278	3,278		$3,048	3,048		$2,792	2,792
Federal Pell Grants		382	382		376	376		376	376
Grants and contracts, net	5,441		5,441	5,273		5,273	5,205		5,205
Medical centers, net	11,241	13	11,255	10,236	15	10,251	9,477	22	9,499
Educational activities, net	3,333		3,333	2,973		2,973	2,740		2,740
Auxiliary enterprises, net	1,579		1,579	1,430		1,430	1,394		1,394
Department of Energy laboratories	1,147		1,147	1,278		1,278	1,241		1,241
Private gifts, net		1,167	1,167		1,092	1,092		971	971
Investment income, net		299	299		311	311		319	319
Other revenues	939	70	1,009	962	51	1,013	911	38	949
Revenues supporting core activities	**28,157**	**5,209**	**33,366**	**26,284**	**4,893**	**31,177**	**24,752**	**4,518**	**29,270**
EXPENSES									
Salaries and wages	15,160		15,160	14,021		14,021	13,109		13,109
Pension benefits	1,888		1,888	2,687		2,687	1,515		1,515
Retiree health benefits	1,576		1,576	1,875		1,875	1,528		1,528
Other employee benefits	2,938		2,938	2,837		2,837	2,666		2,666
Scholarships and fellowships	729		729	652		652	547		547
Utilities	292		292	283		283	273		273
Supplies and materials	3,240		3,240	3,109		3,109	2,876		2,876
Depreciation and amortization	1,910		1,910	1,804		1,804	1,698		1,698
Department of Energy laboratories	1,139		1,139	1,271		1,271	1,235		1,235
Interest expense		721	721		693	693		662	662
Other expenses	4,648	60	4,708	4,411	46	4,457	4,157	16	4,173
Expenses associated with core activities	**33,520**	**781**	**34,301**	**32,950**	**739**	**33,689**	**29,604**	**678**	**30,282**
Income (loss) from core activities	**$(5,363)**	**$4,428**	**$(935)**	**$(6,666)**	**$4,154**	**$(2,512)**	**$(4,852)**	**$3,840**	**$(1,012)**
OTHER NONOPERATING ACTIVITIES									
Net appreciation (depreciation) in fair value of investments			1,722			(473)			544
Income (loss) before other changes in net position			787			(2,985)			(468)
OTHER CHANGES IN NET POSITION									
State capital appropriations			2			4			21
Capital gifts and grants, net			255			249			187
Permanent endowments			21			30			27
Increase (decrease) in net position			**1,065**			**(2,702)**			**(233)**
NET POSITION									
Beginning of year, as previously reported			1,320			4,022			11,282
Cumulative effect of accounting changes									(7,027)
Beginning of year, restated			1,320			4,022			4,255
End of year			**$2,385**			**$1,320**			**$4,022**

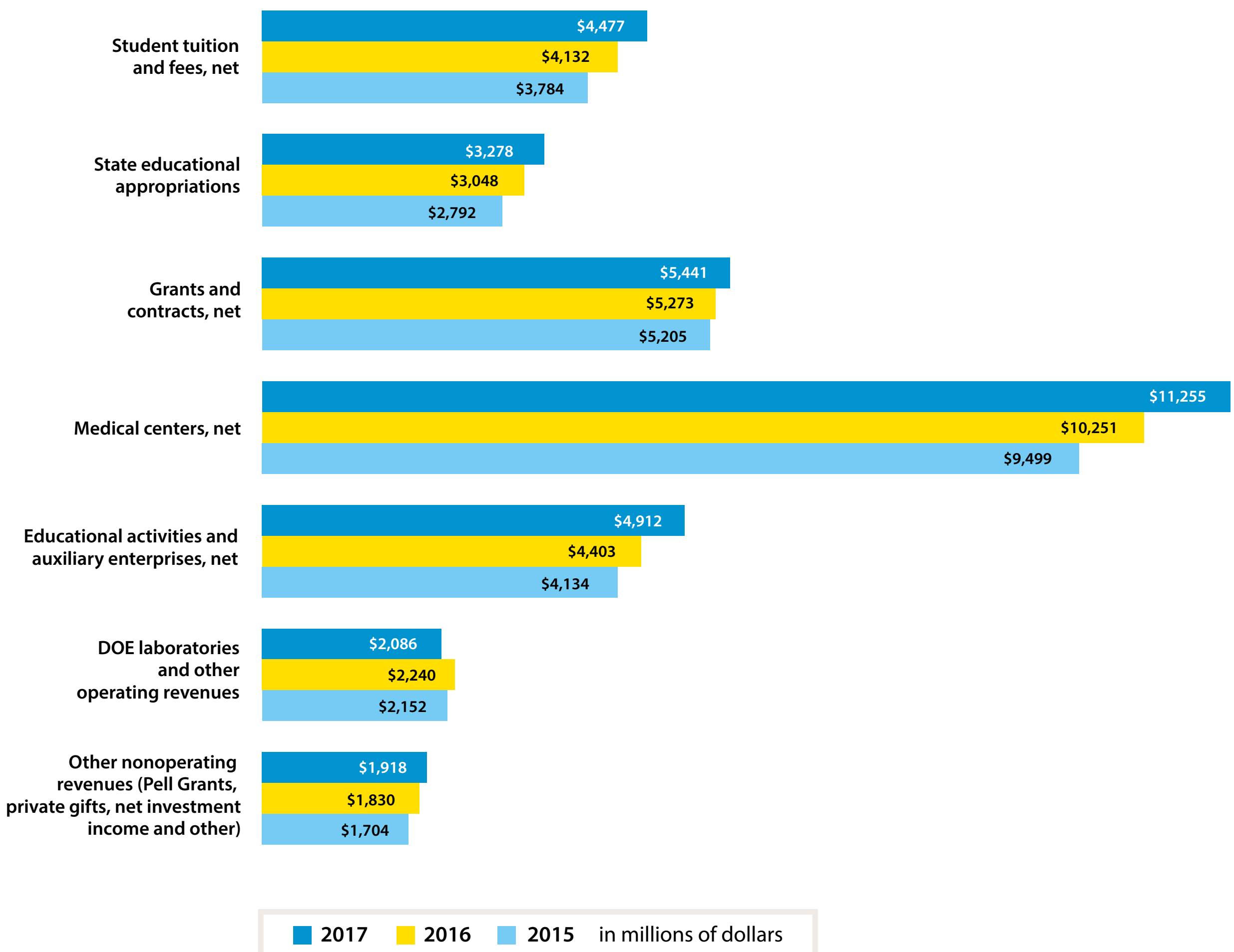
Revenues supporting core activities

Revenues to support the University's core activities, including those classified as nonoperating revenues, were $33.4 billion, $31.2 billion and $29.3 billion in 2017, 2016 and 2015, respectively. These diversified sources of revenue increased by $2.2 billion in 2017 and $1.9 billion in 2016.

The state of California's educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of the University. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country.

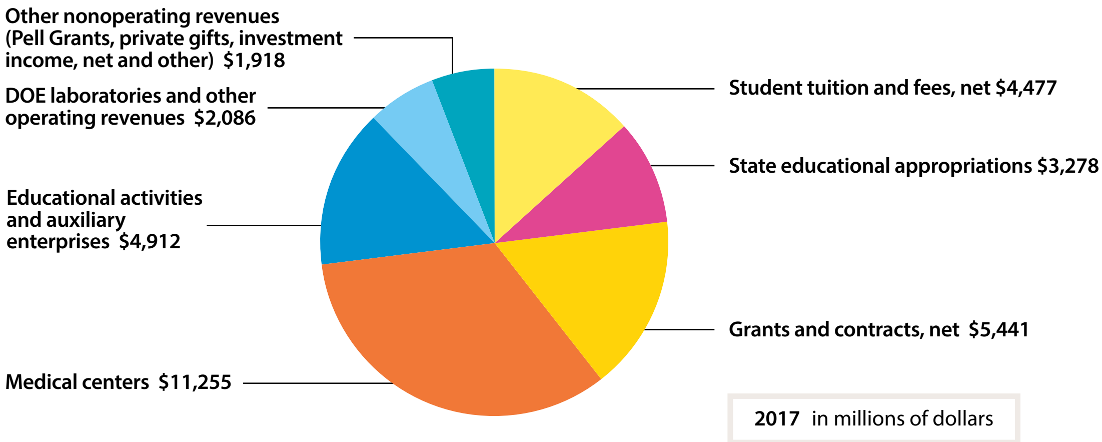
Gifts to the University allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Other significant revenues are from medical centers, educational activities and auxiliary enterprises such as student housing, food service operations and parking.

Revenues in the various categories have changed as follows:



A major financial strength of the University includes a diverse source of revenues, including those from student fees, federally sponsored grants and contracts, medical centers, the state of California, private support and self-supporting enterprises. The variety of fund sources has become increasingly important over the past several years.

Categories of both operating and nonoperating revenue that supported the University's core activities in 2017 are as follows:



Student tuition and fees, net

Net student tuition and fees were $4.5 billion, $4.1 billion and $3.8 billion in 2017, 2016 and 2015, respectively. Scholarship allowances, or financial aid, are the difference between the stated charge for tuition and fees and the amount that is paid by the student and third parties on behalf of the student and are reported as an offset to revenue. Scholarship allowances of $0.9 billion and $1.1 billion in 2017 and 2016, respectively, were netted against student tuition and fees. Student tuition and fees, net of scholarship allowances, increased by $344.9 million and $348.3 million in 2017 and 2016, respectively.

In 2017, enrollment grew by 4.9 percent and in 2016 enrollment grew by 2.1 percent. Mandatory tuition for resident undergraduates did not change in 2017 or 2016. Certain nonresident undergraduates and resident and nonresident graduate students experienced increases in mandatory tuition and fees. Professional degree supplemental tuition varies by discipline; certain increases were approved for 2017 and 2016.

State educational appropriations

Educational appropriations from the state of California were $3.3 billion, $3.0 billion and $2.8 billion in 2017, 2016 and 2015, respectively. State educational appropriations increased in 2017 and 2016 by $229.4 million and $256.7 million, respectively.

The budget framework agreed to in 2015 with the governor called for base budget adjustments of four percent annually over four years, through 2019. The framework also called for no tuition increases in 2017 and 2016, with tuition increases generally pegged to the rate of inflation beginning in 2018. The student service fee increased five percent in 2017 and 2016, with the customary one-third of the increase being directed to financial aid. The framework also acknowledged the University's plan to increase nonresident supplemental tuition by up to eight percent for 2017 and 2016 and five percent thereafter. The framework recognized the increases in professional degree supplemental tuition approved by The Regents in November 2014 for existing and new programs and called for no increases in law school tuition through 2019.

Grants and contracts, net

Revenue from federal, state, private and local government grants and contracts — including an overall facilities and administration cost recovery of $1.1 billion, $1.0 billion and $993.5 million in 2017, 2016 and 2015, respectively — were $5.4 billion, $5.3 billion and $5.2 billion in 2017, 2016 and 2015, respectively.

In 2017, federal grants and contracts revenue increased $14.0 million, or 0.4 percent, as compared to 2016. In 2016, federal grants and contracts revenue increased $37.2 million, or 1.2 percent, as compared to 2015. Federal grants and contracts include federal facilities and administrative cost recovery of $764.0 million, $745.6 million and $720.3 million in 2017, 2016 and 2015, respectively. Federal budget cuts have slowed the University's growth in federal grants and contracts. Grant and contract revenue is from a variety of federal agencies as indicated below:

(in millions of dollars)

	2017	2016	2015
Department of Health and Human Services	$1,987	$1,917	$1,847
National Science Foundation	465	469	498
Department of Education	57	83	70
Department of Defense	275	258	259
National Aeronautics and Space Administration	95	135	137
Department of Energy (excluding national laboratories)	107	104	100
Other federal agencies	273	279	296
Federal grants and contracts net revenue	**$3,259**	**$3,245**	**$3,207**

Medical centers, net

Medical center revenues, including state hospital fee grants, net of allowances, increased $1.0 billion, or 9.8 percent, in 2017 and increased $752.2 million, or 7.9 percent, in 2016. Revenues increased in 2017 due to the opening of the new UCSD Jacobs Medical Center in November 2016, increases in supplemental revenues and higher inpatient and outpatient utilization at all of the medical centers. Revenues increased in 2016 due to the new UCSF Mission Bay facility, which opened in February 2015, and was open for all of 2016, contributing to a significant portion of the growth in revenues.

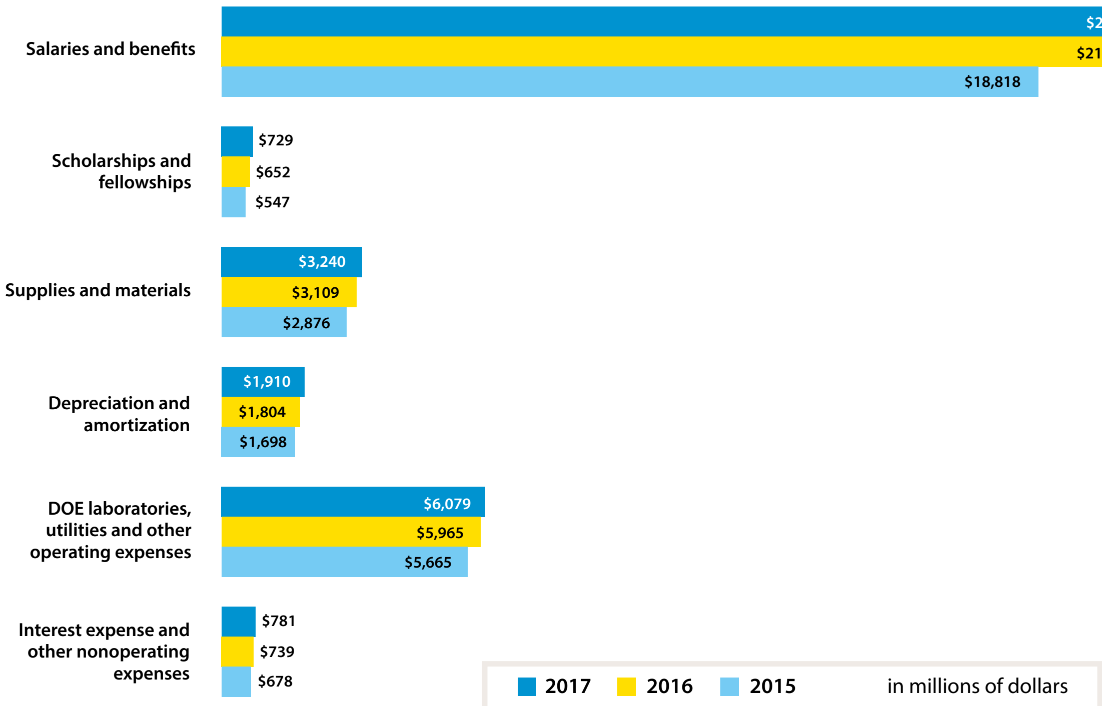
Educational activities and auxiliary enterprises, net

Revenue from educational activities, primarily medical professional fees, net of allowances, grew by $359.8 million, or 12.1 percent, in 2017 and $232.6 million, or 8.5 percent, in 2016. The growth is generally associated with an expanded patient base and improved collections.

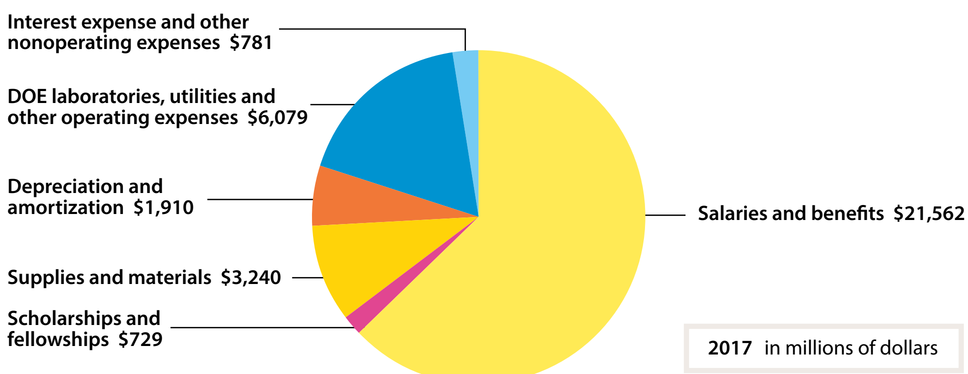
Auxiliary enterprises include housing, food service, parking, bookstores, student centers, unions and childcare centers. Auxiliary revenues have increased consistent with enrollment. Revenue from auxiliary enterprises, net of allowances, grew by $149.2 million, or 10.4 percent, in 2017 and $35.9 million, or 2.6 percent in 2016 which is consistent with changes in enrollment.

Expenses associated with core activities

Expenses associated with the University's core activities, including those classified as nonoperating expenses, were $34.3 billion, $33.7 billion and $30.3 billion in 2017, 2016 and 2015, respectively. Expenses increased in 2017 by $0.6 billion and in 2016 by $3.4 billion, primarily due to growth in the University's operations, principally at the medical centers. Pension expenses decreased in 2017 and increased in 2016 as a result of actual compared to expected earnings on the UCRP portfolio. Expenses in the various categories are as follows:



Categories of both operating and nonoperating expenses related to the University's core activities in 2017 are as follows:



Salaries and benefits

Approximately 62.9 percent of the University's expenses were related to salaries and benefits. There were 154,500 full-time equivalent (FTE) employees in 2017, excluding employees who were associated with LBNL whose salaries and benefits were included as laboratory expenses, as compared to 149,300 FTEs in 2016.

Salaries and benefits increased by 0.7 percent in 2017. In 2017, salaries increased by 8.1 percent, 3.5 percent due to an increase in the number of FTEs and 4.5 percent due to an increase in the average salary per FTE. Employee benefits, excluding pension and post-retirement health care benefits, increased by $100.5 million, or 3.5 percent, in 2017 due to higher health insurance costs. Pension expense decreased by $0.8 billion, or 29.7 percent, due to better than expected investment returns. Retiree health expense decreased by $298.8 million or 15.9 percent due to the higher discount rate in 2017.

Salaries and benefits increased by 13.0 percent in 2016 due to growth in the University's operations. In 2016, salaries increased by 7.0 percent, 3.1 percent due to an increase in the number of FTEs and 3.7 percent due to an increase in the average salary per FTE. Employee benefits, excluding pension and post-retirement health care benefits, increased by $171.4 million, or 6.4 percent in 2016, due to higher health insurance costs. Pension expense increased by $1.2 billion or 77.3 percent due to lower than expected investment returns. Retiree health expense increased by $347.0 million or 22.7 percent due to the lower discount rate in 2016.

Scholarships and fellowships

The University places a high priority on student financial aid as part of its commitment to affordability. Scholarship allowances, representing financial aid and fee waivers awarded by the University, were $2.1 billion, $2.0 billion and $2.0 billion in 2017, 2016 and 2015, respectively. Scholarships and fellowships, representing payments of financial aid made directly to students and reported as an operating expense were $728.6 million, $651.6 million and $547.1 million in 2017, 2016 and 2015, respectively. On a combined basis, as the University continues its commitment to provide financial support for needy students, financial aid in all forms increased by $55.7 million, or 2.8 percent, in 2017 as compared to 2016, and by $34.2 million, or 1.7 percent, in 2016 compared to 2015.

Supplies and materials

During 2017 and 2016, supplies and materials costs increased by $131.0 million, or 4.2 percent and $232.5 million, or 8.1 percent, respectively. The largest increases occurred at the medical centers due to higher patient volumes. In recent years, there has been inflationary pressure on the costs for medical supplies and laboratory instruments and higher costs for general supplies necessary to support expanded medical patient volumes. The University continues to find opportunities to manage the costs of supplies and materials.

Other expenses

Other expenses consist of a variety of expense categories, including travel, rent, insurance, legal settlements and repairs and maintenance, plus any gain or loss on disposals of capital assets and other nonoperating expenses.

Operating losses

In accordance with the GASB's reporting standards, operating losses were $5.4 billion, $6.7 billion and $4.9 billion in 2017, 2016 and 2015, respectively. The operating losses in 2017, 2016 and 2015 were partially offset by $4.4 billion, $4.1 billion and $3.8 billion, respectively, of net nonoperating revenue that supports core operating activities of the University. Expenses associated with core activities in 2017, 2016 and 2015 exceeded revenue available to support core activities by $0.9 billion, $2.5 billion and $1.0 billion, respectively.

Other nonoperating activities

The University's other nonoperating activities, consisting of net appreciation or depreciation in the fair value of investments, are noncash transactions and, therefore, are not available to support operating expenses. In 2017, the University recognized net appreciation in the fair value of investments of $1.7 billion, as compared to net depreciation of $473.3 million during 2016 and net appreciation of $543.6 million during 2015. The University's portfolio experienced positive returns in the equity markets in 2017. The University's portfolio experienced declines in 2016 principally due to declines in the equity markets.

Other changes in net position

Similar to other nonoperating activities discussed above, other changes in net position are also not available to support the University's operating expenses in the current year. State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital assets. Only income earned from gifts of permanent endowments is available in future years to support the specified program.

THE UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS

Separate foundations at each individual campus provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although independent boards govern each of the foundations, they are affiliated with, and their assets are dedicated for, the benefit of the University of California.

The Campus Foundations' Financial Position

The campus foundations' statement of net position presents their combined financial position at the end of the year. It displays all of the campus foundations' assets, liabilities, deferred inflows and net position. The difference between assets, liabilities and deferred inflows is net position, representing a measure of the current financial condition of the campus foundation.

The major components of the combined assets, liabilities and net position of the campus foundations at June 30, 2017, 2016 and 2015 are as follows:

(in millions of dollars)

	2017	2016	2015
ASSETS			
Investments	$8,207	$7,115	$7,085
Investment of cash collateral	43	42	37
Accounts receivable, net	40	33	79
Pledges receivable, net	866	842	823
Other assets	277	221	224
Total assets	**9,433**	**8,253**	**8,248**
LIABILITIES			
Accounts payable and other current liabilities	130	71	247
Securities lending collateral	43	42	37
Obligation under life income agreements and funds held for others	403	382	370
Other noncurrent liabilities	253	220	42
Total liabilities	**829**	**715**	**696**
DEFERRED INFLOWS OF RESOURCES	**2**	**1**	**2**
NET POSITION			
Restricted:			
Nonexpendable	4,046	3,700	3,422
Expendable	4,363	3,742	4,030
Unrestricted	193	95	98
Total net position	**$8,602**	**$7,537**	**$7,550**

Investments increased in 2017 and were flat in 2016 due to the performance of the financial markets. The Board of Trustees for each campus foundation is responsible for its specific investment policy, although asset allocation guidelines are recommended to campus foundations by the Investments Subcommittee of The Regents. The Boards of Trustees may determine that all or a portion of their investments will be managed by the University's Chief Investment Officer. The Chief Investment Officer managed $2.2 billion, $1.6 billion and $1.3 billion of the campus foundations' investments at the end of 2017, 2016 and 2015, respectively.

Restricted, nonexpendable net position includes the corpus of the campus foundations' permanent endowments and the estimated fair value of certain planned giving arrangements. Restricted, expendable net position is subject to externally imposed restrictions governing their use. Net position represents the residual interest in the assets after all liabilities and deferred inflows are deducted. It is only available in accordance with the restrictions placed upon them and may include endowment income and investment gains, subject to each individual campus foundation's spending policy; support received from gifts; trustee-held investments; or other third-party receipts. New gifts and changes in the fair value of investments were the primary reasons for the changes in value in 2017 and 2016.

The Campus Foundations' Results of Operations

The campus foundations' combined statement of revenues, expenses and changes in net position is a presentation of their operating results for the year. It indicates whether their financial condition has improved or deteriorated during the year.

A summarized comparison of the operating results for 2017, 2016 and 2015 is as follows:

(in millions of dollars)

	2017	2016	2015
OPERATING REVENUES			
Private gifts and other revenues	$869	$792	$767
Total operating revenues	**869**	**792**	**767**
OPERATING EXPENSES			
Grants to campuses and other expenses	969	915	852
Total operating expenses	**969**	**915**	**852**
Operating loss	**(100)**	**(123)**	**(85)**
NONOPERATING REVENUES (EXPENSES)			
Investment income	73	53	65
Net appreciation (depreciation) in fair value of investments	799	(225)	207
Other nonoperating revenues (expenses)	5	4	(5)
Income (loss) before other changes in net position	**777**	**(291)**	**182**
OTHER CHANGES IN NET POSITION			
Permanent endowments	288	278	274
Increase (decrease) in net position	**1,065**	**(13)**	**456**
NET POSITION			
Beginning of year	7,537	7,550	7,094
End of year	**$8,602**	**$7,537**	**$7,550**

Operating expenses generally consist of grants to University campuses, comprised of current-use gifts and endowment income and other expenses, including gift fees. Grants to campuses typically follow the pattern indicated by private gift revenue; however, the campuses' programmatic needs are also taken into consideration, subject to abiding by the restricted purposes of gifts to the endowment and the amounts available for grants in any particular year.

Grants to the campuses can only be made when the cash is received and, in addition, also include endowment investment income, classified as nonoperating income. Therefore, operating losses can occur when grants distributed to the campuses in any particular year exceed private gift revenue.

THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

UCRS is a valuable component of the comprehensive benefits package offered to employees of the University. UCRS consists of the University of California Retirement Plan (UCRP), a defined benefit plan for members; the University of California Retirement Savings Program (UCRSP) that includes four defined contribution plans (Defined Contribution Plan, Supplemental Defined Contribution Plan, 403(b) Plan and 457(b) Plan) to complement the defined benefit plan, with several investment portfolio options for participants' elective and non-elective contributions; and the California Public Employees Retirement System (PERS) Voluntary Early Retirement Incentive Plan (UC-VERIP) for certain University employees that were members of PERS who elected early retirement.

UCRS' Financial Position and Result of Operations

The statement of plans' fiduciary net position presents the financial position of UCRS at the end of the fiscal year. It displays all of the retirement system's assets, liabilities and net position. The difference between assets and liabilities is the net position held in trust for pension benefits. These represent amounts available to provide pension benefits to members of UCRP and participants in the defined contribution plans and UC-VERIP. At June 30, 2017, UCRS' assets were $94.0 billion, liabilities were $9.3 billion and net position held in trust for pension benefits were $84.7 billion, an increase of $10.1 billion from 2016. At June 30, 2016, UCRS' assets were $83.3 billion, liabilities were $8.7 billion and net assets held in trust for pension benefits were $74.6 billion, a decrease of $831.7 million from 2015.

The major components of the assets, liabilities and net position available for pension benefits for 2017, 2016 and 2015 are as follows:

(in millions of dollars)

	2017	2016	2015
ASSETS			
Investments	$82,574	$73,197	$71,596
Participants' interests in mutual funds	3,351	2,768	4,948
Investment of cash collateral	6,842	6,751	5,177
Other assets	1,203	571	516
Total assets	**93,970**	**83,287**	**82,237**
LIABILITIES			
Securities lending collateral	6,838	6,750	5,178
Other liabilities	2,470	1,955	1,645
Total liabilities	**9,308**	**8,705**	**6,823**
NET POSITION HELD IN TRUST FOR PENSION BENEFITS			
Members' defined benefit plan benefits	62,179	54,225	55,123
Participants' defined contribution plan benefits	22,483	20,357	20,291
Total net position held in trust for pension benefits	**$84,662**	**$74,582**	**$75,414**

The statements of changes in the plans' fiduciary net position is a presentation of UCRS' operating results. It indicates whether the financial condition has improved or deteriorated during the year. A summarized comparison of the operating results for 2017, 2016 and 2015 is as follows:

(in millions of dollars)

	2017	2016	2015
ADDITIONS			
Contributions	$4,779	$4,551	$4,459
Net appreciation (depreciation) in fair value of investments	8,617	(2,300)	1,320
Investment and other income, net	1,437	1,318	1,326
Total additions	**14,833**	**3,569**	**7,105**
DEDUCTIONS			
Benefit payments and participant withdrawals	4,700	4,342	4,534
Plan expenses	53	59	55
Total deductions	**4,753**	**4,401**	**4,589**
Increase (decrease) in net position held in trust for pension benefits	**$10,080**	**$(832)**	**$2,516**

The Regents' asset allocation strategies are intended to generate investment returns over time in accordance with investment objectives and at acceptable levels of risk. The overall investment result based upon unit values for UCRP was positive 14.5 percent in 2017 as compared to investment losses of 2.0 percent in 2016 and gains of 4.5 percent in 2015.

The participants' interests in mutual funds, representing defined contribution plan contributions to certain mutual funds on a custodial plan basis, fluctuate based upon market performance of the mutual funds and participant investment elections.

UCRS participates in the University's securities lending program as a means to augment income. All borrowers are required to provide collateral and the University records a liability to the borrower for cash collateral received and held by the University for securities on loan at the end of the year. Investments in cash collateral and the securities lending collateral liability fluctuate in response to changes in demand from borrowers and the availability of securities based upon the UCRS asset allocation mix.

Contributions to UCRP in 2017, 2016 and 2015 were $3.4 billion, $3.4 billion and $3.3 billion, respectively. In 2017 and 2016, contributions include $171.0 million and $96.0 million, respectively, received from the state of California under the budget agreement. Contributions include additional deposits of $481.0 million, $563.6 million and $700.0 million made by the University to UCRP in 2017, 2016 and 2015, respectively. University contribution rates to UCRP were 14.0 percent of covered payroll in 2017, 2016 and 2015. Employee contribution rates ranged between 7.0 percent and 9.0 percent in 2017, 2016 and 2015. In July 2017, The Regents approved increasing the University's contribution rate to UCRP to 15.0 percent effective July 1, 2018.

Benefit payments and participant withdrawals were $358.2 million more in 2017 than in 2016 and $192.1 million less in 2016 than in 2015. Payments from UCRP increase each year due to a growing number of retirees receiving payments and cost-of-living adjustments (COLAs). Benefit payments from UCRSP fluctuate based upon member withdrawals. Participant withdrawals increased by $143.0 million, or 11.6 percent, in 2017 as compared to 2016, and decreased by $320.6 million, or 20.7 percent, in 2016 as compared to 2015. As of June 30, 2017, there were 73,000 retirees and beneficiaries receiving payments from UCRS as compared to 70,000 as of June 30, 2016 and 67,300 as of June 30, 2015.

The net pension liability for UCRP was $10.7 billion in 2017, $15.1 billion in 2016 and $10.6 billion in 2015. The decrease in net pension liability for 2017 of $4.4 billion was due to higher than expected investment returns on the UCRP portfolio. The increase in net pension liability for 2016 of $4.5 billion was due to lower than expected investment returns on the UCRP portfolio. The ratio of plan net position to total pension liability was 85.3 percent in 2017, 78.2 percent in 2016 and 83.8 percent in 2015.

Additional information on the retirement plans can be obtained from the 2017 annual reports of the University of California Retirement System by writing to the University of California, Office of the President, Human Resources and Benefits, Post Office Box 24570, Oakland, California 94623.

THE UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT)

The UCRHBT was established on July 1, 2007 to allow certain University locations — primarily campuses and medical centers — that share the risks, rewards and costs of providing for retiree health benefits the opportunity to fund such benefits on a cost-sharing basis and accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. The University contributes toward retiree medical and dental benefits, although it does not contribute toward the cost of other benefits available to retirees. The DOE laboratories do not participate in the UCRHBT, therefore the DOE has no interest in the trust's assets.

UCRHBT's Financial Position and Result of Operations

The statement of trust's fiduciary net position presents the financial position of the UCRHBT at the end of the fiscal year. It displays the UCRHBT's assets, liabilities and net position. The difference between assets and liabilities is the net position held in trust for retiree health benefits. This represents amounts available to provide retiree health benefits to participants.

The major components of the assets, liabilities and net position available for retiree health benefits for 2017, 2016 and 2015 are as follows:

(in millions of dollars)

	2017	2016	2015
ASSETS			
Investments	$98	$54	$24
Other assets	26	34	39
Total assets	**124**	**88**	**63**
LIABILITIES			
Total liabilities	**17**	**15**	**12**
NET POSITION HELD IN TRUST FOR RETIREE HEALTH BENEFITS			
Total net position held in trust for retiree health benefits	**$107**	**$73**	**$51**

The statement of changes in the trust's fiduciary net position is a presentation of the UCRHBT's operating results, and indicates whether the financial condition has improved or deteriorated during the year. Summarized operating results for 2017, 2016 and 2015 are as follows:

(in millions of dollars)

	2017	2016	2015
ADDITIONS			
Contributions	$328	$310	$316
Total additions	**328**	**310**	**316**
DEDUCTIONS			
Insurance premiums and payments	290	284	327
Plan expenses	4	4	3
Total deductions	**294**	**288**	**330**
Increase (decrease) in net position held in trust for retiree health benefits	**$34**	**$22**	**$(14)**

Contributions for retiree health benefits are made by the campuses and medical centers based upon projected pay-as-you-go financing. The University acts as a third-party administrative agent on behalf of the UCRHBT to pay health care insurers and administrators amounts currently due.

The retiree health benefits provided under the University's plan and any liabilities related to the future funding requirements for the retiree health benefits are reported by the University. The net retiree health liability for UCRHBT was $18.7 billion, $21.1 billion and $18.0 billion in 2017, 2016 and 2015, respectively.

LOOKING FORWARD

The University of California is a world center of learning, known for generating a steady stream of talent, knowledge and social benefits, and has always been at the center of California's capacity to innovate. The excellence of its programs attracts the best students, leverages hundreds of millions of dollars in state, federal and private funding and promotes discovery of new knowledge that fuels economic growth.

The budget framework agreed to with the governor provided the University with base budget adjustments of four percent annually from 2016 through 2019. The framework also called for no tuition increases in 2016 and 2017, with tuition increases generally pegged to the rate of inflation beginning in 2018. The Student Services Fee increased five percent in 2016 and each year thereafter with the customary one-third of the increase being directed to financial aid. Fifty percent of the remaining revenue generated from the increase will be used to enhance student mental health services and the remaining 50.0 percent will be distributed to support other student services programs. The framework also acknowledged the University's plan to increase nonresident supplemental tuition by up to eight percent in 2016 and 2017 and five percent thereafter. The framework also recognized the increases in professional degree supplemental tuition approved by The Regents in November 2014 for existing and new programs and calls for no increases in law school tuition through 2019. In addition to these funding elements, the budget framework includes a number of performance-related provisions. The state budget for 2018 also includes one-time funds of $169.0 million for UCRP.

The University remains highly competitive in attracting federal grants and contracts revenue, with fluctuations in the awards received closely paralleling trends in the budgets of federal research granting agencies. Over two-thirds of the University's federal research revenue comes from two agencies, the Department of Health and Human Services, primarily through the National Institutes of Health, and the National Science Foundation. Other agencies that figure prominently in the University's awards are the Department of Education, Department of Defense, the National Aeronautics and Space Administration and the Department of Energy. The University is a unique national resource for helping the nation address competitiveness and economic initiatives.

In July 2017, The Regents approved increasing the University contribution rate for UCRP to 15 percent (from 14 percent) effective July 1, 2018. The University funds retiree health benefits on a pay-as-you-go basis.

The University's medical centers have positive operating margins, although they continue to face financial and competitive challenges in their regional markets, along with the added costs and responsibilities related to their function as academic institutions. The demand for health care services and the cost of providing them continue to increase significantly. In addition to the rising costs of salaries, benefits and medical supplies faced by hospitals across the state, along with the costs of maintaining and upgrading facilities, the University's medical centers also face additional costs associated with new technologies, biomedical research, the education and training of health care professionals and the care for a disproportionate share of the medically underserved in California. Other than Medicare and Medi-Cal (California's Medicaid program), health insurance payments do not recognize the added cost of teaching in their payment to academic medical centers. The growth in costs of the publicly funded programs and health care reform will likely continue to reduce rates or limit payment growth, placing downward pressure on operating results for the medical centers.

The University must have a balanced array of many categories of facilities to meet its education, research and public service goals and continues to assess its long-term capital requirements. Support for the University's capital program is expected to be provided from a combination of sources, including the state of California, external financing, gifts and other sources.

Additional budget information can be found at http://universityofcalifornia.edu/news/budget/welcome.html. Additional information concerning state budget matters and the state's financial condition may be found on the website of the California Department of Finance at http://www.dof.ca.gov.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information provided by the University, 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 University 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 University 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.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Report of Independent Auditors

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

We have audited the accompanying financial statements of the University of California (the "University"), a component unit of the state of California, its aggregate discretely presented component units, the University of California Retirement System and the University of California Retiree Health Benefit Trust, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University, its aggregate discretely presented component units, the University of California Retirement System and the University of California Retiree Health Benefit Trust as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed under "Significant Accounting Policies" in the notes to the financial statements, the University changed the manner in which it accounts for Postemployment Benefit Plans Other Than Pension Plans. Our opinion is not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 12 through 31 and the required supplemental information on pages 110 through 117 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
San Francisco, California
October 12, 2017

STATEMENTS OF NET POSITION

	UNIVERSITY OF CALIFORNIA		CAMPUS FOUNDATIONS	
At June 30, 2017 and 2016 (in thousands of dollars)	**2017**	**2016**	**2017**	**2016**
ASSETS				
Cash and cash equivalents	$203,370	$266,565	$254,100	$194,912
Short-term investments	6,249,657	4,944,611	674,868	479,410
Investment of cash collateral	947,353	680,838	37,357	34,641
Investments held by trustees	32,516	85,467		
Accounts receivable, net	3,946,891	3,319,518	40,012	32,562
Pledges receivable, net	23,181	17,056	192,484	217,971
Notes and mortgages receivable, net	50,137	52,672	6	6
Inventories	226,995	214,680		
Department of Energy receivable	123,896	94,307		
Other current assets	338,041	328,932	4,748	5,945
Current assets	**12,142,037**	**10,004,646**	**1,203,575**	**965,447**
Investments	18,228,705	17,264,156	7,532,122	6,635,868
Investment of cash collateral	132,476	144,093	5,224	7,332
Investments held by trustees	66,509	765,417		
Pledges receivable, net	33,031	30,050	673,495	624,452
Notes and mortgages receivable, net	314,018	327,169	427	1,014
Department of Energy receivable	1,257,926	1,595,767		
Capital assets, net	30,669,753	29,688,815		
Other noncurrent assets	138,927	141,505	17,760	19,471
Noncurrent assets	**50,841,345**	**49,956,972**	**8,229,028**	**7,288,137**
Total assets	**62,983,382**	**59,961,618**	**9,432,603**	**8,253,584**
DEFERRED OUTFLOWS OF RESOURCES	**5,549,644**	**10,170,090**		
LIABILITIES				
Accounts payable	2,394,554	1,623,237	21,762	18,485
Accrued salaries	644,500	995,235		
Employee benefits	394,673	440,270		
Unearned revenue	1,200,545	1,172,308	62,750	921
Collateral held for securities lending	1,079,318	824,677	42,581	41,973
Commercial paper	812,673	1,037,857		
Current portion of long-term debt	1,519,005	1,413,265		
Funds held for others	362,621	327,429	265,159	251,472
Department of Energy laboratories' liabilities	107,514	78,862		
Other current liabilities	1,593,297	1,438,527	45,470	51,875
Current liabilities	**10,108,700**	**9,351,667**	**437,722**	**364,726**
Federal refundable loans	246,131	243,913		
Self-insurance	584,232	558,158		
Obligations under life income agreements	34,479	32,021	137,713	130,314
Long-term debt	18,171,198	17,500,165		
Net pension liability	10,739,355	15,124,690		
Net retiree health benefits liability	19,290,424	21,795,448		
Other noncurrent liabilities	688,802	737,355	253,288	220,234
Noncurrent liabilities	**49,754,621**	**55,991,750**	**391,001**	**350,548**
Total liabilities	**59,863,321**	**65,343,417**	**828,723**	**715,274**
DEFERRED INFLOWS OF RESOURCES	**6,284,371**	**3,468,333**	**1,723**	**1,460**
NET POSITION				
Net investment in capital assets	13,342,824	12,816,190		
Restricted:				
Nonexpendable: Endowments and gifts	1,143,067	1,111,083	4,045,925	3,700,049
Nonexpendable: Minority interests	33,507	36,766		
Expendable: Endowments and gifts	6,881,101	6,084,997	4,363,100	3,741,932
Expendable: Other, including debt service, loans, capital projects and appropriations	281,627	461,402		
Unrestricted	(19,296,792)	(19,190,480)	193,132	94,869
Total net position	**$2,385,334**	**$1,319,958**	**$8,602,157**	**$7,536,850**

See accompanying Notes to Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	UNIVERSITY OF CALIFORNIA		CAMPUS FOUNDATIONS	
Years ended June 30, 2017 and 2016 (in thousands of dollars)	**2017**	**2016**	**2017**	**2016**
OPERATING REVENUES				
Student tuition and fees, net	$4,477,213	$4,132,352		
Grants and contracts, net:				
Federal	3,258,526	3,244,529		
State	454,207	443,194		
Private	1,421,752	1,284,753		
Local	306,492	300,119		
Medical centers, net	11,241,269	10,235,900		
Educational activities, net	3,332,671	2,972,830		
Auxiliary enterprises, net	1,579,152	1,429,985		
Department of Energy laboratories	1,147,233	1,278,186		
Campus foundation private gifts			$866,190	$780,983
Other operating revenues, net	938,678	962,394	3,099	11,492
Total operating revenues	**28,157,193**	**26,284,242**	**869,289**	**792,475**
OPERATING EXPENSES				
Salaries and wages	15,159,736	14,021,131		
Pension benefits	1,887,570	2,686,688		
Retiree health benefits	1,575,663	1,874,504		
Other employee benefits	2,938,133	2,837,680		
Supplies and materials	3,239,587	3,108,907		
Depreciation and amortization	1,909,870	1,804,046		
Department of Energy laboratories	1,139,232	1,271,260		
Scholarships and fellowships	728,594	651,565		
Utilities	292,447	282,692		
Campus foundation grants			939,784	889,278
Other operating expenses	4,648,395	4,410,718	29,731	25,890
Total operating expenses	**33,519,227**	**32,949,191**	**969,515**	**915,168**
Operating loss	**(5,362,034)**	**(6,664,949)**	**(100,226)**	**(122,693)**
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	3,277,808	3,048,384		
State hospital fee grants	13,303	15,137		
Build America Bonds federal interest subsidies	58,424	58,550		
Federal Pell Grants	381,650	376,264		
Private gifts, net	1,167,395	1,091,519		
Investment income:				
Short Term Investment Pool and other, net	204,840	233,232		
Endowment, net	85,540	71,761		
Securities lending, net	8,504	6,282	419	415
Campus foundations			72,690	52,826
Net appreciation (depreciation) in fair value of investments	1,721,798	(473,308)	799,242	(225,237)
Interest expense	(721,243)	(693,027)	(85)	(35)
Loss on disposal of capital assets	(59,567)	(47,070)		
Other nonoperating revenues (expenses)	10,856	(7,406)	5,082	3,168
Net nonoperating revenues (expense)	**6,149,308**	**3,680,318**	**877,348**	**(168,863)**
Income (loss) before other changes in net position	**787,274**	**(2,984,631)**	**777,122**	**(291,556)**
OTHER CHANGES IN NET POSITION				
Capital gifts and grants, net	255,559	248,705		
State capital appropriations	1,712	4,156		
Permanent endowments	20,831	30,008	288,185	278,077
Increase (decrease) in net position	**1,065,376**	**(2,701,762)**	**1,065,307**	**(13,479)**
NET POSITION				
Beginning of year, as previously reported	1,319,958	11,733,067	7,536,850	7,550,329
Cumulative effect of accounting changes		(7,711,347)		
Beginning of year, restated	1,319,958	4,021,720	7,536,850	7,550,329
End of year	**$2,385,334**	**$1,319,958**	**$8,602,157**	**$7,536,850**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA

STATEMENTS OF CASH FLOWS

Years ended June 30, 2017 and 2016 *(in thousands of dollars)*	UNIVERSITY OF CALIFORNIA 2017	UNIVERSITY OF CALIFORNIA 2016	CAMPUS FOUNDATIONS 2017	CAMPUS FOUNDATIONS 2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$4,466,850	$4,131,891		
Grants and contracts	4,808,226	5,822,944		
Medical centers	11,173,461	10,227,768		
Educational activities	3,306,961	3,018,794		
Auxiliary enterprises	1,578,093	1,432,083		
Collection of loans from students and employees	80,393	73,285		
Campus foundation private gifts			$700,024	$679,092
Payments to employees	(15,492,680)	(14,048,211)		
Payments to suppliers and utilities	(7,691,984)	(7,552,418)		
Payments for pension benefits	(1,881,289)	(2,609,177)		
Payments for retiree health benefits	(333,928)	(325,493)		
Payments for other employee benefits	(2,829,325)	(2,837,415)		
Payments for scholarships and fellowships	(728,428)	(651,600)		
Loans issued to students and employees	(63,972)	(69,701)		
Payments to campuses and beneficiaries			(983,250)	(918,027)
Other receipts	1,209,221	696,852	58,490	17,955
Net cash used by operating activities	**(2,398,401)**	**(2,690,398)**	**(224,736)**	**(220,980)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	3,277,402	3,051,306		
Federal Pell Grants	380,364	375,675		
State hospital fee grants	13,303	15,137		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes	22,789	31,395	228,003	234,005
Other private gifts	1,129,424	1,065,909		
Receipt of retiree health contributions from UCRP	64,386	60,769		
Payment of retiree health contributions to UCRHBT	(58,198)	(60,123)		
Receipts from UCRHBT	348,291	336,708		
Payments for retiree health benefits made on behalf of UCRHBT	(360,210)	(345,613)		
Student direct lending receipts	772,234	762,127		
Student direct lending payments	(772,216)	(762,103)		
Proceeds from debt issuance	500,000			
Refinancing or prepayment of outstanding debt	(500,000)			
Commercial paper financing:				
Proceeds from issuance	23,497	12,300		
Payments of principal	(15,323)	(20,670)		
Interest paid on debt	(13,966)	(9,546)		
Other receipts (payments)	48,626	538,160	24,111	(6,909)
Net cash provided by noncapital financing activities	**4,860,403**	**5,051,431**	**252,114**	**227,096**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Commercial paper financing:				
Proceeds from issuance	711,453	676,700		
Payments of principal	(944,811)	(715,395)	(192)	(970)
Interest paid	(4,825)	(3,457)		
State capital appropriations	9,602	5,319		
State financing appropriations		445		
Build America Bonds federal interest subsidies	58,421	58,438		
Capital gifts and grants	130,397	131,012		
Proceeds from debt issuance	2,088,512	2,045,061		
Proceeds from the sale of capital assets	17,720	46,037		
Purchase of capital assets	(2,679,314)	(2,669,898)		
Refinancing or prepayment of outstanding debt	(820,739)	(527,882)		
Scheduled principal paid on debt and capital leases	(461,183)	(518,713)		
Interest paid on debt and capital leases	(787,307)	(811,520)		
Net cash used by capital and related financing activities	**$(2,682,074)**	**$(2,283,853)**	**$(192)**	**$(970)**

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS *continued*

Years ended June 30, 2017 and 2016 (in thousands of dollars)	UNIVERSITY OF CALIFORNIA 2017	UNIVERSITY OF CALIFORNIA 2016	CAMPUS FOUNDATIONS 2017	CAMPUS FOUNDATIONS 2016
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	$86,593,485	$104,492,954	$1,366,988	$1,706,275
Purchase of investments	(86,745,271)	(104,786,465)	(1,398,236)	(1,763,467)
Investment income, net of investment expenses	308,663	323,973	63,250	48,682
Net cash provided (used) by investing activities	**156,877**	**30,462**	**32,002**	**(8,510)**
Net increase (decrease) in cash and cash equivalents	**(63,195)**	**107,642**	**59,188**	**(3,364)**
Cash and cash equivalents, beginning of year	266,565	158,923	194,912	198,276
Cash and cash equivalents, end of year	**$203,370**	**$266,565**	**$254,100**	**$194,912**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating loss	$(5,362,034)	$(6,664,949)	$(100,226)	$(122,693)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation and amortization expense	1,909,870	1,804,046		
Noncash gifts			(147,742)	(83,350)
Allowance for uncollectible accounts	266,431	268,673	19,245	6,591
Loss on impairment of capital assets	7,354	10,127		
Change in assets and liabilities:				
Investments held by trustees	737,280	(10,247)	2,094	
Accounts receivable	(960,355)	(319,228)	(931)	754
Pledges receivable			(45,460)	(32,875)
Inventories	(12,315)	(7,223)		
Other assets	(2,584)	(100,322)	2,544	(681)
Accounts payable	121,451	132,482	2,413	5,681
Accrued salaries	(350,735)	(78,293)		
Employee benefits	(52,110)	(25,244)		
Unearned revenue	26,000	107,436	64,259	1,219
Department of Energy	337,841	66,348		
Self-insurance	73,802	76,621		
Obligations under life income agreements			(6,150)	(8,533)
Net pension liability	(730,435)	506,299		
Net retiree health benefits liability	1,509,674	1,506,853		
Other liabilities	82,464	36,223	(14,782)	12,907
Net cash used by operating activities	**$(2,398,401)**	**$(2,690,398)**	**$(224,736)**	**$(220,980)**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired through capital leases	$55,360	$67,030		
Capital assets acquired with a liability at year-end	98,916	66,386		
Change in fair value of interest rate swaps classified as hedging derivatives	61,891	(61,030)		
Gifts of capital assets	122,913	111,836		
Other noncash gifts	33,194	31,132	$199,500	$131,084
Interest added to principal			2,934	

See accompanying Notes to Financial Statements.

STATEMENTS OF PLANS' AND TRUST'S FIDUCIARY NET POSITION

	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)		UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT)		TOTAL UCRS AND UCRHBT	
At June 30, 2017 and 2016 (in thousands of dollars)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
ASSETS						
Investments	$82,574,019	$73,196,935	$97,801	$53,604	$82,671,820	$73,250,539
Participants' interests in mutual funds	3,351,454	2,767,673			3,351,454	2,767,673
Investment of cash collateral	6,841,530	6,751,492			6,841,530	6,751,492
Participant 403(b) loans	180,511	178,664			180,511	178,664
Accounts receivable:						
Contributions from University and affiliates	57,552	118,246	9,656	19,297	67,208	137,543
Investment income	80,593	95,610			80,593	95,610
Securities sales and other	884,657	178,454	147	24	884,804	178,478
Prepaid insurance premiums			16,125	15,277	16,125	15,277
Total assets	**93,970,316**	**83,287,074**	**123,729**	**88,202**	**94,094,045**	**83,375,276**
LIABILITIES						
Payable to University			17,015	15,661	17,015	15,661
Payable for securities purchased	2,380,442	1,658,231			2,380,442	1,658,231
Member withdrawals, refunds and other payables	89,590	297,089			89,590	297,089
Collateral held for securities lending	6,838,416	6,749,519			6,838,416	6,749,519
Total liabilities	**9,308,448**	**8,704,839**	**17,015**	**15,661**	**9,325,463**	**8,720,500**
NET POSITION HELD IN TRUST						
Members' defined benefit plan benefits	62,179,236	54,225,589			62,179,236	54,225,589
Participants' defined contribution plan benefits	22,482,632	20,356,646			22,482,632	20,356,646
Retiree health benefits			106,714	72,541	106,714	72,541
Total net position held in trust	**$84,661,868**	**$74,582,235**	**$106,714**	**$72,541**	**$84,768,582**	**$74,654,776**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM AND RETIREE HEALTH BENEFIT TRUST

STATEMENTS OF CHANGES IN PLANS' AND TRUST'S FIDUCIARY NET POSITION

Years ended June 30, 2017 and 2016 *(in thousands of dollars)*	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS) 2017	UCRS 2016	UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT) 2017	UCRHBT 2016	TOTAL UCRS AND UCRHBT 2017	TOTAL 2016
ADDITIONS (REDUCTIONS)						
Contributions:						
Members and employees	$2,206,455	$2,020,972			$2,206,455	$2,020,972
State	171,000	96,000			171,000	96,000
University	2,402,009	2,434,180	$328,057	$310,320	2,730,066	2,744,500
Total contributions	**4,779,464**	**4,551,152**	**328,057**	**310,320**	**5,107,521**	**4,861,472**
Investment income (expense), net:						
Net appreciation/depreciation in fair value of investments	8,616,400	(2,300,033)			8,616,400	(2,300,033)
Interest, dividends and other investment income	1,386,834	1,272,141	606	155	1,387,440	1,272,296
Securities lending income	89,075	60,415			89,075	60,415
Securities lending fees and rebates	(40,610)	(16,440)			(40,610)	(16,440)
Total investment income (loss), net	**10,051,699**	**(983,917)**	**606**	**155**	**10,052,305**	**(983,762)**
Interest income from contributions receivable	1,472	1,771			1,472	1,771
Total additions	**14,832,635**	**3,569,006**	**328,663**	**310,475**	**15,161,298**	**3,879,481**
DEDUCTIONS						
Benefit payments:						
Retirement payments	2,330,361	2,170,775			2,330,361	2,170,775
Member withdrawals	140,666	136,249			140,666	136,249
Cost-of-living adjustments	474,815	430,795			474,815	430,795
Lump sum cash outs	292,270	285,780			292,270	285,780
Preretirement survivor payments	47,778	46,835			47,778	46,835
Disability payments	30,470	30,769			30,470	30,769
Death payments	9,368	9,377			9,368	9,377
Participant withdrawals	1,374,324	1,231,279			1,374,324	1,231,279
Total benefit payments	**4,700,052**	**4,341,859**			**4,700,052**	**4,341,859**
Insurance premiums:						
Insured plans			161,142	173,635	161,142	173,635
Self-insured plans			119,667	101,477	119,667	101,477
Medicare Part B reimbursements			9,425	9,724	9,425	9,724
Total insurance premiums, net			**290,234**	**284,836**	**290,234**	**284,836**
Other deductions:						
Plan administration	39,823	48,381	4,256	3,743	44,079	52,124
Other	13,127	10,434			13,127	10,434
Total other deductions	**52,950**	**58,815**	**4,256**	**3,743**	**57,206**	**62,558**
Total deductions	**4,753,002**	**4,400,674**	**294,490**	**288,579**	**5,047,492**	**4,689,253**
Increase (decrease) in net position held in trust	**10,079,633**	**(831,668)**	**34,173**	**21,896**	**10,113,806**	**(809,772)**
NET POSITION HELD IN TRUST						
Beginning of year	74,582,235	75,413,903	72,541	50,645	74,654,776	75,464,548
End of year	**$84,661,868**	**$74,582,235**	**$106,714**	**$72,541**	**$84,768,582**	**$74,654,776**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA

Notes to Financial Statements

Years ended June 30, 2017 and 2016

ORGANIZATION

The University of California ("the University") was founded in 1868 as a public, state-supported institution. The California State Constitution provides that the University shall be a public trust administered by the corporation, "The Regents of the University of California," which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26-member independent governing board ("The Regents") is appointed by the governor and approved by the state Senate. Various University programs and capital outlay projects are funded through appropriations from the state's annual Budget Act. The University's financial statements are discretely presented in the state's basic financial statements as a component unit.

FINANCIAL REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The University's financial statements include the accounts of ten campuses, five medical centers, a statewide agricultural extension program and the operations of most student government or associated student organizations as part of the primary financial reporting entity because The Regents has certain oversight responsibilities for these organizations. In addition, the financial position and operating results of certain other legally separate organizations are included in the University's financial reporting entity on a blended basis if The Regents is determined to be financially accountable for the organization. Organizations that are not significant or for which the University is not financially accountable, such as booster and alumni organizations, are not included in the reporting entity. However, cash invested with the University by these organizations, along with the related liability, is included in the statement of net position. The statement of revenues, expenses and changes in net position excludes the activities associated with these organizations.

Fiat Lux Risk and Insurance Company ("Fiat Lux"), the University's wholly owned captive insurance company, is a blended component unit of the University. The Regents are the sole corporate and voting member of Children's Hospital & Research Center Oakland ("CHRCO"), a private, not-for-profit 501(c)(3) corporation. Children's Hospital & Research Center Foundation, a nonprofit public benefit corporation, is organized and operated for the purpose of supporting CHRCO. CHRCO, combined with its foundation, is a blended component unit of the University.

The University has eleven legally separate, tax-exempt, affiliated campus foundations, one for each campus and the Lawrence Berkeley National Laboratory (LBNL). The economic resources received or held by the foundations are entirely for the benefit of the campuses. Because of the nature and significance of their relationship with the University, including their ongoing financial support, the campus foundations are reported under Governmental Accounting Standards Board (GASB) requirements as discretely presented component units of the University.

Specific assets and liabilities and all revenues and expenses associated with the LBNL, a major United States Department of Energy (DOE) national laboratory operated and managed by the University under contract directly with the DOE, are included in the accompanying financial statements.

The Regents has fiduciary responsibility for the University of California Retirement System (UCRS) which includes two defined benefit plans, the University of California Retirement Plan (UCRP) and the University of California Voluntary Early Retirement Incentive Plan (UC–VERIP), and four defined contribution plans in the University of California Retirement Savings Program (UCRSP), consisting of the Defined Contribution Plan (DC Plan), the Supplemental Defined Contribution Plan (SDC Plan), the Tax-Deferred 403(b) Plan (403(b) Plan) and the 457(b) Deferred Compensation Plan (457(b) Plan). As a result, the UCRS statements of plans' fiduciary net position and changes in plans' fiduciary net position are shown as a fiduciary fund in the University's financial statements.

The Regents also has fiduciary responsibility for the University of California Retiree Health Benefit Trust (UCRHBT). As a result, UCRHBT's statements of trust's fiduciary net position and changes in trust's fiduciary net position are shown as a fiduciary fund in the University's financial statements. UCRHBT allows certain University locations and affiliates, primarily campuses and medical centers that share the risks, rewards and costs of providing for retiree health benefits, the opportunity to fund such benefits on a cost-sharing basis and 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.

Significant Accounting Policies

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, using the economic resources measurement focus and the accrual basis of accounting. The University follows accounting principles issued by the GASB.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* was implemented by the University as of July 1, 2016. This Statement establishes financial reporting standards for retiree health benefit plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of the retiree health benefit plans in existing guidance by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement revises note disclosures and required supplementary information (RSI) related to the measurement of the retiree health benefits liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Implementation of Statement No. 74 resulted in additional disclosures for UCRHBT.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* was implemented by the University as of July 1, 2016. This Statement revises existing standards for measuring and reporting retiree health benefits provided by the University to its employees. This Statement requires recognition of a liability equal to the net retiree health benefit liability, which is measured as the total retiree health benefits liability, less the amount of the UCRHBT's fiduciary net position. The total retiree health benefits liability is determined based upon discounting projected benefit payments based on claims costs, the benefit terms and legal agreements existing at the UCRHBT's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available.

The Statement requires that most changes in the net retiree health benefits liability be included in retiree health benefits expense in the period of change. The effects of reporting Statement No. 75 in the University's financial statements for the year ended June 30, 2016, were as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA AS OF AND FOR THE YEAR ENDED JUNE 30, 2016		
	AS PREVIOUSLY REPORTED	EFFECT OF ADOPTION OF STATEMENT NO. 75	AS RESTATED
STATEMENT OF NET POSITION			
Department of Energy receivable	$1,268,771	$326,996	$1,595,767
Total assets	59,634,622	326,996	59,961,618
Deferred outflows of resources	5,573,864	4,596,226	10,170,090
Net retiree health benefit liability	10,456,840	11,338,608	21,795,448
Total liabilities	54,004,809	11,338,608	65,343,417
Deferred inflows of resources	1,732,279	1,736,054	3,468,333
Unrestricted net position	(11,039,040)	(8,151,440)	(19,190,480)
Total net position	9,471,398	(8,151,440)	1,319,958
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
Department of Energy laboratories - operating revenues	$1,259,768	$18,418	$1,278,186
Total operating revenues	26,265,824	18,418	26,284,242
Retiree health benefit expense	1,448,105	426,399	1,874,504
Other employee benefits	2,823,986	13,694	2,837,680
Department of Energy laboratories - operating expenses	1,252,842	18,418	1,271,260
Total operating expenses	32,490,680	458,511	32,949,191
Loss from operations	(6,224,856)	(440,093)	(6,664,949)
Loss before other changes in net position	(2,544,538)	(440,093)	(2,984,631)
Change in net position	(2,261,669)	(440,093)	(2,701,762)

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for the University's fiscal year beginning July 1, 2016. This Statement amends the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions — an Amendment of GASB Statement No. 27*, to exclude pensions provided to employees of state or local governmental employers through cost-sharing, multiple-employer defined benefit pension plans that are not state or local governmental pension plans. This Statement establishes requirements for recognition and measurement of pension expense, expenditures and liabilities; note disclosures; and required supplementary information. Implementation of Statement No. 78 had no impact on the financial statements.

The adoption of Statements No. 74, 75 and 78 did not result in any adjustments to the financial statements of the campus foundations or UCRS.

The significant accounting policies of the University are as follows:

Cash and cash equivalents. The University and campus foundations consider all balances in demand deposit accounts to be cash. The University classifies all other highly liquid cash equivalents with original maturities less than one year as short-term investments. Certain campus foundations classify their deposits in the University's Short Term Investment Pool as a cash equivalent.

Investments. Investments are measured and recorded at fair value. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Investment in non-exchange traded debt and equity investments are valued using inputs provided by independent pricing services or by broker/dealers who actively trade in these markets. Certain securities may be valued on a basis of a price provided by a single source.

Investments also include private equities, absolute return funds, real estate, real asset and certain corporate asset-backed securities. Private equities include venture capital partnerships, buyout and international funds. Fair values for interests in private equity, absolute return partnerships and real estate partnerships are based on valuations provided by the general partners of the respective partnerships. The valuations are primarily based on the most recent net asset value (NAV) of the underlying investments. The NAV is reported by the external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV is adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio through June 30, 2017 and 2016.

Interests in certain direct investments in real estate are estimated based upon independent appraisals. Because the private equity, real estate and absolute return partnerships, along with direct investments in real estate, are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investments existed. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed.

For other investments, the University considers various factors to estimate fair value, such as the timing of the transaction, the market in which the company operates, comparable transactions, company performance and projections as well as discounted cash flow analysis. The selection of an appropriate technique may be affected by the availability and general reliability of relevant inputs. In some cases, one valuation technique may provide the best indication of fair value while in other circumstances, multiple valuation techniques may be appropriate. Furthermore, the University may review the investment's underlying portfolio as well as engage external appraisers, depending on the nature of the investment.

The University exercises due diligence in assessing the external managers' use of and adherence to fair value principles. In conjunction with these procedures, estimated fair value is determined by consideration of a wide range of factors, including market conditions, redemption terms and restrictions and risks inherent to the inputs of the external investment managers' valuation. In situations where the information provided by the external manager is deemed to not be representative of the fair value as of the measurement date, management evaluates specific features of the investment and utilizes supplemental fair value information provided by the external manager along with any relevant market data to measure the investment's fair value.

Investments in registered investment companies are valued based upon the reported net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value. Estimates of the fair value of interests in externally held irrevocable trusts where the University is the beneficiary of either the income or the remainder that will not become a permanent endowment upon distribution to the University are based upon the present value of the expected future income or, if available, the University's proportional interest in the fair value of the trust assets.

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the University's statement of revenues, expenses and changes in net position.

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned. Gifts of securities are recorded based on fair value at the date of donation.

Campus foundations may invest all or a portion of their investments in University-managed investment pools. Certain securities in these investment pools are included in the University's security lending program. Accordingly, the campus foundations' investments in University-managed investment pools and their allocated share of the securities lending activities have been excluded from the University's financial statements and included in the Campus Foundations' column.

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

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

Derivative financial instruments. Derivative instruments are recorded at fair value. Futures contracts, foreign currency exchange contracts, stock rights and warrants, options and swaptions are valued at the settlement price on the last day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Financial institutions or independent advisors have estimated the fair value of the interest rate swaps and total return swaps using quoted market prices when available or discounted expected future net cash flows.

The University 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 net differential to be paid or received is recognized over the life of the agreements as an adjustment to interest expense. The University's counterparties are major financial institutions.

Derivatives are recorded at estimated fair value as either assets or liabilities in the statement of net position. Certain derivatives are determined to be hedging derivatives and designated as either a fair value or cash flow hedge. Under hedge accounting, changes in the fair value of hedging derivatives are considered to be deferred inflows (for hedging derivatives with positive fair values or deferred outflows (for hedging derivatives with negative fair values).

Changes in the fair value of derivatives that are not hedging derivatives are recorded as net appreciation or depreciation of investments in the statement of revenues, expenses and changes in net position.

Participants' interests in mutual funds. Participants in the University's defined contribution retirement plans may invest their account balances in funds managed by the University's Chief Investment Officer or in certain mutual funds.

Accounts receivable, net. Accounts receivable, net of allowance for uncollectible amounts, include reimbursements due from state and federal sponsors of externally funded research, patient billings, accrued income on investments and other receivables. Other receivables include local government and private grants and contracts, educational activities and amounts due from students, employees and faculty.

Pledges receivable, net. Unconditional pledges of private gifts to the University or campus foundations, net of allowance for uncollectible amounts, are recorded as pledges receivable and revenue in the year promised at the net present value of expected cash flows. Conditional pledges, including all pledges of endowments and intentions to pledge, are recognized as receivables and revenues when the specified conditions are met. Receivables and contribution revenue associated with externally held investment trusts are not reflected in the accompanying financial statements. The University recognizes contribution revenue and the related pledges receivable when all eligibility requirements have been met.

Notes and mortgages receivable, net. Loans to students, net of allowance for uncollectible amounts, are provided from federal student loan programs and from other University sources. Home mortgage loans, primarily to faculty, are provided from the University's Short Term Investment Pool and from other University sources. Mortgage loans provided by the Short Term Investment Pool are classified as investments and loans provided by other sources are classified as mortgages receivable in the statements of net position.

Inventories. Inventories for the campuses, consisting primarily of supplies and merchandise for resale, are valued at cost, typically determined under the weighted average method, which is not in excess of estimated net realizable value. Inventories for the medical centers consist primarily of pharmaceuticals and medical supplies which are stated on a first-in, first-out basis at the lower of cost or market.

DOE national laboratories. The University operates and manages LBNL under a contract directly with the DOE. Specific assets and liabilities and all revenues and expenses associated with LBNL are included in the financial statements. Other assets, such as cash, property and equipment and other liabilities of LBNL are owned by the United States government rather than the University and, therefore, are not included in the statement of net position. The statement of cash flows excludes the cash flows associated with LBNL other than reimbursements, primarily related to pension and health benefits, since all other cash transactions are recorded in bank accounts owned by the DOE.

The University is a member in two separate joint ventures, Los Alamos National Security, LLC (LANS), and Lawrence Livermore National Security, LLC (LLNS), that operate and manage two other DOE laboratories, Los Alamos National Laboratory (LANL) and Lawrence Livermore National Laboratory (LLNL), respectively, under contracts directly with the DOE.

The University's investment in LANS and LLNS is accounted for using the equity method. Accordingly, the University's statement of net position includes its equity interest in LANS and LLNS, adjusted for the equity in undistributed earnings or losses and the statement of revenues, expenses and changes in net position includes its equity in the current earnings or losses of LANS and LLNS.

The DOE is financially responsible for substantially all of the current and future costs incurred at any of the national laboratories, including pension and retiree health benefit costs. Accordingly, to the extent there is a liability on the University's statement of net position for pension or retiree health obligations related to these laboratories, the University records a receivable from the DOE.

Capital assets, net. Land, infrastructure, buildings and improvements, intangible assets, equipment, libraries, collections and special collections are recorded at cost at the date of acquisition, or estimated acquisition value at the date of donation in the case of gifts. Estimates of acquisition value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual value. Intangible assets include easements, land rights, trademarks, patents and other similar arrangements. Capital leases are recorded at the estimated present value of future minimum lease payments. Significant additions, replacements, major repairs and renovations to infrastructure and buildings are generally capitalized if the cost exceeds $35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations. Equipment with a cost in excess of $5,000 and a useful life of more than one year is capitalized. Incremental costs, including salaries and employee benefits, directly related to the acquisition, development and installation of major software projects are included in the cost of the capital assets. All costs of land, library collections and special collections are capitalized.

Depreciation is calculated using the straight-line method over the estimated economic life of the asset. Equipment under capital leases is amortized over the estimated useful life of the equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the life of the applicable lease or the economic life of the asset.

Estimated economic lives are generally as follows:

	YEARS
Infrastructure	25
Buildings and improvements	15–33
Equipment	2–20
Computer software	3–7
Intangible assets	2 – indefinite
Library books and collections	15

Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are also capitalized and depreciated.

Inexhaustible capital assets, such as land or special collections that are protected, preserved and held for public exhibition, education or research, including art, museum, scientific and rare book collections are not depreciated.

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned on tax-exempt borrowings during the temporary investment of project-related borrowings.

Service concession arrangements. The University has entered into service concession arrangements with third parties for student housing and certain other faculty and student services. Under these arrangements, the University enters into ground leases with third parties at minimal or no cost, and gives the third party the right to construct, operate and maintain a facility, primarily for the benefit of students and faculty at competitive rates. Rate increases for use of the facilities are subject to certain constraints and ownership of the facilities reverts to the University upon expiration of the ground lease. The facilities are reported as capital assets by the University when placed in service, and a corresponding deferred inflow of resources is reported. The University has not provided guarantees on financing obtained by the third parties under these arrangements.

Unearned revenue. Unearned revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue billed in advance of the event, such as student tuition and fees for housing and dining services.

Funds held for others. Funds held for others result from the University or the campus foundations acting as an agent, or fiduciary, on behalf of organizations that are not significant or financially accountable to the University or campus foundations.

Federal refundable loans. Certain loans to students are administered by the University with funding primarily supported by the federal government. The University's statement of net position includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

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.

Self-insurance programs. The University is self-insured or insured through a wholly owned captive insurance company for medical malpractice, workers' compensation, employee health care and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred, but not reported. The estimated liabilities are based upon an independent actuarial determination of the present value of the anticipated future payments. Settlements did not exceed self-insured or supplementally insured coverage for each program in any of the past three fiscal years.

Obligations under life income agreements. Obligations under life income agreements represent trusts with living income beneficiaries where the University has a residual interest. The investments associated with these agreements are recorded at fair value. The discounted present value of any income beneficiary interest is reported as a liability in the statement of net position. Gifts subject to such agreements are recorded as revenue, net of the income beneficiary share, at the date of the gift. Actuarial gains and losses are included in other nonoperating income (expense) in the statement of revenues, expenses and changes in net position. Resources that are expendable upon maturity are classified as restricted, expendable net position; all others are classified as restricted, nonexpendable net position.

Pollution remediation obligations. Upon an obligating event, the University estimates the components of any expected pollution remediation costs and recoveries from third parties. The costs, estimated using the expected cash flow technique, are accrued as a liability. Pollution remediation liabilities generally involve groundwater, soil and sediment contamination at certain sites where state and other regulatory agencies have indicated that the University is among the responsible parties. The liabilities are reviewed annually and may increase or decrease the cost of recovery from third parties, if any, as a result of additional information that refines the estimates, or from payments made from revenue sources that support the activity. There were no expected recoveries at June 30, 2017 and 2016 reducing the pollution remediation liability.

Deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources and deferred inflows of resources represent a consumption and acquisition of net position that apply to a future period, respectively. The University classifies gains on refunding of debt as deferred inflows of resources and losses as deferred outflows of resources and amortizes such amounts as a component of interest expense over the shorter of the remaining life of the old or new debt.

The University classifies an increase in the fair value of the hedging derivatives as deferred inflows of resources, and a decrease as deferred outflows of resources. Payments received or to be received by the University from service concession arrangements are reported as deferred inflows of resources.

Changes in net pension liability and net retiree health benefit liability not included in pension expense and retiree health benefits expense, respectively, are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension and retiree health liabilities are reported as deferred outflows of resources.

Net position. Net position is required to be classified for accounting and reporting purposes into the following categories:

Net investment in capital assets. This category includes all of the University's capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction or improvement of those assets.

Restricted. The University and campus foundations classify the net position resulting from transactions with purpose restrictions as restricted net position until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable. The net position subject to externally imposed restrictions, which must be retained in perpetuity by the University or campus foundations, is classified as nonexpendable net position. This includes the University and campus foundation permanent endowment funds.

Also included in nonexpendable net position are minority interests, which include the net position of legally separate organizations attributable to other participants.

Expendable. The net position whose use by the University or campus foundations is subject to externally imposed restrictions that can be fulfilled by actions of the University or campus foundations pursuant to those restrictions or that expire by the passage of time is classified as expendable net position.

Unrestricted. The net position that is not subject to externally imposed restrictions governing its use is classified as unrestricted net position. The University's unrestricted net position may be designated for specific purposes by management or The Regents. The campus foundations' unrestricted net position may be designated for specific purposes by their Boards of Trustees. Substantially, all of the University's unrestricted net position is allocated for academic and research initiatives or programs, for capital programs or for other purposes.

Restricted or unrestricted resources are spent based upon a variety of factors, including funding restrictions, consideration of prior and future revenue sources, the type of expense incurred, the University's budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost. Unrestricted net position is negative due primarily to liabilities for pension and retiree health benefits exceeding University assets available to pay such obligations.

Revenues and expenses. Operating revenues of the University include receipts from student tuition and fees, grants and contracts for specific operating activities and sales and services from medical centers, educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of the University are presented in the statement of revenues, expenses and changes in net position as operating activities. The University's equity in current earnings or losses of LANS and LLNS is also an operating transaction.

Certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the University are mandated by the GASB to be recorded as nonoperating revenues, including state educational appropriations, certain federal grants for student financial aid, private gifts and investment income, since the GASB does not consider them to be related to the principal operating activities of the University.

Campus foundations are established to financially support the University. Private gifts to campus foundations are recognized as operating revenues since, in contrast to the University, such contributions are fundamental to the core mission of the campus foundations. Foundation grants to the University are recognized as operating expenses by the foundations. Private gift or capital gift revenues associated with campus foundation grants to the University are recorded by the University as gifts when the foundations transfer the gifts to the University.

Nonoperating revenues and expenses include state educational appropriations, state financing appropriations, state hospital fee grants, Build America Bonds federal interest subsidies, Federal Pell Grants, private gifts for other than capital purposes, investment income, net appreciation (or depreciation) in the fair value of investments, interest expense and the loss on the disposal of capital assets.

State capital appropriations, capital gifts and grants and gifts for endowment purposes are classified as other changes in net position.

Student tuition and fees. Substantially all student tuition and fees provide for the current operations of the University. A small portion of the student fees, reported as capital gifts and grants, is required for debt service associated with student union and recreational centers.

The University recognizes scholarship allowances as the difference between the stated charge for tuition and fees, housing and dining charges, recreational center and other fees, and the amount that is paid by the student and third parties on behalf of the student. Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

Scholarship allowances are netted against student tuition and fees in the statement of revenues, expenses and changes in net position for the years ended June 30 as follows:

(in thousands of dollars)	**2017**	**2016**
Student tuition and fees	$1,129,720	$1,124,296
Auxiliary enterprises	185,038	215,049
Other operating revenues	29,654	26,408
Scholarship allowances	**$1,344,412**	**$1,365,753**

State appropriations. The state of California provides appropriations to the University on an annual basis. State educational appropriations are recognized as nonoperating revenue; however, the related expenses for educational, retirement or other specific operating purposes are reported as operating expenses. State appropriations for capital projects are recorded as revenue under other changes in net position when the related expenditures are incurred. Special state appropriations for AIDS, tobacco and breast cancer research are reported as grant operating revenue.

Grant and contract revenue. The University receives grant and contract revenue from governmental and private sources. The University recognizes revenue associated with the direct costs of sponsored programs as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs is at cost reimbursement rates negotiated with the University's federal cognizant agency, the U.S. Department of Health and Human Services. For the year ended June 30, 2017, the facilities and administrative cost recovery totaled $1.1 billion, which consisted of $764.0 million from federally sponsored programs and $312.3 million from other sponsors. For the year ended June 30, 2016, the facilities and administrative cost recovery totaled $1.0 billion, which consisted of $745.6 million from federally sponsored programs and $279.4 million from other sponsors.

Medical center revenue. Medical center revenue is reported at the estimated net realizable amounts from patients and third-party payors, including Medicare, Medi-Cal and others, for services rendered, as well as estimated retroactive adjustments under reimbursement agreements with third-party payors. Laws and regulations governing Medicare and Medi-Cal are complex and subject to interpretation. 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. It is reasonably possible that estimated amounts accrued could change significantly based upon settlement, or as additional information becomes available.

Net pension liability. The University records net pension liability equal to the net pension liability for its defined benefit plans. The net pension liability is measured as the total pension liability, less the amount of the pension plans' fiduciary net positions. The fiduciary net position and changes in net position of the defined benefit plans has been measured consistent with the accounting policies used by the plans. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available.

Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for pension benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

Both current employees and retirees at LBNL participate in UCRP. The University makes contributions to UCRP for LBNL employees based upon rates authorized by The Regents and is reimbursed by the DOE. The University also makes contributions to UCRP for LANL and LLNL retirees and terminated vested members, whose benefits were retained in UCRP at the time the joint ventures were formed. The University records a receivable for the net pension liability that is expected to be collected from the DOE. The University deposits funds in UCRP when the DOE makes payments for these contributions. The contributions from the DOE and deposits into UCRP on behalf of DOE are included as DOE laboratory revenue in the statement of revenues, expenses and changes in net position.

Retiree health benefits and liability. The University's net retiree health benefits liability is measured as the total retiree health benefits liability, less the amount of the University of California Retiree Health Benefit Trust (UCRHBT) fiduciary net position. The fiduciary net position and changes in net position of UCRHBT has been measured consistent with the accounting policies used by the trust. The total retiree health benefits liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the health benefit trust's fiscal year end. Projected benefit payments are discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available.

Expense for retiree health benefits is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for retiree health benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

LBNL participates in the University's retiree health plans. The net retiree health benefits liability for LBNL is determined independently from the University's campuses and medical centers. Retiree health benefits expense for LBNL is included with the DOE laboratory expense in the statement of revenues, expenses and changes in net position. The contributions from the DOE are included as DOE laboratory revenue in the statement of revenues, expenses and changes in net position.

The University records a receivable from the DOE for the DOE's portion of the University's net retiree health benefits liability attributable to LBNL. The University does not have any retiree health benefits liability for LANL or LLNL retiree health benefit costs since they do not participate in the University's retiree health plans.

Campus and medical center contributions toward retiree health costs made to UCRHBT, the University's LBNL-related payments made directly to health care insurers and administrators and the corresponding reimbursements from the DOE, are shown as operating activities in the statement of cash flows. Cash flows resulting from retiree health contributions from retirees are shown as noncapital financing activities in the statement of cash flows.

University of California Retiree Health Benefit Trust. UCRHBT receives the University's contributions toward retiree health benefits from campuses, medical centers and University affiliates. The University receives retiree health contributions from University affiliates and campus and medical center retirees that are deducted from their UCRP benefit payments. The University also remits these retiree contributions to UCRHBT.

The University acts as a third-party administrator on behalf of UCRHBT and pays health care insurers and administrators amounts currently due under the University's retiree health benefit plans for retirees. UCRHBT reimburses the University for these amounts.

LBNL does not participate in UCRHBT; therefore, the DOE has no interest in the Trust's assets.

Compensated absences. The University accrues annual leave, including employer-related costs, for employees at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked.

Endowment spending. Under provisions of California law, the Uniform Prudent Management of Institutional Funds Act allows for investment income, as well as a portion of realized and unrealized gains, to be expended for the operational requirements of University programs.

Tax exemption. The University is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). Because the University is a state institution, related income received by the University is also exempt from federal tax under IRC Section 115(a). In addition, the University is exempt from state income taxes imposed under the California Revenue and Taxation Code. UCRS plans are qualified under IRC Section 401(a) and the related trusts are tax-exempt under Section 501(c)(3). The campus foundations are exempt under IRC Section 501(c)(3). CHRCO and its component unit, the Children's Hospital and Research Center Foundation, are exempt under IRC Section 501(c)(3). Income received by UCRHBT is tax-exempt under IRC Section 115(a).

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Although management believes the 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 March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for the University's fiscal year beginning July 1, 2017. This statement addresses when Irrevocable Split-Interest Agreements constitute an asset for accounting and financial reporting purposes when the resources are administered by a third party. The Statement also provides expanded guidance for circumstances in which the government holds the assets. The University is evaluating the effect that Statement No. 81 will have on its financial statements.

In December 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for the University's fiscal year beginning July 1, 2018. This Statement establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to asset retirement obligations. The Statement requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred. The deferred outflow of resources associated with an asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. Disclosure requirements include a general description of the asset retirement obligation and associated tangible capital assets, the source of the obligation to retire the assets, the methods and assumptions used to measure the liability, and other relevant information. The University is evaluating the effect that Statement No. 83 will have on its financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, effective for the University's fiscal year beginning July 1, 2019. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. The University is evaluating the effect that Statement No. 84 will have on its financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*, effective for the University's fiscal year beginning July 1, 2017. The Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application and post-employment benefits. The University is evaluating the effect Statement No. 85 will have on its financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, effective for the University's fiscal year beginning July 1, 2017. This Statement establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with resources other than the proceeds of the refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. In addition, this Statement revises existing standards for prepaid insurance associated with extinguished debt. The University is evaluating the effect Statement No. 86 will have on its financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*, effective for the University's fiscal year beginning July 1, 2020. This Statement establishes a single approach to accounting for and reporting leases based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Limited exceptions to the single-approach guidance are provided for short-term leases, defined as lasting a maximum of twelve months at inception, including any options to extend, financed purchases, leases of assets that are investments and certain regulated leases. The University is evaluating the effect Statement No. 87 will have on its financial statements.

1. CASH AND CASH EQUIVALENTS

The University maintains centralized management for substantially all of its cash and cash equivalents. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis.

Under University policy, deposits are only held at financial institutions that maintain an issuer rating on long-term debt of A3 or higher by Moody's, A- or higher by Standard & Poor's or an Asset Peer Group rating of 65 or higher as defined by Sheshunoff Bank Rating Reports. Ratings for one of the University's banks are below these thresholds. This institution has deposited funds in excess of the bank balances as of June 30, 2017 as collateral for the University's deposits in the state of California agency pool. At June 30, 2017 and 2016, the carrying amount of the University's demand deposits, generally held in five nationally recognized banking institutions, was $203.4 million and $266.6 million, respectively, compared to bank balances of $159.7 million and $230.5 million, respectively. Deposits in transit and cash awaiting investment are the primary differences. The University's deposits are uninsured and uncollateralized.

The University does not have significant exposure to foreign currency risk in demand deposit accounts. Accounts held in foreign countries maintain minimum operating balances with the intent to reduce potential foreign exchange risk while providing an adequate level of liquidity to meet the obligations of the academic programs established abroad. The equivalent U.S. dollar balances required to support research groups and education abroad programs in foreign countries was $6.7 million at June 30, 2017 and $5.1 million at June 30, 2016.

The carrying amount of the campus foundations' cash and cash equivalents at June 30, 2017 and 2016 was $254.1 million and $194.9 million, respectively, compared to bank balances of $94.3 million and $162.9 million, respectively. Deposits in transit and cash awaiting investment are the primary differences. Included in bank balances are deposits in the University's Short Term

Investment Pool of $157.6 million at June 30, 2017 and $29.9 million at June 30, 2016, with the remaining uncollateralized bank balances insured by the Federal Deposit Insurance Corporation (FDIC). Uncollateralized bank balances include $6.5 million and $6.7 million in excess of the FDIC limits at June 30, 2017 and 2016, respectively. The campus foundations do not have exposure to foreign currency risk in their cash and cash equivalents.

2. INVESTMENTS

The Regents, as the governing Board, is responsible for the oversight of the University's, UCRS' and UCRHBT's investments and establishes an investment policy, which is carried out by the Chief Investment Officer. These investments are associated with the Short Term Investment Pool (STIP), Total Return Investment Pool (TRIP), General Endowment Pool (GEP), UCRS, UCRHBT and other investment pools managed by the Chief Investment Officer, or are separately invested. Pursuant to The Regents' policies on campus foundations, the Board of Trustees for each campus foundation may determine that all or a portion of their investments will be managed by the Chief Investment Officer. Asset allocation guidelines are provided to the campus foundations by the Investments Subcommittee of The Regents.

STIP allows participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities and is managed to maximize current earned income. Cash to provide for payroll, construction expenditures and other operating expenses for campuses and medical centers is invested in STIP. The available cash in UCRS or endowment investment pools awaiting investment, or cash for administrative expenses, is also invested in STIP.

Investments authorized by The Regents for STIP include fixed-income securities with a maximum maturity of five and one-half years. In addition, for STIP, The Regents has also authorized loans, primarily to faculty members residing in California, under the University's Mortgage Origination Program with terms of up to 40 years.

TRIP allows participants the opportunity to maximize the return on their long-term working capital by taking advantage of the economies of scale of investing in a large pool across a broad range of asset classes. TRIP is managed to a total return objective and is intended to supplement STIP. Investments authorized by The Regents for TRIP include a diversified portfolio of equity, fixed income and alternative investments.

GEP is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. GEP is a balanced portfolio and the primary investment vehicle for endowed gift funds. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

Other investment pools primarily facilitate annuity and life income arrangements. Separate investments are those that cannot be pooled due to investment restrictions or income requirements.

Investments authorized by The Regents for GEP, UCRS, other investment pools and separate investments include equity securities, fixed-income securities and certain other asset classes. The equity portion of the investment portfolios include both domestic and foreign common and preferred stocks which may be included in actively or passively managed strategies, along with exposure to private equities. The University's investment portfolios may include foreign currency-denominated equity securities. The fixed-income portion of the investment portfolios may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. Fixed-income investment guidelines permit the use of futures and options on fixed-income instruments in the ongoing management of the portfolios. Real estate investments are authorized for all pools except for STIP. Absolute return strategies, which may incorporate short sales, plus derivative positions to implement or hedge an investment position, are also authorized for all pools except for STIP.

Derivative instruments, including futures, forward contracts, options and swap contracts are authorized for portfolio rebalancing in accordance with The Regents' asset allocation policy and as substitutes for physical securities. Derivatives are not used for speculative purposes.

The Regents has also authorized certain employee account balances in defined contribution plans included as part of UCRS' investments to be invested in mutual funds. The participants' interests in mutual funds are not managed by the Chief Investment Officer and totaled $3.4 billion and $2.8 billion at June 30, 2017 and 2016, respectively.

Investments authorized by The Regents for the UCRHBT are restricted to a portfolio of high-quality money market instruments in a commingled fund that is managed externally. The average credit quality of the portfolio is A-1/P-1 with an average maturity of 26 days and 28 days at June 30, 2017 and 2016, respectively. The fair values of UCRHBT's investment in this portfolio were $97.8 million and $53.6 million at June 30, 2017 and 2016, respectively. These are measured at net asset value as of June 30, 2017 and 2016, respectively.

The composition of investments, by investment type at June 30 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Equity securities:						
Domestic	$2,641,778	$1,979,452	$224,555	$294,314	$19,308,688	$15,490,564
Foreign	2,322,774	1,306,340	26,056	24,487	10,124,433	7,855,227
Equity securities	**4,964,552**	**3,285,792**	**250,611**	**318,801**	**29,433,121**	**23,345,791**
Fixed- or variable-income securities:						
U.S. government-guaranteed:						
U.S. Treasury bills, notes and bonds	1,342,026	443,380	380,834	299,286	1,819,707	1,886,713
U.S. Treasury strips	370,436	292,098	215	235	900,066	568,605
U.S. TIPS	379,808	315,226			2,422,599	2,655,968
U.S. government-backed securities			24	42		
U.S. government-backed - asset-backed securities	13,695	20,749	991	1,240	10,146	8,253
U.S. government-guaranteed	**2,105,965**	**1,071,453**	**382,064**	**300,803**	**5,152,518**	**5,119,539**
Other U.S. dollar-denominated:						
Corporate bonds	7,945,898	4,659,480	28,301	27,170	4,750,525	4,155,499
Commercial paper	63,553	2,812,619			918,088	143,139
U.S. agencies	1,408,734	1,946,581		300	4,155,225	4,256,013
U.S. agencies - asset-backed securities	671,434	532,609	48,264	55,592	3,323,667	2,814,309
Corporate - asset-backed securities	504,652	386,261	49,518	52,182	1,607,426	1,636,572
Supranational/foreign	1,026,235	1,301,968	5,492	7,755	2,544,718	1,961,695
Other	120,314	66,731	1,478	814	26,996	28,382
Other U.S. dollar-denominated	**11,740,820**	**11,706,249**	**133,053**	**143,813**	**17,326,645**	**14,995,609**
Foreign currency-denominated:						
Corporate						3,890
Foreign currency-denominated						**3,890**
Commingled funds:						
Absolute return funds	3,962,553	3,168,124	2,177,012	1,878,461	4,987,355	4,626,070
Non-U.S. equity funds	2,077,584	2,883,950	991,267	838,113	9,264,782	7,502,378
Private equity	1,388,163	1,180,827	708,680	621,712	2,939,524	2,822,693
Money market funds	814,888	505,489	935,429	754,942	5,020,007	4,589,358
U.S. equity funds	145,967	507,587	664,627	574,231	2,341,302	3,281,925
Real estate investment trusts	460,025	9,439	150,846	95,519	1,633,123	515,960
Real assets	206,076	182,861			866,245	960,923
U.S. bond funds	218,839	32,747	131,541	109,386	1,055,611	1,677,872
Non-U.S. bond funds	132,608	44,720	16,433	29,452	15	
Balanced funds	212,079	182,516	1,222,549	1,051,146		
Commingled funds	**9,618,782**	**8,698,260**	**6,998,384**	**5,952,962**	**28,107,964**	**25,977,179**
Investment derivatives	(241)	8,227	1,995	2,776	(3,002)	25,921
Publicly traded real estate investment trusts	152,636	100,606			722,541	750,056
Mortgage loans	358,890	319,038				
Real estate	354,597	937,421	119,516	116,536	1,834,232	2,978,950
Other investments	12,390	13,786	321,367	279,587		
Campus foundations' investments with the University	(2,151,497)	(1,604,216)				
UCRS investment in the STIP	(2,678,532)	(2,327,849)				
Total investments	**24,478,362**	**22,208,767**	**8,206,990**	**7,115,278**	**$82,574,019**	**$73,196,935**
Less: Current portion	(6,249,657)	(4,944,611)	(674,868)	(479,410)		
Noncurrent portion	**$18,228,705**	**$17,264,156**	**$7,532,122**	**$6,635,868**		

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk and foreign currency risk, may affect both equity and fixed-income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed-income securities are particularly sensitive to credit risks and changes in interest rates. Alternative investment strategies and their underlying assets and rights are subject to an array of economic and market vagaries that can limit or erode value.

Credit Risk

Fixed-income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or the possibility that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond and, ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond rating agencies, for example Moody's Investors Service (Moody's) or Standard and Poor's (S&P). The lower the rating, the greater the chance, in the rating agency's opinion, that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

Certain fixed-income securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are considered to have minimal credit risk.

Asset-backed securities are debt obligations that represent claims to the cash flows from pools of commercial, mortgage, credit card or student loans. Mortgage-backed securities issued by Ginnie Mae are backed by the full faith and credit of the U.S. government.

The investment guidelines for STIP recognize that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk adjusted return over its benchmark (the benchmark for STIP is the two-year Treasury). No more than 5 percent of the total market value of the STIP portfolio may be invested in securities rated below investment grade (BB, Ba or lower). The average credit quality of STIP must be A or better and commercial paper must be rated at least A-1, P-1 or F-1.

The University recognizes that credit risk is appropriate in balanced investment pools such as TRIP, UCRS and GEP by virtue of the benchmarks chosen for the fixed-income portion of those pools.

The core fixed-income benchmark for UCRS, GEP and TRIP is the Barclays Capital US Aggregate Bond Index, comprised of 25.3 percent corporate bonds and 30.5 percent mortgage/asset-backed bonds, all of which carry some degree of credit risk. The remaining 44.2 percent is government issued bonds.

Credit risk in TRIP, UCRS and GEP is managed primarily by diversifying across issuers. In addition, portfolio guidelines for UCRS and GEP mandate that no more than 15 percent of the market value of fixed-income securities may be invested in issues with credit ratings below investment grade. Further, the weighted average credit rating must be A or higher.

In addition, the investment policy for both UCRP and GEP allows for dedicated allocations to non-investment grade and emerging market bonds, an investment which entails credit, default and/or sovereign risk.

The credit risk profile for fixed- or variable-income securities at June 30 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016	2017	2016
Fixed- or variable-income securities:						
U.S. government-guaranteed	$2,105,965	$1,071,453	$382,064	$300,803	$5,152,518	$5,119,539
Other U.S. dollar-denominated:						
AAA	394,656	293,301	12,538	14,341	1,465,322	1,176,010
AA	1,284,954	930,816	37,676	39,837	3,390,694	3,419,468
A	1,294,567	1,894,608	3,781	5,289	1,243,993	1,040,084
BBB	2,068,030	2,737,919	23,963	20,048	2,946,777	2,606,436
BB	450,708	562,163	2,095	3,259	1,242,851	1,192,376
B	296,788	254,948	3,088	4,945	1,057,297	872,055
CCC or below	42,151	55,117	19,898	24,023	192,950	358,512
A-1 / P-1/ F-1		12,536				1,949
Not rated	5,908,966	4,964,841	30,014	32,071	5,786,761	4,328,719
Foreign currency-denominated:						
Not rated						3,890
Commingled funds:						
U.S. bond funds: Not rated	218,839	32,747	131,541	109,386	1,055,611	1,677,872
Non-U.S. bond funds: Not rated	132,608	44,720	16,433	29,452	15	
Money market funds: Not rated	814,888	505,489	935,429	754,942	5,020,007	4,589,358
Mortgage loans: Not rated	358,890	319,038				

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned.

Substantially, all of the University's, campus foundations' and UCRS' securities are registered in the University's name by the custodial bank as an agent for the University. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk for such investments is remote.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments.

The U.S. and non-U.S. equity portions of the University and UCRS portfolios may be managed either passively or actively. For the portions managed passively, the concentration of individual securities is similar to their concentration in the benchmark. While some securities have a larger representation in the benchmark than others, the University considers that passive management results in an absence of concentration of credit risk. For the portions managed actively, asset class guidelines do not specifically address concentration risk, but do state that the U.S. equity asset class, in the aggregate, will be appropriately diversified to control overall risk and will exhibit portfolio characteristics similar to the asset class benchmark (including concentration of credit risk). Concentration risk for individual portfolios is monitored relative to their individual benchmarks and agreed-upon risk parameters in their guidelines.

Investment guidelines addressing concentration of credit risk related to the investment grade fixed-income portion of the University and UCRS portfolios include a limit of no more than 3 percent of each portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). These same guidelines apply to STIP. For high-yield and emerging market debt, the corresponding limit is 5 percent.

Each campus foundation may have its own individual investment policy designed to limit exposure to a concentration of credit risk. Securities issued or explicitly guaranteed by the U.S. government, mutual funds, external investment pools, other investment pools or investments that are invested by the University for the campus foundations are not subject to concentration of credit risk. Most of the campus foundations that hold other types of investments have policies to limit the exposure to an individual issuer.

Investments in issuers other than U.S. government-guaranteed securities that represent 5 percent or more of investments held by the respective foundation at June 30 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2017	**2016**
Bayside Partners, LP	$88,257	$91,295

Interest Rate Risk

Interest rate risk is the risk that the value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100-basis-point (1-percentage-point) change in the level of interest rates. It is not a measure of time.

Interest rate risk for STIP is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio as it is managed relative to the liquidity demands of the investors. The nature and maturity of individual securities in STIP allow for the use of weighted average maturity as an effective risk management tool, rather than the more complex measure, effective duration.

Portfolio guidelines for the fixed-income portion of TRIP, UCRS and GEP limit weighted average effective duration to the effective duration of the benchmarks (Barclays Capital US Aggregate Index), plus or minus 20 percent. These portfolio guidelines constrain the potential price movement due to interest rate changes of the portfolio being similar to that of the benchmark. There are similar restrictions for the high-yield and emerging market debt portfolios relative to their benchmarks.

The effective durations for fixed- or variable-income securities at June 30 are as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Fixed- or variable-income securities:						
U.S. government-guaranteed:						
U.S. Treasury bills, notes and bonds	3.1	1.2	2.8	3.0	2.9	1.7
U.S. Treasury strips	11.7	7.5	18.1	19.3	10.6	7.8
U.S. TIPS	2.9	4.7			3.8	4.7
U.S. government-backed securities			1.8	0.7		
U.S. government-backed - asset-backed securities	2.3	1.5	10.1	4.2	3.1	1.9
Other U.S. dollar-denominated:						
Corporate bonds	2.8	2.9	2.4	2.8	6.1	6.1
U.S. agencies	2.6	2.1		7.3	2.1	1.7
U.S. agencies - asset-backed securities	3.9	2.9	4.2	3.8	3.7	2.5
Corporate - asset-backed securities	4.2	4.5	2.1	0.4	2.5	2.5
Supranational/foreign	3.2	2.9	3.8	2.7	5.8	5.8
Other	16.9	17.4	1.8	2.8	15.7	16.2
Foreign currency-denominated:						
Corporate		7.8				4.3
Commingled funds:						
U.S. bond funds*	2.5	4.1	4.8	4.8	1.9	3.7
Non-U.S. bond funds	3.2	7.2	6.9	6.0	7.0	
Money market funds**			1.5	1.3		

**The University considers the modified durations for commingled funds.*
***Foundation and UCRS investment in STIP.*

The University considers the effective durations for commercial paper, mortgage loans, insurance contracts and money market funds to be zero. The terms of the mortgage loans include variable interest rates. Insurance contracts can be liquidated without loss of principal and money market funds consist of underlying securities that are of a short-term, liquid nature.

Investments also include various mortgage-backed securities, collateralized mortgage obligations, structured notes, variable-rate securities and callable bonds that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the effective durations of these securities may be low.

At June 30, the fair values of such investments are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016	2017	2016
Mortgage-backed securities	$581,019	$635,961	$62,552	$50,366	$3,094,839	$3,076,953
Collateralized mortgage obligations	142,379	173,385	17,079	32,583	308,119	507,526
Other asset-backed securities	147,305	92,843	14,889	21,758	928,928	718,940
Variable-rate securities	401,499	59,738			1,674,974	69,273
Callable bonds	2,773,741	1,892,892			8,281,157	5,882,116
Convertible bonds	317				2,529	
Total	**$4,046,260**	**$2,854,819**	**$94,520**	**$104,707**	**$14,290,546**	**$10,254,808**

Mortgage-Backed Securities. These securities are issued primarily by Fannie Mae, Ginnie Mae and Freddie Mac, and various commercial entities and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

Collateralized Mortgage Obligations. Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In rising interest rate environments, the opposite is true.

Other Asset-Backed Securities. Other asset-backed securities also generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMOs, the relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates.

Variable-Rate Securities. These securities are investments with terms that provide for the adjustment of their interest rates on set dates and are expected to have fair values that will be relatively unaffected by interest rate changes. Variable-rate securities may have limits on how high or low the interest rate may change. These constraints may affect the market value of the security.

Callable Bonds. Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The University must then replace the called bond with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.

At June 30, the effective durations for these securities are as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016	2017	2016
Mortgage-backed securities	4.0	4.0	4.5	3.8	3.8	2.8
Collateralized mortgage obligations	2.7	2.4	12.5	1.1	2.7	2.2
Other asset-backed securities	1.5	2.2	5.1	(0.4)	1.0	1.4
Variable-rate securities	1.9	1.8			1.1	3.0
Callable bonds	3.4	3.7			4.0	3.8
Convertible bonds	2.6				2.5	

Foreign Currency Risk

The University's strategic asset allocation policy for TRIP, UCRS and GEP includes allocations to non-U.S. equities and non-dollar-denominated bonds. The benchmarks for these investments are not hedged; therefore foreign currency risk is an essential part of the investment strategies. Portfolio guidelines for U.S. investment-grade fixed-income securities also allow exposure to non-U.S. dollar-denominated bonds up to 10 percent of the total portfolio market value. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency exchange contracts. Under the University's investment policies, such instruments are not permitted for speculative use or to create leverage. Similar limits on foreign exchange exposure apply to the high-yield debt and emerging market debt portfolios (10 percent and 20 percent, respectively).

At June 30, the foreign currency risk expressed in U.S. dollars, organized by currency denomination and investment type, are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Equity securities:						
Euro	$759,929	$361,718	$769		$2,986,605	$2,175,068
British Pound	262,100	244,974	1,474	$1,388	1,499,151	1,473,068
Japanese Yen	369,665	215,890			1,550,471	1,298,182
Canadian Dollar	144,272	77,602	6,248	7,556	633,561	466,630
Swiss Franc	124,593	96,146	531		663,977	578,144
Australian Dollar	103,068	57,003	569	46	430,715	342,768
Hong Kong Dollar	128,176	27,517			307,976	165,462
Swedish Krona	69,605	33,033			263,079	198,633
Singapore Dollar	19,405	10,836			81,366	65,158
Danish Krone	23,677	14,184			142,740	85,287
Norwegian Krone	11,842	8,340			57,344	50,152
South Korean Won	84,359	48,976	16,356	14,140	473,711	294,499
Brazilian Real	25,154				29,725	
Indian Rupee		25,057			256,239	150,671
New Taiwan Dollar	69,843	20,720			204,806	124,590
South African Rand	31,699				147,473	
Thailand Baht	10,014				115,393	
Other	85,373	64,344	109	1,357	280,101	386,915
Subtotal	**2,322,774**	**1,306,340**	**26,056**	**24,487**	**10,124,433**	**7,855,227**
Fixed-income securities:						
Euro						1,779
Other						2,111
Subtotal						**3,890**
Commingled funds (various currency denominations):						
Absolute return funds			706,875			
Non-U.S. equity funds	2,077,584	2,883,950	919,576	547,487	9,264,782	7,502,378
Private equity	1,029		64,435	53,542	114,400	115,477
Real estate investment trusts			80,769	17,103		
Real assets	14,304	9,145	49,514		81,055	51,820
Non U.S. bond funds	132,608	44,720	16,434	3,229	15	
Balanced funds			129,917	238,192		
Subtotal	**2,225,525**	**2,937,815**	**1,967,520**	**859,553**	**9,460,252**	**7,669,675**
Investment derivatives:						
Australian Dollar	5	1,439			(10)	64
Canadian Dollar	(3)	33			(40)	266
British Pound	(10)	2,263			(244)	17,058
Japanese Yen	(52)	(893)			(584)	64
Hong Kong Dollar		(2,142)			(7)	203
Other	85	259			(103)	1,219
Subtotal	**25**	**959**			**(988)**	**18,874**
Publicly traded real estate investment trusts:						
Australian Dollar	10,092	6,562			44,367	44,160
Euro	9,243	5,851			42,055	39,377
British Pound	7,163	4,106			30,546	27,632
Japanese Yen	9,295	4,388			29,856	29,527
South African Rand	2,578	1,097			10,100	7,381
Singapore Dollar	4,139	810			12,441	5,454
Canadian Dollar	1,724	881			6,342	5,927
Mexican Peso	952	446			3,047	3,004
Other	2,386	559			5,913	3,764
Subtotal	**47,572**	**24,700**			**184,667**	**281,703**
Total exposure to foreign currency risk	**$4,595,896**	**$4,269,814**	**$1,993,576**	**$884,040**	**$19,768,364**	**$15,713,892**

Liquidity Risks

Alternative investments are subject to liquidity risk. Alternative investments include hedge funds, limited partnerships, private equity, venture capital funds, real estate and real assets funds. Additionally, certain asset-backed securities are thinly traded and subject to liquidity risk.

Alternative investments include ownership interests in a wide variety of vehicles including partnerships and corporations that may be domiciled in the United States or offshore. Generally, there is little or no regulation of these investment vehicles by the Securities and Exchange Commission or the applicable state agencies. Managers of these investments employ a wide variety of strategies and have areas of concentration including absolute return, venture capital or early stage investing, private equity or later stage investing and the underlying investments may be leveraged to enhance the total investment return. Each asset class has guidelines and policies regarding the use of leverage. Such underlying investments may include financial assets such as marketable securities, non-marketable securities, derivatives and other synthetic and structured investments as well as tangible and intangible assets.

Alternative investments do not have a ready market and ownership interests in these investment vehicles may not be traded without the approval of the general partner or fund management. These investments are subject to the risks generally associated with equities and fixed-income instruments with additional risks due to leverage and the lack of a ready market for acquisition or disposition of ownership interests.

The University's portfolio includes the following investments subject to liquidity risk as of June 30:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Absolute return funds	$3,962,553	$3,168,124	$2,177,012	$1,878,461	$4,987,355	$4,626,070
Private equity funds	1,388,163	1,180,827	708,680	621,712	2,939,524	2,822,693
Real estate funds	354,597	937,421	119,516	116,536	1,834,232	2,978,950
Real estate investment trusts	460,025	9,439	150,846	95,519	1,633,123	515,960
Real assets funds	206,076	182,861			866,245	960,923
Total	**$6,371,414**	**$5,478,672**	**$3,156,054**	**$2,712,228**	**$12,260,479**	**$11,904,596**

The University's Investment Pools

The composition of the University's investments at June 30, 2017, by investment pool, are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				
	STIP	TRIP	GEP	OTHER	TOTAL
Equity securities:					
Domestic		$1,650,101	$877,439	$114,238	$2,641,778
Foreign		1,399,551	880,977	42,246	2,322,774
Fixed- or variable-income securities:					
U.S. government-guaranteed	$969,940	637,044	491,287	7,694	2,105,965
Other U.S. dollar-denominated	7,667,967	3,390,550	660,701	21,602	11,740,820
Commingled funds	68,175	1,711,540	6,605,800	1,233,267	9,618,782
Investment derivatives		(162)	(73)	(6)	(241)
Publicly traded real estate investment trusts		103,542	44,677	4,417	152,636
Mortgage loans	358,890				358,890
Real estate		137,615	177,927	39,055	354,597
Other investments				12,390	12,390
Subtotal	**9,064,972**	**9,029,781**	**9,738,735**	**1,474,903**	**29,308,391**
Campus foundations' investments with the University	(1,048,911)	(26,701)	(918,008)	(157,877)	(2,151,497)
UCRS investment in the STIP	(2,678,532)				(2,678,532)
Total investments	**$5,337,529**	**$9,003,080**	**$8,820,727**	**$1,317,026**	**$24,478,362**

The composition of the University's investments at June 30, 2016, by investment pool, are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				
	STIP	TRIP	GEP	OTHER	TOTAL
Equity securities:					
Domestic		$1,146,426	$727,457	$105,569	$1,979,452
Foreign		545,738	725,650	34,952	1,306,340
Fixed- or variable-income securities:					
U.S. government-guaranteed	$186,557	478,848	397,424	8,624	1,071,453
Other U.S. dollar-denominated	7,701,979	3,472,313	508,083	23,874	11,706,249
Commingled funds	94,408	2,590,458	5,775,631	237,763	8,698,260
Investment derivatives		28	8,176	23	8,227
Publicly traded real estate investment trusts		50,082	45,861	4,663	100,606
Mortgage loans	319,038				319,038
Real estate		373,354	528,850	35,217	937,421
Other investments				13,786	13,786
Subtotal	**8,301,982**	**8,657,247**	**8,717,132**	**464,471**	**26,140,832**
Campus foundations' investments with the University	(693,159)	(19,398)	(785,515)	(106,144)	(1,604,216)
UCRS investment in the STIP	(2,327,849)				(2,327,849)
Total investments	**$5,280,974**	**$8,637,849**	**$7,931,617**	**$358,327**	**$22,208,767**

The total investment returns based upon unit values, representing the combined income plus net appreciation or depreciation in the fair value of investments, for the years ended June 30, 2017 and 2016, were 7.7 and 0.3 percent, respectively for TRIP, 15.1 and (3.5) percent, respectively for GEP and 14.5 and (2.0) percent, respectively for UCRS. The investment return for STIP distributed to participants, representing combined income and realized gains or losses, during the same periods, was 1.3 percent. Other investments consist of numerous, small portfolios of investment or individual securities, each with its own individual rate of return.

Related Party Relationships with the University

UCRS and campus foundations may invest available cash in STIP. Shares are purchased or redeemed in STIP at a constant value of $1 per share. Actual income earned, including any realized gains or losses on the sale of STIP investments, is allocated to UCRS and campus foundations based upon the number of shares held. Unrealized gains and losses associated with the fluctuation in the fair value of investments included in STIP are recorded by the University as the manager of the pool. The net asset value for STIP is held at a constant value of $1 and is not adjusted for unrealized gains and losses associated with the fluctuation in the fair value of investments included in STIP.

The campus foundations may also purchase or redeem shares in GEP, TRIP or other investment pools at the unitized value of the portfolio at the time of purchase or redemption. Actual income earned is allocated to the campus foundations based upon the number of shares held.

Campus Foundations

The campus foundations' cash and cash equivalents and investments that are invested with the University and managed by the Chief Investment Officer are excluded from the University's statement of net position and included in the campus foundations' statement of net position. Under the accounting policies elected by each campus foundation, certain component units classify all or a portion of their investment in STIP and TRIP as cash and cash equivalents, rather than investments. Substantially, all of the campus foundations' investments managed by the Chief Investment Officer are categorized as commingled funds or commingled money market funds by the campus foundations in the composition of investments.

The fair value of the campus foundations' cash and cash equivalents and investments that are invested with the University, by investment pool, at June 30 are as follows:

(in thousands of dollars)	**2017**	**2016**
STIP	$1,048,910	$693,159
TRIP	26,701	19,398
GEP	918,008	785,515
Other investment pools	157,878	106,144
Campus foundations' investments with the University	**2,151,497**	**1,604,216**
Classified as cash and cash equivalents by campus foundations	(154,662)	(28,183)
Classified as investments by campus foundations	**$1,996,835**	**$1,576,033**

Investment income in the University's statement of revenues, expenses and changes in net position is net of income earned by, and distributed to, the campus foundations totaling $21.9 million and $18.3 million for the years ended June 30, 2017 and 2016, respectively.

UCRS

UCRS had $2.7 billion and $2.3 billion invested in STIP at June 30, 2017 and 2016, respectively. These investments are excluded from the University's statement of net position and are included in UCRS' statement of plans' fiduciary net position. They are categorized as commingled money market funds in the composition of investments for UCRS. STIP investment income in the University's statement of revenues, expenses and changes in net position is net of income earned by, and distributed to, UCRS totaling $31.2 million and $30.1 million for the years ended June 30, 2017 and 2016, respectively.

Agency Relationships with the University

STIP and GEP are external investment pools and include investments on behalf of external organizations that are associated with the University, although not financially accountable to the University. These organizations are not required to invest in these pools. Participants purchase or redeem shares in STIP at a constant value of $1 per share and purchase or redeem shares in GEP at the unitized value of the portfolio at the time of purchase or redemption. Actual income earned is allocated to participants based upon the number of shares held.

The fair value of these investments in each investment pool and the related liability associated with these organizations that are included in the University's statement of net position at June 30 are as follows:

(in thousands of dollars)	**2017**	**2016**
Short-term investments:		
STIP	$103,291	$86,176
GEP	259,330	224,821
Other investment pools		16,432
Total agency assets	**$362,621**	**$327,429**
Funds held for others	**$362,621**	**$327,429**

The composition of the net position at June 30 for STIP and GEP are as follows:

(in thousands of dollars)	**STIP**		**GEP**	
	2017	**2016**	**2017**	**2016**
Investments	$9,064,972	$8,301,982	$9,738,735	$8,717,132
Investment of cash collateral	44,176	38,760	342,833	356,794
Securities lending collateral	(44,155)	(38,748)	(342,677)	(356,764)
Other assets, net	2,437,063	2,428,681	850,451	211,974
Net position	**$11,502,056**	**$10,730,675**	**$10,589,342**	**$8,929,136**

Other assets include amounts receivable for pension benefits from the campuses and medical centers of $2.7 billion and $2.3 billion at June 30, 2017 and 2016, respectively.

The changes in net position for STIP and GEP for the year ending June 30 are as follows:

(in thousands of dollars)	STIP		GEP	
	2017	**2016**	**2017**	**2016**
Net position, beginning of year	$10,730,675	$12,258,256	$8,929,136	$8,921,362
Investment income	159,038	141,298	92,781	77,911
Net appreciation (depreciation) in fair value of investments	(28,695)	3,724	1,309,458	(382,996)
Transfer to TRIP	(60,000)	(1,768,504)		
Participant contributions (withdrawals), net	701,038	95,901	257,967	312,859
Net position, end of year	**$11,502,056**	**$10,730,675**	**$10,589,342**	**$8,929,136**

3. SECURITIES LENDING

The University and UCRS jointly participate in a securities lending program as a means to augment income. The campus foundations' investments that are invested with the University and managed by the Chief Investment Officer are included in the University's investment pools that participate in the securities lending program.

The campus foundations' allocated share of the program's cash collateral received, investment of cash collateral and collateral held for securities lending is determined based upon their equity in the investment pools. The Board of Trustees for each campus foundation may also authorize participation in a direct securities lending program.

Securities are lent to selected brokerage firms for which collateral received equals or exceeds the fair value of such investments lent during the period of the loan. Securities loans immediately terminate upon notice by either the University or the borrower. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Securities collateral cannot be pledged or sold by the University unless the borrower defaults.

Loans of domestic equities and all fixed-income securities are initially collateralized at 102 percent of the fair value of securities lent. Loans of foreign equities are initially collateralized at 105 percent. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of securities lent.

Cash collateral received from the borrower is invested by lending agents, as agents for the University, in investment pools in the name of the University, with guidelines approved by the University. These investments are shown as investment of cash collateral in the statement of net position. At June 30, 2017 and 2016, the securities in these pools had a weighted average maturity of 20 days and 34 days, respectively. The University records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net position. Securities collateral received from the borrower is held in investment pools by the University's custodial bank.

At June 30, 2017 and 2016, the University had insignificant exposure to borrowers because the amounts the University owed the borrowers were substantially the same as the amounts the borrowers owed the University. The University is indemnified by its lending agents against any losses incurred as a result of borrower default.

The composition of the securities lending programs at June 30 are as follows:

(in thousands of dollars)	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016	2017	2016
SECURITIES LENT						
For cash collateral:						
Equity securities:						
Domestic	$522,489	$428,032			$2,789,711	$3,910,177
Foreign	40,881	35,420			129,824	124,796
Fixed-income securities:						
U.S. government-guaranteed	73,204	120,898			803,431	990,162
Other U.S. dollar-denominated	449,910	270,848			2,856,772	1,639,228
Foreign currency-denominated	11,173				109,797	
Foundations' share	(42,581)	(41,973)	$42,581	$41,973		
Lent for cash collateral	**1,055,076**	**813,225**	**42,581**	**41,973**	**6,689,535**	**6,664,363**
For securities collateral:						
Equity securities:						
Domestic	444,681	215,992			3,025,219	1,823,980
Foreign	271,071	148,851			826,781	667,413
Fixed-income securities:						
U.S. government-guaranteed	164,400	111,328			2,132,793	2,526,750
Other U.S. dollar-denominated	77,881	134,092			505,610	510,090
Foreign currency-denominated	1,959				15,081	
Lent for securities collateral	**959,992**	**610,263**			**6,505,484**	**5,528,233**
Total securities lent	**$2,015,068**	**$1,423,488**	**$42,581**	**$41,973**	**$13,195,019**	**$12,192,596**
COLLATERAL RECEIVED						
Cash	$1,121,899	$866,650			$6,838,416	$6,749,519
Foundations' share	(42,581)	(41,973)	$42,581	$41,973		
Total cash collateral received	**1,079,318**	**824,677**	**$42,581**	**41,973**	**6,838,416**	**6,749,519**
Securities	1,032,497	655,859			6,992,564	5,941,271
Total collateral received	**$2,111,815**	**$1,480,536**	**$42,581**	**$41,973**	**$13,830,980**	**$12,690,790**
INVESTMENT OF CASH COLLATERAL						
Fixed-income securities:						
Other U.S. dollar-denominated:						
Corporate bonds	$105,460	$105,385			$642,818	$820,737
Commercial paper	77,753				473,932	
Repurchase agreements	309,356	194,582			1,885,644	1,515,418
Corporate - asset-backed securities	28,855	71,220			175,884	554,664
Certificates of deposit/time deposits	542,834	459,963			3,308,794	3,582,215
Supranational/foreign	58,751	35,716			358,112	278,161
Other assets (liabilities), net*	(599)	38			(3,654)	297
Foundations' share	(42,581)	(41,973)	$42,581	$41,973		
Investment of cash collateral	**1,079,829**	**824,931**	**$42,581**	**41,973**	**$6,841,530**	**$6,751,492**
Less: Current portion	(947,353)	(680,838)	(37,357)	(34,641)		
Noncurrent portion	**$132,476**	**$144,093**	**$5,224**	**$7,332**		

** Other assets (liabilities), net is comprised of pending settlements of cash collateral investments.*

The University earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and is obligated to pay a fee and rebate to the borrower. The University receives the net investment income. The securities lending income and fees and rebates for the year ended June 30 are as follows:

(in thousands of dollars)	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Securities lending income	$15,628	$8,840	$771	$581	$89,075	$60,415
Securities lending fees and rebates	(7,124)	(2,558)	(352)	(166)	(40,610)	(16,440)
Securities lending investment income, net	**$8,504**	**$6,282**	**$419**	**$415**	**$48,465**	**$43,975**

Investment Risk Factors

There are a variety of potential risk factors involved in a securities lending program. Risks associated with the investment of cash collateral may include the credit risk from fixed-income securities, concentration of credit risk, interest rate risk and foreign currency risk. In addition, there may be custodial credit risk associated with both cash and securities received as collateral for securities lent.

The University's and UCRS' investment policies and other information related to each of these risks are summarized below. Campus foundations that participate in a securities lending program may have their own individual investment policies designed to limit the same risks.

Credit Risk

The University's and UCRS' investment policies for the investment of cash collateral maintained in separately managed collateral pools restrict the credit rating of issuers at the time of purchase to no less than A-1, P-1 or F-1 for short-term securities and no less than A2/A for long-term securities. Asset-backed securities must have a rating of AAA at the time of purchase.

The credit risk profile for fixed- or variable-income securities associated with the investment of cash collateral at June 30 are as follows:

(in thousands of dollars)	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Fixed- or variable-income securities:						
Other U.S. dollar-denominated:						
AAA	$84,224	$89,504			$513,378	$697,065
AA+		19,936				155,262
AA-	146,141	104,931			890,788	817,206
A+	130,473	145,590			795,284	1,133,866
A	123,225	61,267			751,104	477,147
A-	50,772	37,911			309,473	295,251
A-1 / A-2 / P-1/ F-1	278,819	213,144			1,699,513	1,659,981
Not rated						
Other assets (liabilities) net*: Not rated	(599)	38			(3,654)	297
Campus foundations' share	(42,581)	(41,973)	42,581	41,973		

** Other assets (liabilities), net is comprised of pending settlements of cash collateral investments.*

Custodial Credit Risk

Cash collateral received for securities lent is invested in pools by the University's lending agents. The University's and UCRS' securities related to the investment of cash collateral are registered in the University's name by the lending agents. Securities collateral received for securities lent are held in investment pools by the University's lending agents. As a result, custodial credit risk is remote.

Concentration of Credit Risk

The University's and UCRS' investment policy with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pools restricts investments in any single issuer of corporate debt securities, time deposits, certificates of deposit, bankers acceptances and money market funds to no more than 5 percent of the portfolio value at the time of purchase. Campus foundations that directly participate in a securities lending program do not have specific investment policies related to concentration of credit risk, although the lending agreements with the agents establish restrictions for the type of investments and minimum credit ratings.

Investments in issuers other than U.S. government-guaranteed securities that represent 5 percent or more of the total investment of cash collateral held by individual component units at June 30 are as follows:

(in thousands of dollars)	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016
Goldman Sachs & Company	$63,421		$386,579	
Svenska Handelsbanken AB		$56,331		$438,705
Morgan Stanley & Co LLC	84,562		515,438	

Interest Rate Risk

The nature of individual securities in the collateral pools allows for the use of weighted average maturity as an effective risk management measure. The University's and UCRS' investment policy with respect to the interest rate risk associated with the investment of cash collateral in the separately managed collateral pools requires the weighted average maturity of the entire collateral pool to be less than 120 days. The maturity of securities issued by the U.S. government and asset-backed securities must be less than five years, corporate debt obligations must be less than two years and time deposits must be less than 190 days. Floating rate debt may be used, but it is limited to 65 percent of the market value of the portfolio.

The weighted average maturity expressed in days for fixed- or variable-income securities associated with the investment of cash collateral at June 30 are as follows:

(in days)	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016
Fixed- or variable-income securities:				
Other U.S. dollar-denominated:				
Corporate bonds	38	44	38	44
Commercial paper	19		19	
Repurchase agreements	9	8	9	8
Corporate-asset-backed securities	97	18	97	18
Certificates of deposit/time deposits	19	46	19	46
Supranational/foreign	17	26	17	26

Investment of cash collateral may include various asset-backed securities, structured notes and variable-rate securities that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the weighted average maturity may be short.

At June 30 the fair value of investments that are considered to be highly sensitive to changes in interest rates are as follows:

(in thousands of dollars)	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2017	2016	2017	2016	2017	2016
Other asset-backed securities	$87,606	$89,504			$533,996	$697,064
Variable-rate investments	802,491	536,906			4,891,500	4,181,454
Campus foundations' share	(33,767)	(31,125)	$33,767	$31,125		
Total	**$856,330**	**$595,285**	**$33,767**	**$31,125**	**$5,425,496**	**$4,878,518**

At June 30, 2017 and 2016, the weighted average maturity expressed in days for asset-backed securities was 43 days and 18 days, respectively and for variable-rate investments was 19 days and 23 days, respectively.

Foreign Currency Risk

The University's and UCRS' investment policy with respect to the foreign currency risk associated with the investment of cash collateral maintained in separate collateral pools restricts investments to U.S. dollar-denominated securities. Therefore, there is no foreign currency risk.

4. DERIVATIVE FINANCIAL INSTRUMENTS

The University may use derivatives including futures, forward contracts, options and interest rate swap contracts as a substitute for investment in equity and fixed-income securities, to reduce the effect of fluctuating foreign currencies on foreign currency-denominated investments, or to limit its exposure of variable-rate bonds to changes in market interest rates. The Board of Trustees for each campus foundation may also authorize derivatives in its investment policy.

The University enters into futures contracts for the purpose of acting as a substitute for investment in equity and fixed-income securities. A futures contract is an agreement between two parties to buy and sell a security or financial index, interest rate or foreign currency at a set price on a future date. They are standardized contracts that can be easily bought and sold and are exchange-traded. Upon entering into such a contract, the University is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contract is traded. Pursuant to the contract, the University agrees to receive from, or pay to, the counterparty an amount of cash equal to the daily fluctuation in the value of the contract. These contracts are settled on a daily basis, with the resulting realized gain or loss included in the statement of revenues, expenses and changes in net position. The settlement amount at the end of each day for each of the contracts, or variation margin, is included in investments and represents the fair value of the contracts.

Forward contracts are similar to futures contracts, although they are not exchange-traded. Foreign currency exchange contracts are forward contracts used to hedge against foreign currency exchange rate risks on non-U.S. dollar-denominated investment securities and to increase or decrease exposure to various foreign currencies.

An option contract gives the University the right, but not the obligation, to buy or sell a specified security or index at a fixed price during a specified period for a nonrefundable fee (the "premium"). The maximum loss to the University is limited to the premium originally paid for covered options. The University initially records premiums paid for the purchase of these options in the statement of net position as an investment which is subsequently adjusted to reflect the fair value of the options, with unrealized gains and losses included in the statement of revenues, expenses and changes in net position.

Rights and warrants provide the holder with the right, but not the obligation, to buy a stock at a predetermined price for a finite period of time. Warrants usually have a longer time period to expiration. The holder of a right or warrant is permitted to buy at a price that may be below the actual market price for that stock. Warrants and rights cease to exist and become worthless if not used by their expiration date.

An interest rate swap is a contractual agreement entered into between the University and a counterparty under which each agrees to exchange periodic fixed or variable payments for an agreed period of time based upon a notional amount of principal or value of the underlying contract. The payments correspond to an equity index, an interest rate or to currency. A credit default swap is an agreement whereby the seller will compensate the buyer in the event of a loan default. A swaption is an option granting its owner the right but not the obligation to enter into an underlying swap. The University considers its futures, forward contracts, options, credit default swaps, swaptions, rights, warrants and certain interest rate swaps to be investment derivatives.

As a means to lower the University's borrowing costs, when compared against fixed-rate bonds at the time of issuance, the University entered into interest rate swap agreements in connection with certain of its variable-rate Medical Center Pooled Revenue Bonds and General Revenue Bonds. The University determined that certain of its interest rate swaps are derivative instruments that meet the criteria for an effective hedge. Certain of the interest rate swaps are considered hybrid instruments since, at the time of execution, the fixed rate on each of the swaps was off-market and the University received an up-front payment. As such, these swaps are comprised of a derivative instrument, an at-the-market swap that is an effective hedge, and a companion instrument, a borrowing represented by the up-front payment. The unamortized amount of the borrowing under the companion instruments was $79.0 million and $40.0 million at June 30, 2017 and 2016, respectively.

In August 2016, the University replaced the counterparty for certain of its interest rate swap agreements and discontinued hedge accounting on interest rate swaps with a notional value of $174.8 million. The University recognized a decrease in net position upon hedge termination of $41.2 million on the statement of revenues, expenses and changes in net position. The University determined that the interest rate swap agreements with the new counterparty are derivative instruments that meet the criteria for an effective hedge. These interest rate swaps are considered hybrid instruments since, at the time of execution, the University received an up-front payment of $82.5 million. As such, the swaps consist of an at-the-market swap derivative instrument and a borrowing, represented by the up-front payment.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, categorized by type, and the changes in fair value of such derivatives are as follows:

University of California

(in thousands of dollars)

	NOTIONAL AMOUNT		FAIR VALUE–POSITIVE (NEGATIVE)			CHANGES IN FAIR VALUE		
CATEGORY	**2017**	**2016**	**CLASSIFICATION**	**2017**	**2016**	**CLASSIFICATION**	**2017**	**2016**
INVESTMENT DERIVATIVES								
Futures contracts:								
Domestic equity futures:								
Long positions	$21	$267	Investments	$(360)	$7,256	Net appreciation (depreciation)	$(361)	$24,093
Short positions			Investments			Net appreciation (depreciation)		(2)
Foreign futures:								
Long positions	78	82	Investments	(47)	714	Net appreciation (depreciation)	7,998	(7,560)
Short positions		(13,377)	Investments		7,982	Net appreciation (depreciation)	(17,090)	12,942
Futures contracts, net				**(407)**	**15,952**		**(9,453)**	**29,473**
Foreign currency exchange contracts, net:*								
Long positions	217,069	242,859	Investments	(46)	742	Net appreciation (depreciation)	6,800	2,430
Short positions		(18,428,479)	Investments		(8,576)	Net appreciation (depreciation)	15,053	(10,835)
Futures currency exchange contracts, net				**(46)**	**(7,834)**		**21,853**	**(8,405)**
Swaps:								
Credit default swaps			Investments			Net appreciation (depreciation)		(2)
Fixed interest rate swaps			Investments			Net appreciation (depreciation)		10
Swaps, net								**8**
Other:								
Stock rights/warrants	680	710	Investments	212	109	Net appreciation (depreciation)	22	248
Other, net				**212**	**109**		**22**	**248**
Total investment derivatives				**$(241)**	**$8,227**		**$12,422**	**$21,324**
CASH FLOW HEDGES								
Effective interest rate swaps:								
Pay fixed, receive variable	$842,315	$845,655	Other assets (liabilities)	$(90,232)	$(152,123)	Deferred (inflows) outflows	$61,891	$(61,030)

**Notional amount reported in local currency.*

University of California Campus Foundations

(in thousands of dollars)

CATEGORY	NOTIONAL AMOUNT 2017	NOTIONAL AMOUNT 2016	FAIR VALUE–POSITIVE (NEGATIVE) CLASSIFICATION	FAIR VALUE 2017	FAIR VALUE 2016	CHANGES IN FAIR VALUE CLASSIFICATION	CHANGES 2017	CHANGES 2016
INVESTMENT DERIVATIVES								
Options/swaptions		$6,902	Investments	$7	$247	Net appreciation (depreciation)		$247
Swaps	$226,752	179,812		1,988	2,529		$32,340	2,529
Total investment derivatives				**$1,995**	**$2,776**		**$32,340**	**$2,776**

University of California Retirement System

(in thousands of dollars)

CATEGORY	NOTIONAL AMOUNT 2017	NOTIONAL AMOUNT 2016	FAIR VALUE–POSITIVE (NEGATIVE) CLASSIFICATION	FAIR VALUE 2017	FAIR VALUE 2016	CHANGES IN FAIR VALUE CLASSIFICATION	CHANGES 2017	CHANGES 2016
INVESTMENT DERIVATIVES								
Futures contracts:								
Domestic equity futures:								
Long positions	$8,687	$195	Investments	$(2,323)	$6,886	Net appreciation (depreciation)	$(2,323)	$50,218
Short positions	(17,400)	(8,312)	Investments	(19)	133	Net appreciation (depreciation)	(19)	229
Foreign equity futures:								
Long positions	1,236	25,039	Investments	(1,060)	(15,237)	Net appreciation (depreciation)	126,127	(43,302)
Short positions			Investments			Net appreciation (depreciation)	(10,495)	(328)
Futures contracts, net				**(3,402)**	**(8,218)**		**113,290**	**6,817**
Foreign currency exchange contracts, net:*								
Long positions	2,482,250	34,426,314	Investments	(528)	16,277	Net appreciation (depreciation)	26,347	(19,710)
Short positions	(1,611)	(4,500,715)	Investments	(26)	17,189	Net appreciation (depreciation)	55,504	127,570
Foreign currency exchange contracts, net				**(554)**	**33,466**		**81,851**	**107,860**
Swaps:								
Credit default swaps			Investments			Net appreciation (depreciation)		(37)
Swaps, net								**(37)**
Other:								
Stock rights/warrants	1,583	4,704	Investments	954	673	Net appreciation (depreciation)	(33)	284
Options/swaptions			Investments			Net appreciation (depreciation)		1
Other, net				**954**	**673**		**(33)**	**285**
Total investment derivatives				**$(3,002)**	**$25,921**		**$195,108**	**$114,925**

**Notional amount reported in local currency.*

Objectives and Terms of Hedging Derivative Instruments

The objectives and terms of the hedging derivative instruments outstanding at June 30, along with the credit rating of the associated counterparty, are as follows:

(in thousands of dollars)

TYPE	OBJECTIVE	NOTIONAL AMOUNT 2017	NOTIONAL AMOUNT 2016	EFFECTIVE DATE	MATURITY DATE	CASH PAID OR RECEIVED	TERMS	COUNTERPARTY CREDIT RATING	FAIR VALUE 2017	FAIR VALUE 2016
UNIVERSITY OF CALIFORNIA										
Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate Medical Center Pooled Revenue Bonds	$67,540	$70,880	2007	2032	None	Pay fixed 3.5897%; receive 58% of 1-Month LIBOR* plus 0.48%	A1/A+	$(9,423)	$(14,188)
Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate Medical Center Pooled Revenue Bonds	124,775	124,775	2008	2030 through 2043	None	Pay fixed 4.6359%; receive 67% of 3-Month LIBOR* plus 0.69%**	Aa2/AA-	(40,420)	(57,603)
Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate General Revenue Bonds	400,000	400,000	2013	2023	None	Pay fixed 1.8982%; receive 70% of 1-Month LIBOR*	Aa2/AA-	(12,552)	(32,588)
Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate General Revenue Bonds	100,000	100,000	2013	2023	None	Pay fixed 1.9057%; receive 70% of 1-Month LIBOR*	Aa2/AA-	(3,182)	(8,199)
Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate General Revenue Bonds	100,000	100,000	2013	2023	None	Pay fixed 1.8980%; receive 70% of 1-Month LIBOR*	Aa2/AA-	(3,137)	(8,146)
Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate Medical Center Pooled Revenue Bonds	24,250	24,250	2013	2045	None	Pay fixed 4.741%; receive 67% of 3-Month LIBOR +0.79%	Aa2/AA-	(10,252)	(14,901)
Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate Medical Center Pooled Revenue Bonds	25,750	25,750	2013	2047	None	Pay fixed 4.741%; receive 67% of 3-Month LIBOR +0.79%	Aa2/AA-	(11,266)	(16,498)
Interest rate swaps, net		**$842,315**	**$845,655**						**$(90,232)**	**$(152,123)**

** London Interbank Offered Rate (LIBOR).*
***Weighted average spread.*

Hedging Derivative Instrument Risk Factors

Credit Risk

The University could be exposed to credit risk if the interest rate swap counterparties to the contracts are unable to meet the terms of the contracts. Contracts with positive fair values are exposed to credit risk. The University faces a maximum possible loss equivalent to the amount of the derivative's fair value, less any collateral held by the University provided by the counterparty. Contracts with negative fair values are not exposed to credit risk.

Although the University has entered into the interest rate swaps with creditworthy financial institutions to hedge its variable-rate debt, there is credit risk for losses in the event of non-performance by counterparties or unfavorable interest rate movements.

There are no collateral requirements related to the interest rate swap with the $67.5 million notional amount. Depending on the fair value and the counterparty credit rating for the swaps related to the Medical Center Pooled Revenue Bonds with the counterparty that is currently rated Aa2/AA- with a combined notional amount of $174.8 million, the University may be entitled to receive collateral to the extent the positive fair value exceeds $30.0 million. At June 30, 2017 and 2016, there was no collateral required.

Depending on the fair value and the counterparty credit rating for the swaps related to the General Revenue Bonds with the two counterparties that are currently rated Aa2/AA- with a combined notional amount of $600.0 million, the University may be entitled to receive collateral to the extent the positive fair value with each counterparty exceeds $30.0 million. At June 30, 2017 and 2016, there was no collateral required.

Interest Rate Risk

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

Basis Risk

There is a risk that the basis for the variable payment received on interest rate swaps will not match the variable payment on the bonds. This exposes the University to basis risk whenever the interest rates on the bonds are reset. The interest rate on the bonds is a tax-exempt interest rate, while the basis of the variable receipt on the interest rate swaps is taxable. Tax-exempt interest rates can change without a corresponding change in the LIBOR rate due to factors affecting the tax-exempt market which do not have a similar effect on the taxable market. However, there is no basis or tax risk related to the swap with the $149.0 million notional amount since the variable rate the University pays to the bondholders matches the variable-rate payments received from the swap counterparty and the interest rates are reset at the same intervals.

Termination Risk

There is termination risk for interest rate swaps associated with variable-rate bonds in the event of non-performance by counterparties in an adverse market resulting in cancellation of the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. In addition, depending on the agreement, certain interest rate swaps may be terminated if a counterparty's credit quality rating, as issued by Moody's or Standard & Poor's, falls below certain thresholds. For the interest rate swap with the $67.5 million notional amount, the termination threshold is reached when the credit quality rating for either the underlying Medical Center Pooled Revenue Bonds or swap counterparty falls below Baa2 or BBB. For the swaps with the combined $174.8 million notional amount, the termination threshold is reached when the credit quality rating for the underlying Medical Center Pooled Revenue Bonds falls below Baa3/BBB-, or the interest rate swap counterparty's rating falls below Baa2 or BBB.

For the swaps with notional amounts of $400.0 million and $100.0 million with a counterparty that is currently rated Aa2/AA-, the termination threshold is reached when the credit quality rating for the underlying General Revenue Bonds falls below Baa2 or BBB, or the swap counterparty's rating falls below A3 or A-. For the swap with a notional amount of $100.0 million with a counterparty that is currently rated Aa2/AA-, the termination threshold is reached when the credit quality rating for the underlying General Revenue Bonds falls below Baa2 or BBB, or the swap counterparty's rating falls below A3 or A-. Upon termination, the University may also owe a termination payment if there is a realized loss based on the fair value of each interest rate swap.

Rollover Risk

The University is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the University will be re-exposed to the risks being hedged by the hedging derivative instruments. The University is exposed to rollover risk on the interest rate swaps that mature in October 2023 because the hedged debt is scheduled to mature in May 2048.

5. FAIR VALUE

Fair value is defined in the accounting standards as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Level 1 investments include equity securities and other publicly traded securities.

Level 2 – Quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly, are classified as Level 2. Level 2 investments include fixed- or variable-income securities, commingled funds, certain derivatives and other assets that are valued using market information.

Level 3 – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment. Level 3 investments include private equity investments, real estate and split interest agreements.

Net Asset Value (NAV) – Investments whose fair value is measured at NAV are excluded from the fair value hierarchy. Investments in non-governmental entities that do not have a readily determinable fair value may be valued at NAV. Investments measured at NAV include hedge funds, private equity investments and commingled funds.

Not Leveled – Cash and cash equivalents are not measured at fair value and, thus, are not subject to the fair value disclosure requirements.

The following tables summarize the investments and other assets reported at fair value within the fair value hierarchy as of June 30, 2017:

(in thousands of dollars)	**UNIVERSITY OF CALIFORNIA**					
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Not Leveled
Equity securities	$4,964,552	$4,875,376		$22,941	$66,235	
Fixed- or variable-income securities:						
U.S. government-guaranteed	2,105,965		$2,105,965			
Other U.S. dollar-denominated	11,740,820		11,617,785	123,035		
Commingled funds	9,618,782	981,669	106	393,441	8,242,947	$619
Investment derivatives	(241)	(195)	(46)			
Publicly traded real estate investment trusts	152,636	152,636				
Mortgage loans	358,890			358,890		
Real estate	354,597			42,817	311,780	
Other investments	12,390			12,390		
Campus foundations' investments with the University	(2,151,497)					(2,151,497)
UCRS investment in STIP	(2,678,532)					(2,678,532)
Total investments	**$24,478,362**	**$6,009,486**	**$13,723,810**	**$953,514**	**$8,620,962**	**$(4,829,410)**
Securities lending investments of cash collateral	**$1,079,829**		**$1,080,405**			**$(576)**
Investments held by trustees	**$99,025**				**$60,194**	**$38,831**

(in thousands of dollars)	CAMPUS FOUNDATIONS					
	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs	Net Asset Value	Not Leveled
		(Level 1)	(Level 2)	(Level 3)	(NAV)	
Equity securities	$250,611	$235,916	$4,103	$10,575	$17	
Fixed- or variable-income securities:						
U.S. government-guaranteed	382,064		382,064			
Other U.S. dollar-denominated	133,053	654	132,344	55		
Commingled funds	6,998,384	650,644	389	1,330	6,322,655	$23,366
Investment derivatives	1,995		1,995			
Real estate	119,516		3,819	49,569	66,128	
Other investments	321,367	7,151		158,326	153,702	2,188
Total investments	**$8,206,990**	**$894,365**	**$524,714**	**$219,855**	**$6,542,502**	**$25,554**
Securities lending investments of cash collateral	**$42,581**		**$39,280**	**$3,324**		**($23)**

(in thousands of dollars)	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM					
	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs	Net Asset Value	Not Leveled
		(Level 1)	(Level 2)	(Level 3)	(NAV)	
Equity securities	$29,433,121	$28,589,132		$1,181	$842,808	
Fixed- or variable-income securities:						
U.S. government-guaranteed	5,152,518		$5,152,518			
Other U.S. dollar-denominated	17,326,645		17,275,601	51,044		
Foreign currency-denominated						
Commingled funds	28,107,964	3,676,570	1,898	275,890	24,153,119	$487
Investment derivatives	(3,002)	(2,448)	(554)			
Publicly traded real estate investment trusts	722,541	722,541				
Real estate	1,834,232			10,096	1,824,136	
Total investments	**$82,574,019**	**$32,985,795**	**$22,429,463**	**$338,211**	**$26,820,063**	**$487**
Securities lending investments of cash collateral	**$6,841,530**		**$6,845,184**			**$(3,654)**

The following tables summarize the investments and other assets reported at fair value within the fair value hierarchy as of June 30, 2016:

(in thousands of dollars)	UNIVERSITY OF CALIFORNIA					
	Total	Quoted Prices in Active Markets	Other Observable Inputs	Unobservable Inputs	Net Asset Value	Not Leveled
		(Level 1)	(Level 2)	(Level 3)	(NAV)	
Equity securities	$3,285,792	$3,274,412		$11,380		
Fixed- or variable-income securities:						
U.S. government-guaranteed	1,071,453		$1,071,453			
Other U.S. dollar-denominated	11,706,249		11,637,569	68,680		
Commingled funds	8,698,260	562,933	21,572	93,043	$8,020,610	$102
Investment derivatives	8,227	16,060	(7,833)			
Publicly traded real estate investment trusts	100,606	100,606				
Mortgage loans	319,038			319,038		
Real estate	937,421			406,144	531,277	
Other investments	13,786			13,786		
Campus foundations' investments with the University	(1,604,216)					(1,604,216)
UCRS investment in STIP	(2,327,849)					(2,327,849)
Total investments	**$22,208,767**	**$3,954,011**	**$12,722,761**	**$912,071**	**$8,551,887**	**$(3,931,963)**
Securities lending investments of cash collateral	**$824,931**		**$739,724**	**$85,171**		**$36**
Investments held by trustees	**$850,884**	**$54,769**		**$5,642**	**$752,618**	**$37,855**

(in thousands of dollars)	CAMPUS FOUNDATIONS					
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Not Leveled
Equity securities	$318,801	$305,930	$4,389	$7,848	$36	$598
Fixed- or variable-income securities:						
U.S. government-guaranteed	300,803	18	300,785			
Other U.S. dollar-denominated	143,813	571	143,218	24		
Commingled funds	5,952,962	575,831	386	995	5,312,341	63,409
Investment derivatives	2,776		2,776			
Real estate	116,536		3,750	48,707	64,079	
Other investments	279,587	4,854		162,396	110,109	2,228
Total investments	**$7,115,278**	**$887,204**	**$455,304**	**$219,970**	**$5,486,565**	**$66,235**
Securities lending investments of cash collateral	**$41,973**		**$37,638**	**$4,333**		**$2**

(in thousands of dollars)	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM					
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Net Asset Value (NAV)	Not Leveled
Equity securities	$23,345,791	$23,344,616		$1,175		
Fixed- or variable-income securities:						
U.S. government-guaranteed	5,119,539		$5,119,539			
Other U.S. dollar-denominated	14,995,609		14,945,410	50,199		
Foreign currency-denominated	3,890		3,890			
Commingled funds	25,977,179	3,320,189	106,834	638,169	$21,874,071	$37,916
Investment derivatives	25,921	(7,545)	33,466			
Publicly traded real estate investment trusts	750,056	750,056				
Real estate	2,978,950			1,600,803	1,378,147	
Total investments	**$73,196,935**	**$27,407,316**	**$20,209,139**	**$2,290,346**	**$23,252,218**	**$37,916**
Securities lending investments of cash collateral	**$6,751,492**		**$6,054,131**	**$697,064**		**$297**

The following table presents significant terms of certain investments at June 30, 2017:

(in thousands of dollars)	UNIVERSITY OF CALIFORNIA			
Investment Type	Fair Value	Unfunded Commitments	Remaining Life (Years)	Redemption Terms and Restrictions
Absolute return	$3,962,553	$254,289	0 to 5	Generally, lock up provisions ranging from 0 to 3 years. After initial lock-up expires, redemptions are available on a rolling basis and require 5 to 95 days' prior notification.
Private equities	1,388,163	519,934	0 to 15	Not eligible for redemption.
Real assets	206,073	181,955	0 to 15	Not eligible for redemption.
Real estate and real estate investment trusts	814,622	126,867	0 to 6	Not eligible for redemption.
Fixed Income - Other	120,314	6,867	1 to 7	Not eligible for redemption.

(in thousands of dollars)	CAMPUS FOUNDATIONS			
Investment Type	Fair Value	Unfunded Commitments	Remaining Life (Years)	Redemption Terms and Restrictions
Absolute return	$1,618,201	$47,804	0 to 5	Generally, lock up provisions ranging from 0 to 5 years. After initial lock-up expires, redemptions are available on a rolling basis and require 30 to 180 days' prior notification.
Private equities	704,267	451,642	0 to 15	Generally, lock up provisions ranging from 0 to 14 years. After initial lock-up expires, redemptions are available on a rolling basis and require 30 to 180 days' prior notification.
Real assets	152,973	35,386	9	Not eligible for redemption.
Real estate and real estate investment trusts	132,043	83,055	0 to 11	Not eligible for redemption.

(in thousands of dollars)	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM			
Investment Type	Fair Value	Unfunded Commitments	Remaining Life (Years)	Redemption Terms and Restrictions
Absolute return	$4,987,355	$395,672	0 to 5	Generally, lock up provisions ranging from 0 to 3 years. After initial lock-up expires, redemptions are available on a rolling basis and require 5 to 95 days' prior notification.
Private equities	2,939,524	1,152,374	0 to 15	Not eligible for redemption.
Real assets	866,245	389,735	0 to 15	Not eligible for redemption.
Real estate and real estate investment trusts	3,467,355	355,043	1 to 7	Not eligible for redemption.

The following table presents significant terms of certain investments at June 30, 2016:

(in thousands of dollars)	UNIVERSITY OF CALIFORNIA			
Investment Type	Fair Value	Unfunded Commitments	Remaining Life (Years)	Redemption Terms and Restrictions
Absolute return	$3,168,124	$1,953	0 to 5	Generally, lock up provisions ranging from 0 to 3 years. After initial lock-up expires, redemptions are available on a rolling basis and require 5 to 95 days' prior notification.
Private equities	1,180,827	431,059	0 to 15	Not eligible for redemption.
Real assets	182,861	79,207	0 to 15	Not eligible for redemption.
Real estate and real estate investment trusts	937,421	124,673	0 to 6	Not eligible for redemption.
Fixed Income - Other	66,731	49,739	1 to 7	Not eligible for redemption.

(in thousands of dollars)	CAMPUS FOUNDATIONS			
Investment Type	Fair Value	Unfunded Commitments	Remaining Life (Years)	Redemption Terms and Restrictions
Absolute return	$1,779,453		0 to 5	Generally, lock-up provisions range from 0 to 5 years. After initial lock-up expires, redemptions are available and require 30 to 180 days' prior notification. Certain securities can only be sold to a Goldman Sachs approved bidder.
Private equities	621,280	$337,583	0 to 15	Generally, lock-up provisions range from 0 to 14 years. After initial lock-up expires, redemptions are available and require 30 days' prior notification. Certain securities can only be sold to a Goldman Sachs approved bidder.
Real assets	109,389	12,900	9	Not eligible for redemption.
Real estate and real estate investment trusts	121,510	76,332	0 to 11	Not eligible for redemption.

(in thousands of dollars)	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM			
Investment Type	Fair Value	Unfunded Commitments	Remaining Life (Years)	Redemption Terms and Restrictions
Absolute return	$4,626,070	$3,051	0 to 5	Generally, lock up provisions ranging from 0 to 3 years. After initial lock-up expires, redemptions are available on a rolling basis and require 5 to 95 days' prior notification.
Private equities	2,822,693	821,064	0 to 15	Not eligible for redemption.
Real assets	960,923	296,041	0 to 15	Not eligible for redemption.
Real estate and real estate investment trusts	2,978,950	189,259	0 to 6	Not eligible for redemption.

6. INVESTMENTS HELD BY TRUSTEES

The University has entered into agreements with trustees to maintain trusts for the University's self-insurance programs, long-term debt requirements, capital projects and certain other requirements. In addition, the state of California retained on deposit certain proceeds from the sale of lease-revenue bonds to be used for capital projects.

Self-Insurance Programs

At June 30, 2017, investments of $23.0 million were held by trustees for self-insurance programs included bank accounts for the workers' compensation, general liability and professional medical and hospital liability programs. Cash was held by the trustee in the name of the University.

At June 30, 2016, investments of $758.3 million were held by trustees for self-insurance programs included separate trusts for the workers' compensation and professional medical and hospital liability programs. Securities were held by the trustees in the name of the University. In July 2016, the University liquidated investments held by trustees for self-insurance programs and transferred the funds to the captive insurance company.

Long-Term Debt

Investments held by trustees for future payment of principal and interest in accordance with various indenture and other long-term debt requirements totaled $6.7 million and $22.8 million at June 30, 2017 and 2016, respectively. Securities held by trustees are held in the name of the University and these trust agreements permit trustees to invest in U.S. and state government or agency obligations, commercial paper or other corporate obligations meeting certain credit rating requirements.

Capital Projects

Proceeds from the sale of the state of California's lease revenue bonds to be used for financing certain University capital projects were deposited in a commingled U.S. bond fund managed by the state of California Treasurer's Office, as trustee, and distributed to the University as the projects are constructed. The fair value of these deposits was $5.0 million and $8.5 million at June 30, 2017 and 2016, respectively.

In addition, proceeds from the sale of bonds and certain University funds are held by trustees to be used for financing and operating third-party capital projects. The fair value of these investments was $63.1 million and $58.1 million at June 30, 2017 and 2016, respectively. Substantially, all of these investments are of a highly liquid, short-term nature.

7. ACCOUNTS RECEIVABLE

Accounts receivable and the allowance for uncollectible accounts are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA							UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
	STATE AND FEDERAL GOVERNMENT	MEDICAL CENTERS	INVESTMENT INCOME	PRIVATE GRANTS AND CONTRACTS	MEDICAL PROFESSIONAL FEES	OTHER	TOTAL	
At June 30, 2017								
Accounts receivable	$693,453	$1,931,470	$47,138	$318,964	$345,098	$990,061	$4,326,184	$40,012
Allowance for uncollectible accounts	(2,658)	(223,461)		(26,219)	(95,163)	(31,792)	(379,293)	
Accounts receivable, net	**$690,795**	**$1,708,009**	**$47,138**	**$292,745**	**$249,935**	**$958,269**	**$3,946,891**	**$40,012**
At June 30, 2016								
Accounts receivable	$589,875	$1,859,862	$53,426	$372,664	$268,573	$488,019	$3,632,419	$32,562
Allowance for uncollectible accounts	(1,355)	(225,524)		(15,648)	(44,347)	(26,027)	(312,901)	
Accounts receivable, net	**$588,520**	**$1,634,338**	**$53,426**	**$357,016**	**$224,226**	**$461,992**	**$3,319,518**	**$32,562**

The University's other accounts receivable are primarily related to investment sales, tuition and fees, auxiliary enterprises, insurance rebates and legal settlements.

The campus foundations' accounts receivable are primarily related to investment income.

Uncollectible accounts have increased (decreased) the following revenues for the years ended June 30:

(in thousands of dollars)

	2017	2016
Student tuition and fees	$(6,528)	$(1,748)
Grants and contracts:		
Federal	(1,509)	928
State	25	329
Private	(11,515)	(11,519)
Local	32	144
Medical centers	(221,508)	(235,526)
Educational activities	(22,630)	(21,516)
Auxiliary enterprises	(1,441)	(796)
Other operating revenues	(1,357)	1,031
Expense for uncollectible accounts	**$(266,431)**	**$(268,673)**

Retirement System Contribution

The state of California agreed to make contributions related to certain prior years to the University for UCRP in annual installments over 30 years. During each of the years ended June 30, 2017 and 2016, under the terms of these agreements, the state of California contributed $5.3 million, including interest at 8.5 percent. At June 30, 2017 and 2016, the remaining amount owed to UCRP by the state was $13.6 million and $17.4 million, respectively. These amounts are recorded in the University's statement of net position as a receivable from the state of California and as a liability owed to UCRP.

8. PLEDGES RECEIVABLE

The composition of pledges receivable at June 30 is summarized as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2017	2016	2017	2016
Total pledges receivable outstanding	$72,315	$64,846	$1,064,512	$1,060,609
Less: Unamortized discount to present value	(896)	(1,384)	(137,406)	(145,318)
Allowance for uncollectible pledges	(15,207)	(16,356)	(61,127)	(72,868)
Total pledges receivable, net	**56,212**	**47,106**	**865,979**	**842,423**
Less: Current portion of pledges receivable	(23,181)	(17,056)	(192,484)	(217,971)
Noncurrent portion of pledges receivable	**$33,031**	**$30,050**	**$673,495**	**$624,452**

Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2017 and thereafter are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
Year Ending June 30		
2018	$36,938	$207,584
2019	14,057	152,818
2020	8,991	96,704
2021	8,709	87,958
2022	1,670	54,919
2023-2027	1,450	231,132
Beyond 2027	500	233,397
Total payments on pledges receivable	**$72,315**	**$1,064,512**

Adjustments to the allowance for uncollectible pledges for the University have increased (decreased) the following revenues for the years ended June 30, 2017 and 2016:

(in thousands of dollars)

	2017	2016
Private gifts	(863)	$1,359
Capital gifts and grants	(25)	

9. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2017 and 2016 along with the allowance for uncollectible amounts, are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		
		NONCURRENT					
	CURRENT	NOTES	MORTGAGES	TOTAL	CURRENT	NONCURRENT	TOTAL
At June 30, 2017							
Notes and mortgages receivable	$58,338	$309,459	$22,301	$331,760	$6	$427	$433
Allowance for uncollectible amounts	(8,201)	(17,621)	(121)	(17,742)			
Notes and mortgages receivable, net	**$50,137**	**$291,838**	**$22,180**	**$314,018**	**$6**	**$427**	**$433**
At June 30, 2016							
Notes and mortgages receivable	$60,931	$320,523	$24,411	$344,934	$6	$1,014	$1,020
Allowance for uncollectible amounts	(8,259)	(17,636)	(129)	(17,765)			
Notes and mortgages receivable, net	**$52,672**	**$302,887**	**$24,282**	**$327,169**	**$6**	**$1,014**	**$1,020**

10. DOE NATIONAL LABORATORY CONTRACTS

Los Alamos National Security, LLC (LANS)

LANS operates and manages the DOE's LANL. LANS' current earnings or losses are dependent on the percentage of base and incentive fees earned under the terms of the contract, offset by any unallowable or disallowed costs. While the University has a 50-percent membership interest in LANS, its equity in the current earnings or losses is subject to certain limitations and special allocations of both the fees and costs. As a result, the University's equity in the current earnings or losses may range from 17.0 to 50.0 percent. For the years ended June 30, 2017 and 2016, the University recorded $13.5 million and $11.8 million, respectively, as its equity in the current earnings of LANS and received $17.6 million and $10.5 million, respectively, in cash distributions.

Lawrence Livermore National Security, LLC (LLNS)

LLNS manages and operates the DOE's LLNL. LLNS' current earnings or losses are dependent on the percentage of base and incentive fees earned under the terms of the contract, offset by any unallowable or disallowed costs. While the University has a 50-percent membership interest in LLNS, its equity in the current earnings or losses is 36.3 percent and 36.3 percent as of June 30, 2017 and 2016, respectively. For the years ended June 30, 2017 and 2016, the University recorded $11.5 million and $12.2 million, respectively, as its equity in the current earnings of LLNS and received $11.1 million and $11.6 million, respectively, in cash distributions.

11. CAPITAL ASSETS

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

(in thousands of dollars)

	2015	ADDITIONS	DISPOSALS	2016	ADDITIONS	DISPOSALS	2017
ORIGINAL COST							
Land	$972,954	$191,276	$(1,135)	$1,163,095	$9,551	$(9,735)	$1,162,911
Infrastructure	647,114	16,759		663,873	30,987		694,860
Buildings and improvements	33,751,460	1,732,566	(55,433)	35,428,593	2,604,022	(7,292)	38,025,323
Equipment, software and intangibles	6,963,627	574,325	(366,460)	7,171,492	696,869	(259,278)	7,609,083
Libraries and collections	3,931,840	152,265	(23,996)	4,060,109	154,873	(62,294)	4,152,688
Special collections	384,221	50,687	(170)	434,738	25,254	(36)	459,956
Construction in progress	2,826,673	238,356		3,065,029	(544,879)		2,520,150
Capital assets, at original cost	**$49,477,889**	**$2,956,234**	**$(447,194)**	**$51,986,929**	**$2,976,677**	**$(338,635)**	**$54,624,971**

	2015	DEPRECIATION AND AMORTIZATION	DISPOSALS	2016	DEPRECIATION AND AMORTIZATION	DISPOSALS	2017
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure	$326,367	$22,238		$348,605	$23,093		$371,698
Buildings and improvements	13,101,858	1,083,003	$(27,410)	14,157,451	1,167,408	$(5,998)	15,318,861
Equipment, software and intangibles	4,527,627	567,743	(294,867)	4,800,503	588,597	(224,314)	5,164,786
Libraries and collections	2,879,258	131,062	(18,765)	2,991,555	130,772	(22,454)	3,099,873
Accumulated depreciation and amortization	**20,835,110**	**$1,804,046**	**$(341,042)**	**22,298,114**	**$1,909,870**	**$(252,766)**	**23,955,218**
Capital assets, net	**$28,642,779**			**$29,688,815**			**$30,669,753**

Service concession arrangements, reported as buildings and improvements, are $118.2 million of original cost and $22.5 million of accumulated depreciation at June 30, 2017. Service concession arrangements, reported as buildings and improvements, are $91.1 million of original cost and $20.2 million of accumulated depreciation at June 30, 2016.

12. SELF-INSURANCE, OBLIGATIONS UNDER LIFE INCOME AGREEMENTS AND OTHER LIABILITIES

The University's self-insurance, obligations under life income agreements and other liabilities at June 30, 2017 and 2016 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS			
	2017		2016		2017		2016	
	CURRENT	NONCURRENT	CURRENT	NONCURRENT	CURRENT	NONCURRENT	CURRENT	NONCURRENT
Self-insurance programs	$276,480	**$584,232**	$228,751	**$558,158**				
Obligations under life income agreements	1,601	**$34,479**	1,346	**$32,021**	$17,428	**$137,713**	$16,718	**$130,314**
Other liabilities:								
Compensated absences	578,012	$340,353	567,736	$294,842				
UCRP*	4,157	9,400	3,833	13,558				
Accrued interest	107,672		95,860					
Fair value of interest rate swaps		90,232		152,123				
Other	625,375	248,817	541,001	276,832	28,042	$253,288	35,157	$220,234
Total	**$1,593,297**	**$688,802**	**$1,438,527**	**$737,355**	**$45,470**	**$253,288**	**$51,875**	**$220,234**

** UCRP has an equivalent amount recorded as a contribution receivable from the University in its statement of fiduciary net position.*

Self-Insurance Programs

Self-insured liabilities changed for self-insured as follows for the years ended June 30:

(in thousands of dollars)

	MEDICAL MALPRACTICE	WORKERS' COMPENSATION	EMPLOYEE & STUDENT HEALTH CARE	GENERAL LIABILITY AND OTHER	TOTAL
Year Ended June 30, 2017					
Liabilities at June 30, 2016	$198,440	$391,440	$88,510	$108,519	$786,909
Claims incurred and changes in estimates	51,074	104,089	811,137	99,538	1,065,838
Claim payments	(56,359)	(86,522)	(809,469)	(39,685)	(992,035)
Liabilities at June 30, 2017	**$193,155**	**$409,007**	**$90,178**	**$168,372**	**$860,712**
Discount rate	**2.6% to 4.7%**	**2.6% to 4.7%**	**Undiscounted**	**2.6% to 4.7%**	
Year Ended June 30, 2016					
Liabilities at June 30, 2015	$187,236	$353,138	$75,433	$94,481	$710,288
Claims incurred and changes in estimates	73,520	119,972	666,442	41,190	901,124
Claim payments	(62,316)	(81,670)	(653,365)	(27,152)	(824,503)
Liabilities at June 30, 2016	**$198,440**	**$391,440**	**$88,510**	**$108,519**	**$786,909**
Discount rate	**5.0%**	**5.0%**	**Undiscounted**	**2.0%**	
Year Ended June 30, 2015					
Liabilities at June 30, 2014	$181,324	$321,055	$70,513	$87,777	$660,669
Claims incurred and changes in estimates	48,075	111,485	542,995	49,146	751,701
Claim payments	(42,163)	(79,402)	(538,075)	(42,442)	(702,082)
Liabilities at June 30, 2015	**$187,236**	**$353,138**	**$75,433**	**$94,481**	**$710,288**
Discount rate	**5.0%**	**5.0%**	**Undiscounted**	**2.0%**	

Obligations Under Life Income Agreements

Changes in current and noncurrent obligations under life income agreements for the years ended June 30 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	ANNUITIES	LIFE BENEFICIARIES	ANNUITIES	LIFE BENEFICIARIES
Year Ended June 30, 2017				
Balance at June 30, 2016	$15,588	$17,779	$48,898	$98,134
New obligations to beneficiaries and changes in liability, net	3,353	2,961	7,921	15,733
Payments to beneficiaries	(2,206)	(1,395)	(5,976)	(9,569)
Obligations under life income agreements at June 30, 2017	**16,735**	**19,345**	**50,843**	**104,298**
Less: Current portion	(763)	(838)	(6,166)	(11,262)
Noncurrent portion at June 30, 2017	**$15,972**	**$18,507**	**$44,677**	**$93,036**
Year Ended June 30, 2016				
Balance at June 30, 2015	$14,878	$17,699	$49,779	$103,268
New obligations to beneficiaries and changes in liability, net	1,926	1,128	5,241	5,082
Payments to beneficiaries	(1,216)	(1,048)	(6,122)	(10,216)
Obligations under life income agreements at June 30, 2016	**15,588**	**17,779**	**48,898**	**98,134**
Less: Current portion	(763)	(583)	(5,902)	(10,816)
Noncurrent portion at June 30, 2016	**$14,825**	**$17,196**	**$42,996**	**$87,318**

13. DEBT

The University directly finances the construction, renovation and acquisition of facilities and equipment, or for such other purposes as are authorized by The Regents through the issuance of debt obligations or indirectly through structures that involve legally separate entities reported as blended component units. Commercial paper and bank loans provide interim financing. Long-term financing includes revenue bonds, capital lease obligations and other borrowings.

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

(in thousands of dollars)

	WEIGHTED AVERAGE INTEREST RATE	INTEREST RATE RANGE	MATURITY YEARS	2017	2016
INTERIM FINANCING:					
Commercial paper		0.9 - 1.3%	2017	$812,673	$1,037,857
LONG-TERM FINANCING:					
University of California General Revenue Bonds					
Fixed Rate	4.7%	1.0 - 7.6%	2018-2115	9,959,700	9,033,015
Variable Rate	0.9%	0.9 - 1.1%	2037-2048	750,000	1,250,000
University of California Limited Project Revenue Bonds	4.8%	1.0 - 6.3%	2018-2051	3,702,630	3,783,230
University of California Medical Center Pooled Revenue Bonds					
Fixed Rate	5.5%	0.9 - 6.6%	2018-2049	2,763,295	2,445,435
Variable Rate	1.3%	0.6 - 1.6%	2018-2047	247,865	251,205
University of California Medical Center Revenue Bonds					42,560
Unamortized bond premium				1,020,465	881,814
University of California revenue bonds	**4.4%**			**18,443,955**	**17,687,259**
Capital lease obligations		0.5%-10.0%	2017-2042	195,022	176,753
Other University borrowings		Various	2018-2056	378,659	356,847
Blended component unit revenue bonds, net	5.6%	4.0 - 6.5%	2018-2049	672,567	692,571
Total outstanding debt				**20,502,876**	**19,951,287**
Less: Commercial paper				(812,673)	(1,037,857)
Current portion of outstanding debt				(1,519,005)	(1,413,265)
Noncurrent portion of outstanding debt				**$18,171,198**	**$17,500,165**

Interest expense associated with financing projects during construction, net of any investment income earned on tax-exempt bond proceeds during construction, is capitalized. Total interest expense during the years ended June 30, 2017 and 2016 was $782.0 million and $747.8 million, respectively. Interest expense, net of investment income, totaling $60.8 million and $54.8 million was capitalized during the years ended June 30, 2017 and 2016, respectively. The remaining $721.2 million and $693.0 million in 2017 and 2016 is reported as interest expense in the statement of revenues, expenses and changes in net position.

Outstanding Debt Activity

The activity with respect to the University's current and noncurrent debt, including the revenue bonds associated with blended component units, for the years ended June 30 is as follows:

(in thousands of dollars)

	UNIVERSITY REVENUE BONDS	FINANCING OBLIGATIONS	OTHER UNIVERSITY BORROWINGS	BLENDED COMPONENT UNIT REVENUE BONDS	TOTAL
Year Ended June 30, 2017					
Long-term debt and financing obligations at June 30, 2016	$17,687,259	$176,753	$356,847	$692,571	$18,913,430
New obligations	2,181,755	55,360	126,105	54,280	2,417,500
Bond premium	213,621			9,107	222,728
Refinancing or prepayment of outstanding debt	(1,224,530)		(39,999)	(56,210)	(1,320,739)
Scheduled principal payments	(339,180)	(37,091)	(64,294)	(24,026)	(464,591)
Amortization of bond premium	(74,970)			(3,155)	(78,125)
Long-term debt and financing obligations at June 30, 2017	**18,443,955**	**195,022**	**378,659**	**672,567**	**19,690,203**
Less: Current portion	(1,263,157)	(34,351)	(206,567)	(14,930)	(1,519,005)
Noncurrent portion at June 30, 2017	**$17,180,798**	**$160,671**	**$172,092**	**$657,637**	**$18,171,198**
Year Ended June 30, 2016					
Long-term debt and financing obligations at June 30, 2015	$16,777,164	$131,278	$337,169	$690,222	$17,935,833
New obligations	1,345,155	67,031	200,000	282,555	1,894,741
Bond premium	155,026			40,353	195,379
Refinancing or prepayment of outstanding debt	(214,255)		(52)	(313,575)	(527,882)
Scheduled principal payments	(314,305)	(21,556)	(180,270)	(3,663)	(519,794)
Amortization of bond premium	(61,526)			(3,321)	(64,847)
Long-term debt and financing obligations at June 30, 2016	**17,687,259**	**176,753**	**356,847**	**692,571**	**18,913,430**
Less: Current portion	(1,245,038)	(29,008)	(111,904)	(27,315)	(1,413,265)
Noncurrent portion at June 30, 2016	**$16,442,221**	**$147,745**	**$244,943**	**$665,256**	**$17,500,165**

Commercial Paper

The University has available a $2.0 billion commercial paper program, issued in two series, with tax-exempt and taxable components. Commercial paper may be issued for interim/permanent financing for capital projects, interim financing of equipment, financing of working capital for the medical centers, standby or interim financing for gift financed projects and working capital for the University.

The program's liquidity is primarily supported by available investments in STIP and TRIP. Commercial paper is collateralized by a pledge of the revenues derived from the ownership or operation of the projects financed and constitute limited obligations of the University. There is no encumbrance, mortgage or other pledge of property securing commercial paper and the paper does not constitute general obligations of the University.

Commercial paper outstanding, including interest rates, at June 30 is as follows:

(in thousands of dollars)

	2017		2016	
	INTEREST RATES	OUTSTANDING	INTEREST RATES	OUTSTANDING
Taxable	0.93 - 1.26%	$812,673	0.39-0.60%	$1,037,857
Total outstanding		**$812,673**		**$1,037,857**

The expectation is that the University will continue to utilize available investments for liquidity support for the commercial paper program. Alternatively, the University may utilize lines of credit from external banks for the purpose of providing additional liquidity support for the commercial paper program. As of June 30, 2017, the University has two revolving credit agreements totaling $700.0 million. There were no borrowings against the revolving credit lines as of June 30, 2017.

University of California Revenue Bonds

Revenue bonds have financed various auxiliary, administrative, academic, medical center and research facilities of the University. They generally have annual principal and semiannual or monthly interest payments, serial and term maturities, contain sinking fund requirements and may have optional redemption provisions. Revenue bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents. Revenue Bond Indentures require the University to use the facilities in a way which will not cause the interest on the tax-exempt bonds to be included in the gross income of the bondholders for federal tax purposes.

General Revenue Bonds are collateralized solely by General Revenues as defined in the General Revenue Bond Indenture. General Revenues are certain operating and nonoperating revenues of the University consisting of gross student tuition and fees; facilities and administrative cost recovery from contracts and grants; revenues from educational, auxiliary and other activities; and other revenues, including unrestricted investment income. The General Revenue Bond Indenture requires the University to set rates, charges and fees each year sufficient for General Revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. General Revenues, as defined in the Indenture, have been amended to include certain state appropriations as to secure payment of the General Revenue Bonds. General Revenues for the years ended June 30, 2017 and 2016 were $16.2 billion and $15.3 billion, respectively. The pledge of General Revenues for interest rate swap agreements is on a parity basis with the University's General Revenue Bonds.

Limited Project Revenue Bonds are issued to finance auxiliary enterprises and are collateralized by a pledge consisting of the sum of the gross revenues of the specific projects. The Limited Project Revenue Bond Indenture requires the University to achieve the sum of gross project revenues equal to 1.1 times debt service and maintain certain other financial covenants. Pledged revenues for the years ended June 30, 2017 and 2016 were $1.4 billion and $1.3 billion, respectively.

Medical Center Pooled Revenue Bonds are issued to finance the University's medical center facilities and are collateralized by a joint and several pledges of the gross revenues of all five of the University's medical centers. Medical center gross revenues are excluded from General Revenues. The Medical Center Pooled Revenue Bond Indenture requires the medical centers to set rates, charges and fees each year sufficient for the Medical Centers' total operating and nonoperating revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. Pledged revenues of the medical centers for the years ended June 30, 2017 and 2016 were $11.4 billion and $10.4 billion, respectively.

Medical Center Revenue Bonds have also financed certain facilities of one medical center and are collateralized by a pledge of the specific gross revenues associated with the medical center. That Medical Center Revenue Bond Indenture required that medical center to achieve debt service coverage of 1.1 times, set limitations on encumbrances, indebtedness, disposition of assets and transfer services, as well as maintain certain other financial covenants.

The pledge of revenues for Limited Project Revenue Bonds is subordinate to the pledge of revenues for General Revenue Bonds, but senior to pledges for commercial paper notes.

Medical center gross revenues are pledged under the Indenture for the Medical Center Pooled Revenue Bonds and certain interest rate swap agreements.

The pledge of medical center revenues for interest rate swap agreements may be at parity with, or subordinate to, Medical Center Pooled Revenue Bonds.

All Indentures permit the University to issue additional bonds as long as certain conditions are met.

2017 Activity

In August 2016, Medical Center Pooled Revenue Bonds totaling $1.0 billion, including $872.8 million of tax-exempt bonds and $173.4 million taxable bonds, were issued to finance and refinance certain facilities and projects of the Medical Centers. Proceeds, including a net bond premium of $155.8 million, were used to pay for project construction, issuance costs and refund $724.5 million of outstanding Medical Center Pooled Revenue Bonds and all of the outstanding Medical Center Revenue Bonds. The bonds mature at various dates through 2047. Simultaneously, a bank standby bond purchase agreement for certain of the University's variable-rate demand bonds was terminated. The University will provide its own liquidity in connection with mandatory and optional tenders and remarketing of these bonds and does not plan to provide any third-party liquidity facility to support this obligation. The interest rates on the variable-rate demand bonds reset daily and an interest rate swap is being used to limit exposure to changes in market interest rates. In the event of a failed remarketing, the variable-rate demand bonds can be put back to The Regents for tender. The tax-exempt and taxable bonds have a stated weighted average interest rate of 4.5 percent and 3.0 percent, respectively. The refunding of the outstanding Medical Center Pooled Revenue

Bonds and Medical Center Revenue Bonds resulted in a loss of $8.0 million, recorded as a deferred outflow of resources, that will be amortized as interest expense over the term of the refunded bonds. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. The refinancing and refunding of previously outstanding Medical Center Revenue Bonds resulted in cash flow savings of $193.5 million and an economic gain of $151.2 million.

Medical center gross revenues continue to be pledged under the Indenture for the Medical Center Pooled Revenue Bonds and certain interest rate swap agreements. The pledge of medical center revenues for interest rate swap agreements may be at parity with, or subordinate to, specific Medical Center Pooled Revenue Bonds.

In April 2017, General Revenue Bonds totaling $1.1 billion, including $449.7 million in tax-exempt bonds, $185.9 million in taxable bonds and $500.0 million of taxable fixed rate notes, were issued to finance or refinance certain projects and working capital purposes of the University. The bonds mature at various dates through 2049 and the taxable fixed rate notes mature in 2025. Proceeds, including a bond premium of $68.0 million, were used to pay for project construction and issuance costs and to refund $500.0 million of outstanding General Revenue Bonds. The tax-exempt bonds have a stated weighted average interest rate of 4.8 percent. The taxable bonds have a stated weighted average interest rate of 3.8 percent. The taxable fixed rate notes have a stated interest rate of 3.1 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

2016 Activity

In April 2016, General Revenue Bonds totaling $813.1 million, including $410.3 million in tax-exempt bonds, $182.3 million in taxable bonds, $132.3 million in tax-exempt put bonds and $88.2 million of taxable fixed rate notes were issued to finance or refinance certain facilities and projects of the University. The bonds mature at various dates through 2046 and the taxable fixed rate notes mature in 2021. The put bonds will be subject to mandatory tender for purchase in 2021. Proceeds, including a bond premium of $90.0 million, were used to pay for project construction and issuance costs and to refund $73.4 million of outstanding General Revenue Bonds. The refunding of the outstanding General Revenue Bonds resulted in a loss of $7.1 million, recorded as a deferred outflow of resources, that will be amortized as interest expense over the remaining life of the refunded bonds. The refinancing and refunding of previously outstanding General Revenue Bonds resulted in cash flow savings of $17.7 million and an economic gain of $11.3 million. The taxable bonds have a stated weighted average interest rate of 3.0 percent. The tax-exempt bonds have a stated weighted average interest rate of 5.0 percent. The tax-exempt put bonds have an initial term rate of 1.4 percent. The taxable fixed rate notes have a stated interest rate of 1.9 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In June 2016, Limited Project Revenue Bonds totaling $532.1 million, including $434.2 million tax-exempt bonds and $97.9 million taxable bonds, were issued to finance or refinance the acquisition, construction, improvement and renovation of certain athletic, parking, recreational and dining facilities, as well as, student and faculty housing of the University. The bonds mature at various dates through 2051. Proceeds, including a bond premium of $69.9 million, were used to pay for project construction and issuance costs and to refund $140.9 million of outstanding General Revenue Bonds. The refunding of the outstanding General Revenue Bonds resulted in a loss of $13.9 million, recorded as a deferred outflow of resources, that will be amortized as interest expense over the remaining life of the refunded bonds. The refinancing and refunding of previously outstanding General Revenue Bonds resulted in cash flow savings of $28.2 million and an economic gain of $20.2 million. The taxable bonds have a stated weighted average interest rate of 3.1 percent. The tax-exempt bonds have a stated weighted average interest rate of 4.3 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

Subsequent Events

In September 2017, Limited Project Revenue Bonds totaling $860.4 million, including $733.5 million tax-exempt bonds and $126.9 million taxable bonds, were issued to finance or refinance the acquisition, construction, improvement and renovation of certain facilities of the University. The bonds mature at various dates through 2052. Proceeds, including a bond premium of $124.2 million, were used to pay for project construction and issuance costs. The taxable bonds have a stated weighted average rate of 2.9 percent. The tax-exempt bonds have a stated weighted average interest rate of 4.9 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

Capital Leases

Capital leases entered into with other lessors, typically for equipment, totaled $55.4 million and $67.0 million for the years ended June 30, 2017 and 2016, respectively.

Other University Borrowings

Other University borrowings consist of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities, along with the borrowing component associated with a hybrid derivative instrument.

The University may use uncollateralized revolving lines of credit with commercial banks for general corporate purposes and to provide interim financing for buildings and equipment. Lines of credit commitments for general corporate purposes, with various expiration dates through February 14, 2020, totaled $415.0 million at June 30, 2017 and 2016. Outstanding borrowings under these bank lines totaled $250.0 million and $300.0 million at June 30, 2017 and 2016, respectively.

Certain of the interest rate swaps are considered hybrid instruments. As such, the interest rate swaps are comprised of a derivative instrument and a companion instrument recorded as a borrowing. The unamortized amount of the borrowing was $79.0 million and $40.0 million at June 30, 2017 and 2016, respectively.

In August 2016, the University entered into an agreement with a developer to design, construct, finance, operate and maintain certain auxiliary, administrative, academic and research facilities of one of its campuses, for which the University will finance $600.0 million of the total costs. Of this amount, $585.0 million will be paid to the developer over a 48-month period through a series of monthly progress payments. The remainder will cover invoiced costs for infrastructure improvements and equipment. Upon completion of the design-build phase of the project, the University will enter into an ongoing Operations and Maintenance Agreement with the developer through 2055. Payments under this agreement will have two components: the first component of the agreement is related to the operations and maintenance of the facilities, the second component is to service the private debt incurred by the developer during the construction phase. The operations and maintenance component of the payment will be expensed as incurred. The payments for the private debt are being treated as capital leases and are recorded as other borrowings by the University. In the event that the operations and maintenance agreement with the developer is terminated, the outstanding portion of the private debt incurred by the developer would become an obligation of the University.

As of June 30, 2017, CHRCO had no amounts outstanding under its revolving credit facility for $25.0 million. The interest rate on the credit facility is 2.3 percent as of June 30, 2017 and the facility expires on August 31, 2018.

Blended Component Unit Revenue Bonds

Student Housing

The University has entered into ground leases with a legally separate, nonprofit corporation that develops and owns student housing projects and related amenities and improvements on a University campus through the use of a single-project limited liability corporation (LLC). The LLC manages the premises. The University's reversionary interest in the land is not subordinated. All costs associated with the ownership, operation and management of the improvements are the obligation of the LLC. Student rental rates are established in order to provide for operating expenses and maintain the required debt service coverage ratios. The University is not responsible for any payments related to the ownership, operation or financing of the student housing. However, under accounting requirements, the financial position and operating results of this legally separate organization are blended into the University's financial reporting entity.

The LLC, through its conduit issuer, has outstanding Student Housing LLC Revenue Bonds to finance the construction of the student housing facilities. The bonds generally have annual principal and semiannual interest payments, serial and term maturities, certain sinking fund requirements and optional redemption provisions. They are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues of the student housing projects, and do not constitute general obligations of The Regents.

In March 2016, the LLC, through its conduit issuer, issued additional Student Housing LLC Revenue Bonds totaling $282.6 million. Proceeds, including a bond premium of $40.5 million, were used to pay for issuance costs and to refund $313.6 million of outstanding Student Housing LLC Revenue bonds. The refunding of the outstanding Student Housing LLC Revenue Bonds resulted in a loss of $26.4 million, recorded as a deferred outflow of resources, that will be amortized as interest expense over the life of the refunded bonds. The refinancing and refunding of previously outstanding Student Housing LLC Revenue Bonds resulted in cash flow savings of $71.5 million and an economic gain of $35.4 million. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. The Student Housing LLC Revenue Bonds have annual principal and semiannual interest payments, serial and term maturities, certain sinking fund requirements and optional redemption provisions. They are not collateralized by any encumbrance, mortgage or other pledge of property except pledged revenues of the student housing project, and do not constitute general obligations of The Regents.

At June 30, 2017 and 2016, the LLC, through its conduit issuer, has outstanding Student Housing LLC Revenue Bonds totaling $362.2 million and $370.9 million, respectively. The bonds mature at various dates through 2040 and have a weighted average interest rate of 5.1 percent.

Subsequent Events

In August 2017, the LLC, through its conduit issuer, issued additional Student Housing LLC Revenue Bonds totaling $148.6 million. The bonds mature at various dates through 2050 and have a stated weighted average interest rate of 5.0 percent. Proceeds, including a bond premium of $24.2 million, were used to pay for project construction and issuance costs. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

Research Facilities

The University has a public/private partnership, for the purpose of developing, constructing and managing a neuroscience research laboratory building with a legally separate, nonprofit corporation. In connection with the research laboratory building, the University entered into a ground lease with the corporation. The corporation has entered into a sub-ground lease with a developer to construct, own and manage the building. The University agreed to lease all of the space in the building from the developer. The University's base rent payments are equal to the principal and interest payments on the bonds issued by the corporation to finance the construction of the building. As security on the bonds, the developer has assigned all payments received from the University for the space lease to the bond trustee.

All of the board members of the nonprofit corporation are appointed by the University and the University has the authority to determine the budget for the corporation. Under accounting requirements, the financial position and operating results of this legally separate organization are blended into the University's financial reporting entity.

The corporation, through a conduit issuer, has outstanding tax-exempt revenue bonds totaling $19.7 million and taxable revenue bonds totaling $188.0 million. The tax-exempt revenue bonds mature at various dates from 2021 through 2025 and have a weighted average interest rate of 5.0 percent. They generally have annual serial maturities, semi-annual interest payments and optional redemption provisions. The taxable bonds mature in 2049 and have an interest rate of 6.5 percent. The taxable bonds were issued as Build America Bonds, under which the U.S. Treasury is expected to send the nonprofit corporation 35.0 percent of the semi-annual interest cost on the taxable bonds, making the net interest rate 4.2 percent post-subsidy. The bonds have a term maturity with various certain annual sinking fund requirements, semi-annual interest payments and optional redemption provisions.

In addition, the University entered into a ground lease with another legally separate, nonprofit corporation (the Consortium). The Consortium entered into an agreement with a developer to develop and own a research laboratory facility designed to expand collaborative work in stem cell research and facilitate its translation into tools and techniques to diagnose and treat degenerative diseases and other ailments. The developer constructed the research laboratory facility. All costs associated with the ownership, operation and management of the laboratory research facility are the obligation of the Consortium. The University, along with the other collaborative research partners, will lease space in the building. Under accounting requirements, the financial position and operating results of this legally separate organization are blended into the University's financial reporting entity.

The Consortium, through its conduit issuer, has outstanding revenue bonds totaling $53.3 million. The bonds mature at various dates through 2040 and have a weighted average interest rate of 4.5 percent. The bonds generally have annual principal and semiannual interest payments, serial and term maturities, certain sinking fund requirements and optional redemption provisions. Lease payments from the occupants of the building are pledged as collateral on the bonds. To the extent the lease payments are not sufficient to pay the debt service, the University is obligated to pay the shortfall.

Future Debt Service and Hedging Derivative Interest Rate Swaps

Future debt service payments for the University's fixed- and variable-rate debt and net receipts or payments on associated hedging derivative instruments for each of the five fiscal years subsequent to June 30, 2017, and thereafter are as presented below. Although not a prediction by the University of the future interest cost of the variable-rate bonds or the impact of the hedging derivative interest rate swaps, these amounts assume that current interest rates on variable-rate bonds and the current reference rates of the hedging derivative interest rate swaps will remain the same. As these rates vary, variable-rate bond interest payments and net hedging derivative interest rate swap payments will vary.

(in thousands of dollars)

	COMMERCIAL PAPER	MEDICAL CENTER REVENUE BONDS	UNIVERSITY REVENUE BONDS	CAPITAL LEASES	OTHER UNIVERSITY BORROWINGS	BLENDED COMPONENT UNIT REVENUE BONDS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year Ending June 30									
2018	$814,394	$198,359	$929,307	$40,278	$206,770	$44,206	$2,233,314	$1,406,786	$826,528
2019		198,810	941,581	38,308	56,314	44,211	1,279,224	461,936	817,288
2020		204,509	1,227,121	36,345	5,118	44,207	1,517,300	717,829	799,471
2021		214,349	1,156,955	31,238	4,872	47,775	1,455,189	674,582	780,607
2022		213,327	919,695	8,699	4,882	47,775	1,194,378	435,901	758,477
2023-2027		1,083,942	4,990,072	23,341	23,634	239,067	6,360,056	2,974,050	3,386,006
2028-2032		1,005,028	4,199,049	27,769	21,630	237,234	5,490,710	2,799,908	2,690,802
2033-2037		980,534	3,823,590	33,787	19,159	234,021	5,091,091	3,115,398	1,975,693
2038-2042		956,971	3,041,240	37,772	15,717	140,878	4,192,578	2,978,575	1,214,003
2043-2047		868,729	1,800,270		9,550	69,308	2,747,857	2,100,645	647,212
2048-2052		127,598	597,588		11,315	26,023	762,524	408,615	353,909
2053-2115			5,368,333				5,368,333	1,360,000	4,008,333
Total future debt service	**814,394**	**6,052,156**	**28,994,801**	**277,537**	**378,961**	**1,174,705**	**37,692,554**	**$19,434,225**	**$18,258,329**
Less: Interest component of future payments	(1,721)	(3,040,996)	(14,582,471)	(81,349)	(302)	(551,490)	(18,258,329)		
Principal portion of future payments	**812,673**	**3,011,160**	**14,412,330**	**196,188**	**378,659**	**623,215**	**19,434,225**		
Adjusted by:									
Unamortized bond premium		154,449	866,016			49,352	1,069,817		
Present value of net minimum leases included in long-term debt				(1,166)			(1,166)		
Total debt	**$812,673**	**$3,165,609**	**$15,278,346**	**$195,022**	**$378,659**	**$672,567**	**$20,502,876**		

Long-term debt does not include $2.0 billion of defeased liabilities at June 30, 2017. Investments that have maturities and interest rates sufficient to fund retirement of these liabilities are being held in irrevocable trusts for the debt service payments. Neither the assets of the trusts nor the outstanding obligations are included in the University's statement of net position.

General Revenue Bonds of $750.0 million are variable-rate demand bonds which reset weekly and, in the event of a failed remarketing, can be put back to The Regents for tender. The University has classified $750.0 million of these bonds as current liabilities as of June 30, 2017.

Medical Center Pooled Revenue Bonds of $98.8 million are variable-rate demand bonds which give the debt holders the ability to tender the bonds back to the University upon demand. The University has classified these bonds as current liabilities as of June 30, 2017.

As rates vary, variable-rate bond interest payments and net swap payments will vary. Although not a prediction by the University of the future interest cost of the variable-rate bonds or the impact of the interest rate swaps, using rates as of June 30, 2017, combined debt service requirements of the variable-rate debt and net swap payments are as follows:

(in thousands of dollars)

	VARIABLE-RATE BONDS		INTEREST RATE SWAP, NET	TOTAL PAYMENTS
	PRINCIPAL	INTEREST		
Year Ending June 30				
2018	$3,465	$8,204	$13,485	$25,154
2019	3,590	8,183	13,396	25,169
2020	3,725	8,181	13,309	25,215
2021	3,860	8,137	13,210	25,207
2022	3,995	8,113	13,112	25,220
2023-2027	40,695	39,666	39,910	120,271
2028-2032	49,650	37,427	25,346	112,423
2033-2037	28,840	35,011	19,332	83,183
2038-2042	48,755	32,464	13,943	95,162
2043-2047	531,665	22,259	4,506	558,430
2048-2052	129,625	1,091		130,716
Total	**$847,865**	**$208,736**	**$169,549**	**$1,226,150**

14. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The composition of deferred outflows and inflows of resources at June 30 are summarized as follows:

(in thousands of dollars)

	SERVICE CONCESSION ARRANGEMENTS	NET PENSION LIABILITY	NET RETIREE HEALTH BENEFITS LIABILITY	DEBT REFUNDING	INTEREST RATE SWAP AGREEMENTS	ROYALTY SALES	TOTAL
At June 30, 2017							
Deferred outflows of resources		$1,001,165	$4,106,941	$351,306	$90,232		$5,549,644
Deferred inflows of resources	$95,725	785,238	4,934,470	1,436		$467,502	6,284,371
At June 30, 2016							
Deferred outflows of resources		$5,034,519	$4,596,226	$387,222	$152,123		$10,170,090
Deferred inflows of resources	$70,759	1,163,694	1,736,054			$497,826	3,468,333

15. THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

Most University employees participate in UCRS. UCRS consists of UCRP, a defined benefit plan funded with University and employee contributions; UCRSP, which includes defined contribution plans with options to participate in internally or externally managed investment portfolios generally funded with employee non-elective and elective contributions; UC-VERIP, a defined benefit plan for University employees who were members of PERS and who elected early retirement; and the CHRCO Pension Plan, a defined benefit plan fully funded with CHRCO contributions. The Regents has the authority to establish and amend the benefit plans except for the CHRCO Pension Plan. Administration authority with respect to UCRS plans is vested with the President of the University as plan administrator. CHRCO administers the CHRCO Pension Plan as the Sponsor and plan assets are held by US Bank (the Trustee).

Condensed financial information related to each plan in UCRS and the changes in pension liability for UCRP, UC-VERIP and the CHRCO Pension Plan for the year ended June 30, 2017 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA					
	UNIVERSITY OF CALIFORNIA RETIREMENT PLAN	UNIVERSITY OF CALIFORNIA UC-VERIP	SUBTOTAL	UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PROGRAM	TOTAL	CHILDREN'S HOSPITAL & RESEARCH CENTER AT OAKLAND PENSION PLAN
CONDENSED STATEMENT OF PLAN FIDUCIARY NET POSITION						
Investments at fair value	$63,004,945	$65,809	$63,070,754	$19,503,265	$82,574,019	$409,008
Participants' interests in mutual funds				3,351,454	3,351,454	
Investment of cash collateral	3,820,399	4,013	3,824,412	3,017,118	6,841,530	
Other assets	936,331	1,068	937,399	265,914	1,203,313	
Total assets	**67,761,675**	**70,890**	**67,832,565**	**26,137,751**	**93,970,316**	**409,008**
Collateral held for securities lending	3,818,660	4,012	3,822,672	3,015,744	6,838,416	
Other liabilities	1,828,757	1,900	1,830,657	639,375	2,470,032	
Total liabilities	**5,647,417**	**5,912**	**5,653,329**	**3,655,119**	**9,308,448**	
Net position held in trust	**$62,114,258**	**$64,978**	**$62,179,236**	**$22,482,632**	**$84,661,868**	**$409,008**
CONDENSED STATEMENT OF CHANGES IN PLANS' FIDUCIARY NET POSITION						
Contributions	$3,448,563		$3,448,563	$1,330,901	$4,779,464	$28,800
Net appreciation (depreciation) in fair value of investments	6,906,968	$7,474	6,914,442	1,701,958	8,616,400	
Investment and other income, net	959,313	1,192	960,505	476,266	1,436,771	41,256
Total additions	**11,314,844**	**8,666**	**11,323,510**	**3,509,125**	**14,832,635**	**70,056**
Benefit payment and participant withdrawals	3,320,990	4,738	3,325,728	1,374,324	4,700,052	11,767
Other deductions	44,128	6	44,134	8,816	52,950	2,727
Total deductions	**3,365,118**	**4,744**	**3,369,862**	**1,383,140**	**4,753,002**	**14,494**
Increase in net position held in trust	**7,949,726**	**3,922**	**7,953,648**	**2,125,985**	**10,079,633**	**55,562**
Net position held in trust						
Beginning of year	54,164,532	61,056	54,225,588	20,356,647	74,582,235	353,446
End of year	**$62,114,258**	**$64,978**	**$62,179,236**	**$22,482,632**	**$84,661,868**	**$409,008**
CHANGES IN TOTAL PENSION LIABILITY						
Service cost	$1,807,143		$1,807,143			$9,910
Interest	5,035,267	$2,463	5,037,730			29,672
Difference between expected and actual experience	74,664	(189)	74,475			33
Changes of benefit terms						2,442
Changes of assumptions or other inputs						
Benefits paid, including refunds of employee contributions	(3,320,990)	(4,738)	(3,325,728)			(11,767)
Net change in total pension liability	**3,596,084**	**(2,464)**	**3,593,620**			**30,290**
Total pension liability						
Beginning of year	69,230,762	35,008	69,265,770			419,862
End of year	**$72,826,846**	**$32,544**	**$72,859,390**			**$450,152**
Net pension liability (asset), end of year	**$10,712,588**	**$(32,434)**	**$10,680,154**			**$41,144**

Additional information on the retirement plans can be obtained from the 2016-2017 annual reports of the University of California Retirement System which can be obtained at http://reportingtransparency.universityofcalifornia.edu/.

University of California Retirement Plan

UCRP provides lifetime retirement income, disability protection, death benefits, and post-retirement and pre-retirement survivor benefits to eligible employees of the University, and its affiliates. Membership is required in UCRP for all employees appointed to work at least 50 percent time for one year or more or for an indefinite period or for a definite period of a year or more. An employee may also become eligible by completing 1,000 hours within a 12-month period. Generally, five years of service are required for entitlement to plan benefits. The amount of pension benefit is determined under the basic formula of covered compensation times age factor times years of service credit. The maximum monthly benefit cannot exceed 100 percent of the employee's highest average plan compensation over a 36-month period, subject to certain limits imposed under the Internal Revenue Code or plan provisions. Annual cost-of-living adjustments are made to monthly benefits according to a specified formula based on the Consumer Price Index. Ad hoc COLAs may be granted subject to funding availability.

The University's membership in UCRP consisted of the following at June 30, 2017:

	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
Retirees and beneficiaries receiving benefits	59,806	13,189	72,995
Inactive members entitled to, but not receiving benefits	76,735	10,317	87,052
Active members:			
Vested	74,397	1,667	76,064
Nonvested	52,472	846	53,318
Total active members	**126,869**	**2,513**	**129,382**
Total membership	**263,410**	**26,019**	**289,429**

Contributions

Contributions to UCRP are based upon rates determined by The Regents. The Regents' funding policy provides for contributions at rates to maintain UCRP on an actuarially sound basis. While the University's independent actuary annually determines the total funding policy contributions, the University is not required to contribute an amount equal to the total funding contribution. The actual contributions and the contribution rates of the University and employees are based on numerous factors, including the availability of funds to the University, the impact of employee contributions on the competitiveness of the University's total remuneration package, and collective bargaining agreements.

The Regents determines the portion of the total contribution to be made by the employer and by the employees, and employee contribution rates for represented employees are subject to collective bargaining. Effective July 1, 2014, employee member contributions range from 7.0 percent to 9.0 percent. The University pays a uniform contribution rate of 14.0 percent of covered payroll on behalf of all UCRP members.

Employee contributions to UCRP are accounted for separately and currently accrue interest at 6.0 percent annually. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may also elect monthly retirement income or a lump sum equal to the present value of their accrued benefits. Both current employees and retirees at LBNL participate in UCRP. The University makes contributions to UCRP for LBNL employees based upon rates authorized by The Regents and is reimbursed by the DOE. The University also makes contributions to UCRP for LANL and LLNL retirees and terminated vested members whose benefits were retained in UCRP at the time the joint ventures were formed. The contributions for the LANL and LLNL are actuarially determined based upon a contractual arrangement with the DOE that incorporates a formula targeted to maintain the LANL and LLNL segments within UCRP at a 100-percent funded level. The University is reimbursed by the DOE for these contributions. To the extent the University has recorded a net pension liability (and related deferred inflows and outflows of resources) that will be reimbursed under DOE contracts, a receivable from the DOE is recorded. As of June 30, 2017 and 2016, the University reported $615.1 million and $974.7 million, respectively, as other noncurrent Department of Energy receivables for pension liabilities. Contributions of $367.7 million and $413.9 million were reported as DOE laboratory revenue and expense in the statement of revenues, expenses and changes in net position, and were deposited into UCRP on behalf of the DOE for the years ended June 30, 2017 and 2016, respectively.

Net Pension Liability

All UCRP assets are available to pay any member's benefit. However, assets and liabilities for the campus and medical center segment of UCRP are internally tracked separately from the DOE national laboratory segments of UCRP. The net pension liability for UCRP was as follows:

(in thousands of dollars)	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
At June 30, 2017			
UCRP net position	$53,251,580	$8,862,678	$62,114,258
Total pension liability	63,355,934	9,470,912	72,826,846
Net pension liability	**$10,104,354**	**$608,234**	**$10,712,588**
At June 30, 2016			
UCRP net position	$46,127,486	$8,037,046	$54,164,532
Total pension liability	59,779,748	9,451,014	69,230,762
Net pension liability	**$13,652,262**	**$1,413,968**	**$15,066,230**

The University's net pension liability was measured as of June 30 and was calculated using the plan net position valued as of the measurement date and total pension liability determined based upon rolling forward the total pension liability from the results of the actuarial valuations as of July 1 one year prior to the measurement date. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future. The University's net pension liability was calculated using the following methods and assumptions:

	2017	2016
Inflation	3.0%	3.0%
Investment rate of return	7.25	7.25
Projected salary increases	3.8 - 6.2	3.8 - 6.2
Cost-of-living adjustments	2.0	2.0

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in 2017 were based upon the results of an experience study conducted for the period of July 1, 2010 through June 30, 2014. For active members, inactive members and healthy retirees, the RP-2014 White Collar Mortality Tables are used (separate tables for males and females), projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females.

The long-term expected investment rate of return assumption for UCRP was determined in 2015 based on a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

	TARGET ALLOCATION	LONG-TERM EXPECTED REAL RATE OF RETURN
Asset class		
U.S. Equity	28.5%	6.1%
Developed International Equity	18.5	7.0
Emerging Market Equity	8.0	8.6
Core Fixed Income	12.5	0.8
High Yield Bonds	2.5	3.0
Emerging Market Debt	2.5	3.9
TIPS	4.5	0.4
Real Estate	5.5	4.8
Private Equity	8.0	11.2
Absolute Return	6.5	4.2
Real Assets	3.0	4.4
Total	**100.0%**	**5.6%**

Discount Rate

The discount rate used to estimate the net pension liability as of June 30, 2017 and 2016 was 7.25 percent. To calculate the discount rate, cash flows into and out of UCRP were projected in order to determine whether UCRS has sufficient cash in future periods for projected benefit payments for current members. For this purpose, University, state and member contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected University and member contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are not included. UCRP was projected to have assets sufficient to make projected benefit payments for current members for all future years as of June 30, 2017 and 2016.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the June 30, 2017 net pension liability of the University calculated using the June 30, 2017 discount rate assumption of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	1% DECREASE (6.25%)	CURRENT DISCOUNT (7.25%)	1% INCREASE (8.25%)
UCRP	$19,885,642	$10,712,588	$3,125,799
UC-VERIP	(30,667)	(32,434)	(33,952)

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources:

(in thousands of dollars)	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	TOTAL UCRP	UC-VERIP	TOTAL
At June 30, 2017					
DEFERRED OUTFLOWS OF RESOURCES					
Difference between expected and actual experience	$179,399		$179,399		$179,399
Changes of assumptions or other inputs	785,741		785,741		785,741
Net difference between projected and actual earnings on pension plan investments		$7,275	7,275		7,275
Total	**$965,140**	**$7,275**	**$972,415**		**$972,415**
DEFERRED INFLOWS OF RESOURCES					
Difference between expected and actual experience	$151,067	$7,410	$158,477		$158,477
Changes of assumptions or other inputs	378,815		378,815		378,815
Net difference between projected and actual earnings on pension plan investments	244,430		244,430		244,430
Total	**$774,312**	**$7,410**	**$781,722**		**$781,722**

(in thousands of dollars)	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	TOTAL UCRP	UC-VERIP	TOTAL
At June 30, 2016					
DEFERRED OUTFLOWS OF RESOURCES					
Difference between expected and actual experience	$133,315		$133,315		$133,315
Changes of assumptions or other inputs	1,790,043		1,790,043		1,790,043
Net difference between projected and actual earnings on pension plan investments	2,610,352	$450,700	3,061,052	$3,299	3,064,351
Total	**$4,533,710**	**$450,700**	**$4,984,410**	**$3,299**	**$4,987,709**
DEFERRED INFLOWS OF RESOURCES					
Difference between expected and actual experience	$270,482	$11,422	$281,904		$281,904
Changes of assumptions or other inputs	877,254		877,254		877,254
Total	**$1,147,736**	**$11,422**	**$1,159,158**		**$1,159,158**

The net amount of deferred outflows of resources and deferred inflows of resources as of June 30, 2017 related to pensions that will be recognized in pension expense during the next five years are as follows:

(in thousands of dollars)	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	TOTAL UCRP	UC-VERIP	TOTAL
2018	$(400,667)	$(45,287)	$(445,954)	$(403)	$(446,357)
2019	849,391	107,064	956,455	877	957,332
2020	366,735	45,075	411,810	376	412,186
2021	(633,819)	(106,987)	(740,806)	(850)	(741,656)
2022	9,188		9,188		9,188
Total	**$190,828**	**$(135)**	**$190,693**		**$190,693**

Defined Contribution Plan

Effective July 1, 2016, newly hired (or becoming eligible) employees can elect a defined contribution option instead of participating in UCRP. For employees who elect this option, both the University and the participants make mandatory contributions, on a pretax basis, on eligible pay up to the IRS compensation limit. The participant contributes 7.0 percent and the University contributes 8.0 percent. University contributions are fully vested after one year of service. For certain newly hired (or becoming eligible) employees who elect to participate in UCRP, the University and the participants make mandatory contributions to the DC Plan on eligible pay up to the IRS limit. Participants contribute 7.0 percent on eligible pay and the University contributes 5.0 percent for designated faculty and 3.0 percent for staff. University contributions fully vest after five years service.

The University makes DC Plan retirement contributions on the summer or equivalent term salaries of eligible academic employees who teach, conduct research or provide administrative service during the summer session or an equivalent term. To be eligible, employees must hold academic year appointments and be active members of UCRP or another defined benefit plan to which the University contributes. The contribution rate is 7.0 percent of eligible salary, of which 3.5 percent is University-paid and 3.5 percent is employee-paid, both on a pretax basis. The University may also contribute on behalf of eligible senior managers. Employer contributions to the DC Plan were $13.2 million and $4.9 million for the years ended June 30, 2017 and 2016, respectively.

The DC Plan Pretax Account also includes mandatory contributions from part-time, seasonal and temporary employees at the University who are not currently participating in UCRP or another defined benefit plan to which the University contributes (Safe Harbor participants). Safe Harbor participation includes certain University student employees and resident aliens with F-1 and J-1 visa status. Safe Harbor participants contribute 7.5 percent of their gross salary (up to the Social Security wage base) to the Plan in lieu of deductions for Social Security taxes.

All University employees, except students who normally work fewer than 20 hours per week, are eligible to make voluntary contributions to the DC Plan After-Tax Account and defer taxation on the earnings until the accumulations are withdrawn. The maximum amount participants may contribute annually to the After-Tax Account is determined by the IRC §415(c) limit. The University may also make DC Plan contributions on behalf of eligible senior managers.

The Supplemental Defined Contribution Plan (SDC Plan) accepts employer contributions in behalf of certain designated employees. Employer contributions are fully vested and there is no provision for employee contributions. There were no assets or employer contributions to the SDC Plan for the years ended June 30, 2017 and 2016.

Tax Deferred 403(b) Plan

The University's Tax-Deferred 403(b) Plan (403(b) Plan) accepts pretax employee contributions. The University may also make contributions in behalf of certain members of management. Employer contributions to the 403(b) Plan were $3.2 million and $1.5 million for the years ended June 30, 2017 and 2016.

457(b) Deferred Compensation Plan

The University's 457(b) Deferred Compensation Plan (457(b) Plan) accepts pretax employee contributions. The University may also make contributions in behalf of certain members of management. There were no employer contributions to the 457(b) Plan for the years ended June 30, 2017 and 2016.

Participants in the DC Plan, the SDC Plan, the 403(b) Plan and the 457(b) Plan may direct their elective and nonelective contributions to investment funds managed by the Chief Investment Officer. They may also invest account balances in certain mutual funds. The participants' interests in mutual funds is shown separately in the statement of plans' fiduciary net position.

University of California Voluntary Early Retirement Incentive Program (UC-PERS)

UC-PERS is a defined benefit pension plan providing lifetime supplemental retirement income and survivor benefits to UC–PERS members who elected early retirement under provisions of the Plan. The University contributed to PERS on behalf of these UC–PERS members. As of July 1, 2017, there are 522 retirees or beneficiaries receiving benefits under this voluntary early retirement program.

The University and the DOE laboratories previously made contributions to the Plan sufficient to maintain the promised benefits. The actuarially determined contributions are zero for the years ended June 30, 2017 and 2016.

Children's Hospital and Research Center at Oakland Pension Plan

CHRCO has a noncontributory defined benefit plan subject to the single employer defined benefit under ERISA rules that covers active and retired employees. The CHRCO Pension Plan was amended effective January 1, 2012 to exclude unrepresented employees hired or rehired on or after January 1, 2012. The CHRCO Pension Plan provides retirement, disability and death benefits to plan participants. Benefits are based on a participant's length of service, age at retirement and average compensation as defined by the CHRCO Pension Plan.

The net pension liability for the Plan was calculated based upon the following assumptions as of June 30, 2017 and 2016: 3.0 percent inflation, 7.0 percent investment rate of return, 5.0 percent projected salary increases through 2017, 4.0 percent afterward and no cost-of-living adjustments. CHRCO recognized pension expense of $20.0 million and $21.4 million for the years ended June 30, 2017 and 2016, respectively.

Mortality rates were based on the RP-2016 mortality with fully generational projected mortality improvements using modified scale MP-2016. The MP-2016 projection scale was modified for this valuation to utilize the Social Security administration intermediate cost projection scale and a 15-year convergence period.

Additional information on the CHRCO Pension Plan can be found in the annual reports, which can be obtained by contacting CHRCO.

Membership in the CHRCO Plan consisted of the following at June 30, 2017:

Retirees and beneficiaries receiving benefits	883
Inactive members entitled to, but not yet receiving benefits	1,095
Active members	1,926
Total membership	**3,904**

Contributions

Employer contributions are determined under IRC Section 430. Employees are not required or permitted to contribute to the Plan.

Net Pension Liability

The net pension liability for CHRCO was measured as of June 30, 2017 and 2016, and the total pension liability was determined by an actuarial valuation as of January 1, 2017 and 2016 rolled forward to June 30, 2017 and 2016, respectively. The actuarial assumptions used in the June 30, 2017 and 2016 valuation were based on the results of an experience review conducted during 2015. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption for each major asset class are as follows:

	PORTFOLIO PERCENTAGE	LONG-TERM EXPECTED REAL RATE OF RETURN
Asset class		
U.S. Equity	51.3%	5.2%
Developed International Equity	10.6	5.7
Emerging Market Equity	2.0	9.2
Core Fixed Income	36.1	0.8
Total	**100.0%**	

Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent for June 30, 2017 and 2016. The projection of cash flows used to determine the discount rate assumes that CHRCO will make contributions to the Plan under IRC Section 430's minimum requirements for a period of eight years, and that all future assumptions are met. Based on these assumptions, the pension Plan's fiduciary net position is projected to be available to make all projected future benefit payments for current active and inactive employees.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the June 30, 2017 net pension liability calculated using the June 30, 2017 discount rate assumption of 7.0 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	1% DECREASE (6.0%)	CURRENT DISCOUNT (7.0%)	1% INCREASE (8.0%)
Net pension liability	$105,079	$41,144	$(11,643)

Deferred Outflows of Resources and Deferred Inflows of Resources

As of June 30, deferred outflows of resources and deferred inflows of resources were as follows:

(in thousands of dollars)	2017	2016
Deferred Outflows of Resources		
Difference between expected and actual experience	$4,356	$3,528
Changes of benefit terms	195	254
Changes of assumptions	21,768	27,877
Net difference between projected and actual earnings on pension plan investments	1,354	13,103
Total	**$27,673**	**$44,762**
Deferred Inflows of Resources		
Net difference between projected and actual earnings on pension plan investments	$2,370	$3,030
Total	**$2,370**	**$3,030**

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions that will be recognized in pension expense during the next five years is as follows:

(in thousands of dollars)	
Year Ending June 30	
2018	$5,459
2019	10,772
2020	8,411
2021	328
2022	333
Total	**$25,303**

Orange County Employees Retirement System

Orange County Employees Retirement System (OCERS) administers a cost-sharing, multi-employer defined benefit pension plan for the County of Orange, City of San Juan Capistrano and thirteen special districts. Certain employees of one of the University's medical centers were eligible to continue to participate in OCERS at the time the county hospital was acquired by the University.

OCERS provides retirement, disability and death benefits. Plan retirement benefits are tiered based upon date of OCERS membership. Participation in the Plan by the University's employees is closed to new members. The University's share of net pension liability, deferred inflows of resources, deferred outflows of resources and pension expense have been determined based upon its specific actuarial accrued liability and a share of assets allocated in accordance with a formula set forth in OCERS' policy. The fiduciary net position and changes in net position have been measured consistent with the accounting policies used by the OCERS Plan.

Membership in the OCERS Plan consisted of the following at December 31, 2016: 16,369 retired members and beneficiaries, 5,370 inactive members and 21,746 active members.

Contributions

Contribution rates are set by the OCERS Board of Trustees.

Net Pension Liability

The University's proportionate share of the net pension liability on June 30, 2017 and 2016 was $18.1 million, or 0.3 percent. The net pension liability for OCERS was measured as of June 30, 2017 and 2016, and the total pension liability was determined by an actuarial valuation as of December 31, 2016 and 2015 rolled forward to June 30, 2017 and 2016, respectively. The actuarial assumptions used in the 2017 and 2016 valuation were based on the results of an experience study for the period from January 1, 2011 through December 31, 2013.

The net pension liability for the Plan was calculated based upon the following assumptions as of June 30, 2017 and 2016: 3.0 percent inflation, 7.25 percent investment rate of return, 4.25-13.5 percent projected salary increases and 3.0 percent cost-of-living adjustments. Additional information on OCERS can be obtained from the 2016-2017 annual reports of the Orange County Employees Retirement System at http://www.ocers.org.

The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption for each major asset class for the OCERS Plan are as follows:

	ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM	
	TARGET ALLOCATION	LONG-TERM EXPECTED REAL RATE OF RETURN
Asset class		
Large Cap U.S. Equity	14.9%	5.9%
Small/Mid Cap U.S. Equity	2.7	6.5
Developed International Equity	10.9	6.9
Emerging International Equity	6.5	8.3
Core Bonds	10.0	0.7
Global Bonds	2.0	0.3
Emerging Market Debt	3.0	4.0
Real Estate	10.0	5.0
Diversified Credit (U.S. Credit)	8.0	5.0
Diversified Credit (Non-U.S. Credit)	2.0	6.8
Hedge Funds	7.0	4.1
GTAA	7.0	4.2
Real Return	10.0	5.9
Private Equity	6.0	9.6
Total	**100.00%**	

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent for June 30, 2017 and 2016. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rate. For this purpose, only employer contributions will be made at rates equal to the actuarially determined contribution rates.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the current-period net pension liability calculated using the June 30, 2017 discount rate assumption of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM		
	1% DECREASE (6.25%)	CURRENT DISCOUNT RATE (7.25%)	1% INCREASE (8.25%)
Net pension liability	$26,065	$18,057	$11,466

Deferred Outflow of Resources and Deferred Inflows of Resources

As of June 30, deferred outflow of resources and deferred inflows of resources were as follows:

(in thousands of dollars)	2017	2016
Deferred Outflows of Resources		
Difference between expected and actual experience	$491	$499
Net difference between projected and actual earnings on pension plan investments	586	1,549
Total	**$1,077**	**$2,048**
Deferred Inflows of Resources		
Difference between expected and actual experience	$443	$582
Changes in assumptions	703	925
Total	**$1,146**	**$1,507**

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions that will be recognized in pension expense during the next five years and thereafter is as follows:

(in thousands of dollars)	
Year Ending June 30	
2018	$(105)
2019	(106)
2020	232
2021	(113)
2022	23
Total	**$(69)**

16. RETIREE HEALTH BENEFIT COSTS AND OBLIGATIONS

The University administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision, to eligible retirees (and their eligible family members) of the University of California and its affiliates through the University of California Retiree Health Benefit Trust (UCRHBT). The Regents has the authority to establish and amend the plan.

Campus and medical center contributions toward retiree health benefits, at rates determined by the University, are made to UCRHBT. The University receives retiree health contributions from retirees that are deducted from their UCRP benefit payments. The University acts as a third-party administrator on behalf of UCRHBT and pays health care insurers and administrators amounts currently due under the University's retiree health benefit plans for retirees. UCRHBT reimburses the University for these amounts.

LBNL participates in the University's retiree health plans. LBNL does not participate in UCRHBT; therefore, the DOE has no interest in the Trust's assets. The University directly pays health care insurers and administrators amounts currently due under the University's retiree health benefit plans for retirees who previously worked at LBNL, and is reimbursed by the DOE.

Condensed financial information for the changes in retiree health benefits liability for the year ended June 30, 2017 is as follows:

(in thousands of dollars)	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
Contributions	$485,427	$20,242	$505,669
Investment income, net	606		606
Total additions	**486,033**	**20,242**	**506,275**
Insurance premiums, net	(447,604)	(20,242)	(467,846)
Other deductions	(4,256)		(4,256)
Total deductions	**(451,860)**	**$(20,242)**	**(472,102)**
Increase in net position held in UCRHBT	34,173		34,173
Net position held in UCRHBT, beginning of year	72,541		72,541
Net position held in UCRHBT, end of year	**$106,714**		**$106,714**

(in thousands of dollars)	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
CHANGES IN TOTAL RETIREE HEALTH BENEFITS LIABILITY			
Service cost	$981,745	$22,899	$1,004,644
Interest	625,947	20,332	646,279
Difference between expected and actual experience	95,254	6,026	101,280
Changes of assumptions and other inputs	(3,707,921)	(120,003)	(3,827,924)
Retiree contributions	69,968	2,748	72,716
Benefits paid	(447,604)	(20,242)	(467,846)
Net change in total retiree health benefits liability	**(2,382,611)**	**(88,240)**	**(2,470,851)**
Total retiree health benefits liability			
Beginning of year	21,168,812	699,177	21,867,989
End of year	**$18,786,201**	**$610,937**	**$19,397,138**
Net retiree health benefit liability, end of year	**$18,679,487**	**$610,937**	**$19,290,424**

Benefits

Retirees are eligible for medical and dental benefits. The costs of the medical and dental benefits are shared between the University and the retiree. The University does not contribute toward the cost of other benefits available to retirees. Retirees who are employed by the University after July 1, 2013, and retire at the age of 56 or older, become eligible for a percentage of the University's contribution based on age and years of service. Retirees are eligible for the maximum University contribution at age 65 with 20 or more years of service. Retirees employed by the University prior to 1990 and not rehired after that date are eligible for the University's maximum 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 University after 1989 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum University contribution, increasing to 100 percent after 20 years of service. Retirees pay the excess, if any, of the premium over the applicable portion of the University's contribution.

Membership in UCRP is required to become eligible for retiree health benefits. Participation in the retiree health benefit plans consisted of the following at June 30, 2017:

	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
Retirees and beneficiaries receiving benefits	41,157	1,817	42,974
Active members entitled to, but not yet receiving benefits	122,932	2,578	125,510
Total membership	**164,089**	**4,395**	**168,484**

Contributions

The University does not pre-fund retiree health benefits and instead provides for benefits based upon projected pay-as-you-go financing. University and retiree contributions toward premiums made under purchased plan arrangements are determined by applying the health plan contract rates across the number of participants in the respective plans. Premium rates for the self-insured plan contributions are set by the University based upon a trend analysis of the historic cost, utilization, demographics and administrative expenses to provide for the claims incurred and the actuarially determined level of incurred but not reported liability. The assessment rates were $2.93 and $2.98 per $100 of UCRP covered payroll effective July 1, 2016 and 2015, respectively.

In addition to the explicit University contribution provided to retirees, there is an "implicit subsidy." The gross premiums for members that are not currently eligible for Medicare benefits are the same for active employees and retirees, based on a blend of their health costs. Retirees, on average, are expected to have higher health care costs than active employees. This is primarily due to the older average age of retirees. Since the same gross premiums apply to both groups, the premiums paid for active employees by the University are subsidizing the premiums for retirees. This effect is called the implicit subsidy. The implicit subsidy associated with retiree health costs paid during the past year is also considered to be a contribution from the University.

Net Retiree Health Benefits Liability

The University's net retiree health benefits liability was measured as of June 30 based on rolling forward the results of the actuarial valuations as of July 1. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future. Significant actuarial methods and assumptions used to calculate the University's net retiree health benefits liability were:

(shown as percentage)	2017	2016
Discount rate	3.6%	2.9%
Inflation	3.0	3.0
Investment rate of return	3.0	3.0
Health care cost trend rates	Initially ranges from 5.0 to 9.5 decreasing to an ultimate rate of 5.0 for 2032 and later years.	Initially ranges from 6.3 to 9.0 decreasing to an ultimate rate of 5.0 for 2031 and later years.

The actuarial assumptions are based upon the results of an experience study conducted for the period of July 1, 2010 through June 30, 2014. For active members and healthy retirees, the RP-2014 White Collar Mortality Tables are used (separate tables for males and females), projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP-2014 projection scale to 2029 and with ages then set back one year for males and set forward five years for females.

Sensitivity of Net Retiree Health Benefits Liability to the Health Care Cost Trend Rate

The following presents the June 30, 2017 net retiree health benefits liability of the University calculated using the June 30, 2017 health care cost trend rate assumption with initial trend ranging from 5.0 percent to 9.5 percent grading down to an ultimate trend of 5.0 percent over 15 years, as well as what the net retiree health benefits liability would be if it were calculated using a health care cost trend rate different than the current assumption:

(in thousands of dollars)	1% DECREASE (4.0% TO 8.5% DECREASING TO 4.0%)	CURRENT DISCOUNT (5.0% TO 9.5% DECREASING TO 5.0%)	1% INCREASE (6.0% - 10.5% INCREASING TO 6.0%)
Net retiree health benefits liability	$16,401,133	$19,290,424	$23,275,729

Discount Rate

The discount rate used to estimate the net retiree health benefits liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The discount rate was based on the Bond Buyer 20-year tax-exempt general obligations municipal bond index rate since UCHRBT plan assets are projected not sufficient to make benefit payments.

Sensitivity of Net Retiree Health Benefits Liability to the Discount Rate Assumption

The following presents the June 30, 2017 net retiree health benefits liability of the University calculated using the June 30, 2017 discount rate assumption of 3.58 percent, as well as what the net retiree health benefits liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	1% DECREASE (2.58%)	CURRENT TREND (3.58%)	1% INCREASE (4.58%)
Net retiree health benefits liability	$23,100,556	$19,290,424	$16,466,009

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources for retiree health benefits were related to the following sources:

(in thousands of dollars)

2017	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
DEFERRED OUTFLOWS OF RESOURCES			
Difference between expected and actual experience	$85,012	$5,084	$90,096
Changes of assumptions or other inputs	3,897,003	116,490	4,013,493
Net difference between projected and actual earnings on plan investments	3,352		3,352
Total	**$3,985,367**	**$121,574**	**$4,106,941**
DEFERRED INFLOWS OF RESOURCES			
Difference between expected and actual experience	$1,471,781	$52,216	$1,523,997
Changes of assumptions or other inputs	3,309,220	101,253	3,410,473
Total	**$4,781,001**	**$153,469**	**$4,934,470**

(in thousands of dollars)

2016	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
DEFERRED OUTFLOWS OF RESOURCES			
Changes of assumptions or other inputs	$4,453,093	$140,760	$4,593,853
Net difference between projected and actual earnings on plan investments	2,373		2,373
Total	**$4,455,466**	**$140,760**	**$4,596,226**
DEFERRED INFLOWS OF RESOURCES			
Difference between expected and actual experience	$1,673,395	$62,659	$1,736,054
Total	**$1,673,395**	**$62,659**	**$1,736,054**

The net amount of deferred outflows of resources and deferred inflows of resources as of June 30, 2017 related to retiree health benefits that will be recognized in retiree health benefit expense during the next five years and thereafter are as follows:

(in thousands of dollars)	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
2018	$(32,892)	$(3,981)	$(36,873)
2019	(32,892)	(3,981)	(36,873)
2020	(33,229)	(3,981)	(37,210)
2021	(33,567)	(3,981)	(37,548)
2022	(33,983)	(8,841)	(42,824)
Thereafter	(629,071)	(7,130)	(636,201)
Total	**$(795,634)**	**$(31,895)**	**$(827,529)**

17. ENDOWMENTS AND GIFTS

Endowments and gifts are held and administered either by the University or by the campus foundations.

University of California

The value of endowments and gifts held and administered by the University, exclusive of income distributed to be used for operating purposes, at June 30, 2017 and 2016 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
At June 30, 2017				
Endowments	$1,121,743	$2,921,277	$5,414	$4,048,434
Funds functioning as endowments		2,526,811	3,742,764	6,269,575
Annuity and life income	21,324	9,534		30,858
Gifts		1,423,479		1,423,479
University endowments and gifts	**$1,143,067**	**$6,881,101**	**$3,748,178**	**$11,772,346**
At June 30, 2016				
Endowments	$1,092,786	$2,539,481	$4,770	$3,637,037
Funds functioning as endowments		2,275,525	2,905,204	5,180,729
Annuity and life income	18,297	8,376		26,673
Gifts		1,261,615	16,954	1,278,569
University endowments and gifts	**$1,111,083**	**$6,084,997**	**$2,926,928**	**$10,123,008**

The University's endowment income distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution provided by dividend and interest income and by capital gains may vary significantly from year to year. The University's policy is to retain the realized and unrealized appreciation with the endowment after the annual income distribution has been made. The net appreciation available to meet future spending needs is subject to the approval of The Regents and amounted to $2.4 billion and $2.1 billion at June 30, 2017 and 2016, respectively.

The portion of investment returns earned on endowments held by the University and distributed at the end of each year to support current operations for the following year is based upon a rate that is approved by The Regents. The annual income distribution transferred to the campuses from endowments held by the University was $277.2 million and $260.5 million for the years ended June 30, 2017 and 2016, respectively. The portion of this annual income distribution from accumulated capital gains, in addition to the dividend and interest income earned during the year, was $253.8 million and $240.4 million for the years ended June 30, 2017 and 2016, respectively. Accumulated endowment income available for spending in the future, including the annual income distribution, was $629.8 million and $595.6 million at June 30, 2017 and 2016, respectively.

Campus Foundations

The value of endowments and gifts held by the campus foundations and administered by each of their independent Board of Trustees at June 30 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
At June 30, 2017				
Endowments	$3,967,220	$1,246,890		$5,214,110
Funds functioning as endowments		1,515,774		1,515,774
Annuity and life income	78,705	57,678		136,383
Gifts		1,542,758	$193,132	1,735,890
Campus foundations' endowments and gifts	**$4,045,925**	**$4,363,100**	**$193,132**	**$8,602,157**
At June 30, 2016				
Endowments	$3,631,455	$884,701		$4,516,156
Funds functioning as endowments		1,358,719		1,358,719
Annuity and life income	68,594	52,715		121,309
Gifts		1,445,797	$94,869	1,540,666
Campus foundations' endowments and gifts	**$3,700,049**	**$3,741,932**	**$94,869**	**$7,536,850**

18. SEGMENT INFORMATION

The University's medical centers' and CHRCO's revenues are pledged in support of the outstanding University of California Medical Center Pooled Revenue Bonds. The medical centers' operating revenues and expenses consist primarily of revenues associated with patient care and the related costs of providing that care.

Condensed financial statement information related to each of the University's medical centers for the year ended June 30, 2017 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA MEDICAL CENTERS				
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO
Year Ended June 30, 2017					
Revenue bonds outstanding	$337,570	$317,870	$729,825	$711,085	$914,810
Related debt service payments	$32,491	$18,190	$46,008	$42,662	$57,013
Bonds due serially through	2047	2049	2049	2049	2049
CONDENSED STATEMENT OF NET POSITION					
Current assets	$999,025	$527,151	$1,471,268	$740,767	$1,335,527
Capital assets, net	1,030,246	734,509	1,749,540	1,620,948	2,349,538
Other assets	104,942	69,703	322,112	31,380	272,525
Total assets	**2,134,213**	**1,331,363**	**3,542,920**	**2,393,095**	**3,957,590**
Total deferred outflows of resources	**362,917**	**160,399**	**516,101**	**345,110**	**836,506**
Current liabilities	328,609	270,520	404,441	231,802	592,470
Long-term debt	362,743	338,340	934,794	754,170	928,264
Other noncurrent liabilities	2,145,257	1,030,129	2,564,310	1,535,743	3,106,945
Total liabilities	**2,836,609**	**1,638,989**	**3,903,545**	**2,521,715**	**4,627,679**
Total deferred inflows of resources	**369,066**	**205,017**	**421,778**	**251,166**	**533,051**
Net investment in capital assets	640,415	393,404	790,467	857,221	1,396,747
Restricted	86,748	69,703	11,138		90,811
Unrestricted	(1,435,708)	(815,351)	(1,067,907)	(891,897)	(1,854,192)
Total net position	**$(708,545)**	**$(352,244)**	**$(266,302)**	**$(34,676)**	**$(366,634)**

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA MEDICAL CENTERS				
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION					
Operating revenues	$2,147,374	$1,116,327	$2,502,552	$1,688,162	$3,951,754
Operating expenses	(1,904,823)	(981,506)	(2,241,931)	(1,591,807)	(3,792,538)
Depreciation expense	(78,839)	(69,271)	(142,841)	(76,779)	(210,913)
Operating income (loss)	**163,712**	**65,550**	**117,780**	**19,576**	**(51,697)**
Nonoperating revenues (expenses), net	9,467	(17,961)	(36,579)	(10,470)	24,067
Income (loss) before other changes in net position	**173,179**	**47,589**	**81,201**	**9,106**	**(27,630)**
Health systems support	(28,088)	(59,727)	(175,341)	(109,586)	(84,898)
Transfers (to) from University, net	(4,349)			(404)	89
Changes in allocation for pension payable to University	1,892	7,266	5,834	(9,130)	6,506
Other, including donated assets	983	1,756	3,500	30,218	30,715
Increase (decrease) in net position	**143,617**	**(3,116)**	**(84,806)**	**(79,796)**	**(75,218)**
Net position - beginning of year	(852,162)	(349,128)	(181,496)	45,120	(291,416)
Net position - June 30, 2017	**$(708,545)**	**$(352,244)**	**$(266,302)**	**$(34,676)**	**$(366,634)**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$289,030	$257,072	$304,081	$166,061	$390,971
Noncapital financing activities	(29,396)	(59,134)	(173,112)	(112,361)	(62,856)
Capital and related financing activities	(25,665)	(30,292)	(43,206)	(135,525)	(136,759)
Investing activities	(70,468)	(78,116)	16,381	11,058	(15,333)
Net increase (decrease) in cash and cash equivalents	**163,501**	**89,530**	**104,144**	**(70,767)**	**176,023**
Cash and cash equivalents* – June 30, 2016	464,908	253,332	903,617	465,589	450,701
Cash and cash equivalents* – June 30, 2017	**$628,409**	**$342,862**	**$1,007,761**	**$394,822**	**$626,724**

**Cash and cash equivalents on the medical centers' financial statements are included in the University's Short Term Investment Pool.*

Condensed financial statement information related to each of the University's medical centers for the year ended June 30, 2016 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA MEDICAL CENTERS				
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO
Year Ended June 30, 2016					
Revenue bonds outstanding	$282,054	$265,185	$700,315	$658,667	$832,979
Related debt service payments	$32,833	$24,007	$44,507	$40,201	$54,236
Bonds due serially through	2047	2049	2049	2048	2049
CONDENSED STATEMENT OF NET POSITION					
Current assets	$825,786	$477,962	$1,319,490	$757,892	$1,120,331
Capital assets, net	1,004,073	718,179	1,813,446	1,471,118	2,381,726
Other assets	18,837		299,918	37,073	224,590
Total assets	**1,848,696**	**1,196,141**	**3,432,854**	**2,266,083**	**3,726,647**
Total deferred outflows of resources	**630,774**	**303,895**	**774,292**	**422,288**	**1,003,134**
Current liabilities	374,616	240,452	421,741	234,871	510,171
Long-term debt	268,671	267,344	837,071	684,672	829,519
Other noncurrent liabilities	2,493,557	1,237,534	2,920,816	1,596,701	3,419,626
Total liabilities	**3,136,844**	**1,745,330**	**4,179,628**	**2,516,244**	**4,759,316**
Total deferred inflows of resources	**194,788**	**103,834**	**209,014**	**127,007**	**261,881**
Net investment in capital assets	701,366	446,355	959,252	749,527	1,475,111
Restricted			11,360		63,785
Unrestricted	(1,553,528)	(795,483)	(1,152,108)	(704,407)	(1,830,312)
Total net position	**$(852,162)**	**$(349,128)**	**$(181,496)**	**$45,120**	**$(291,416)**

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA MEDICAL CENTERS				
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION					
Operating revenues	$1,935,274	$1,009,651	$2,364,038	$1,544,658	$3,567,317
Operating expenses	(1,895,627)	(966,448)	(2,202,804)	(1,448,810)	(3,617,548)
Depreciation expense	(79,291)	(68,706)	(134,100)	(58,391)	(205,146)
Operating income (loss)	**(39,644)**	**(25,503)**	**27,134**	**37,457**	**(255,377)**
Nonoperating revenues (expenses), net	(461)	(20,450)	(24,398)	16	(15,663)
Income (loss) before other changes in net position	**(40,105)**	**(45,953)**	**2,736**	**37,473**	**(271,040)**
Health systems support	(41,387)	(65,081)	(176,852)	(96,570)	(64,055)
Transfers (to) from University, net	(8,563)	3,086	(8,950)	(2,735)	8,240
Changes in allocation for pension payable to University	(1,184)	681	(452)	(1,613)	(12,414)
Other, including donated assets	2,074	822	16,212	52,255	47,290
Decrease in net position	**(89,165)**	**(106,445)**	**(167,306)**	**(11,190)**	**(291,979)**
Net position - beginning of year	(762,997)	(242,683)	(14,190)	56,310	563
Net position - June 30, 2016	**$(852,162)**	**$(349,128)**	**$(181,496)**	**$45,120**	**$(291,416)**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$207,723	$128,263	$430,799	$303,984	$214,823
Noncapital financing activities	(46,176)	(64,180)	(175,258)	(101,887)	(47,456)
Capital and related financing activities	(118,061)	(84,466)	(102,284)	(188,317)	(175,565)
Investing activities	12,168	(9,042)	15,583	49,764	6,557
Net increase (decrease) in cash and cash equivalents	**55,654**	**(29,425)**	**168,840**	**63,544**	**(1,641)**
Cash and cash equivalents* – June 30, 2015	409,254	282,757	734,777	402,045	452,342
Cash and cash equivalents* – June 30, 2016	**$464,908**	**$253,332**	**$903,617**	**$465,589**	**$450,701**

**Cash and cash equivalents on the medical centers' financial statements are included in the University's Short Term Investment Pool, except for CHRCO as of June 30, 2015.*

Summarized financial information for each medical center is from the medical centers' audited financial statements. Certain revenue, such as financial support from the state for clinical teaching programs, is classified as state educational appropriations rather than medical center revenue in the University's statement of revenues, expenses and changes in net position. However, in the medical centers' audited financial statements and for segment reporting purposes, these revenues are classified as operating revenue. Additional information on the individual University of California medical centers can be obtained from their audited financial statements which are available at http://reportingtransparency.universityofcalifornia.edu.

Multiple purpose and housing system projects (including student and faculty housing, parking facilities, student centers, recreation and events facilities, student health service facilities and certain academic and administrative facilities) are also financed by revenue bonds; however, assets and liabilities are not required to be accounted for separately.

19. BLENDED COMPONENT UNIT INFORMATION

Condensed financial statement information related to the University's blended component units for the years ended June 30, are as follows:

(in thousands of dollars)

	FIAT LUX		CHRCO	
	2017	2016	2017	2016
CONDENSED STATEMENTS OF NET POSITION				
Current assets	$543,817	$69,341	$249,445	$195,918
Capital assets, net			295,766	275,951
Other assets	393,049	10,576	253,336	211,711
Total assets	**936,866**	**79,917**	**798,547**	**683,580**
Total deferred outflows of resources			**27,673**	**44,761**
Current liabilities	205,073	3,395	104,878	98,477
Other noncurrent liabilities	583,779	72,105	174,519	147,244
Total liabilities	**788,852**	**75,500**	**279,397**	**245,721**
Total deferred inflows of resources			**2,370**	**3,030**
Net investment in capital assets			191,683	222,236
Restricted			75,403	55,036
Unrestricted	148,014	4,417	277,367	202,318
Total net position	**$148,014**	**$4,417**	**$544,453**	**$479,590**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
Operating revenues	$216,407	$17,182	$597,564	$483,065
Operating expenses	(242,706)	(31,117)	(558,460)	(524,445)
Depreciation expense			(33,842)	(34,274)
Operating income (loss)	**(26,299)**	**(13,935)**	**5,262**	**(75,654)**
Nonoperating revenues (expenses), net	12,767	591	42,151	2,899
Income (loss) before other changes in net position in net position	**(13,532)**	**(13,344)**	**47,413**	**(72,755)**
Transfers from University	157,129			
Other, including donated assets			17,450	20,808
Increase (decrease) in net position	**143,597**	**(13,344)**	**64,863**	**(51,947)**
Net position – beginning of year	4,417	17,761	479,590	531,537
Net position – end of year	**$148,014**	**$4,417**	**$544,453**	**$479,590**
CONDENSED STATEMENT OF CASH FLOWS				
Net cash provided (used) by:				
Operating activities	$49,463	$14,859	$36,732	$(13,671)
Noncapital financing activities			19,523	10,918
Capital and related financing activities	786,167		5,645	(19,092)
Investing activities	(850,563)	(20,084)	(14,452)	(289)
Net increase (decrease) in cash and cash equivalents	**(14,933)**	**(5,225)**	**47,448**	**(22,134)**
Cash and cash equivalents – beginning of year	15,635	20,860	71,414	93,548
Cash and cash equivalents – end of year	**$702**	**$15,635**	**$118,862**	**$71,414**

Additional information on the blended component units can be found in their separately issued audited financial statements, which can be obtained by contacting Fiat Lux and CHRCO.

20. CAMPUS FOUNDATIONS INFORMATION

Under University policies approved by The Regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although independent boards govern these foundations, their assets are dedicated for the benefit of the University of California.

Condensed financial statement information related to the University's campus foundations, including their allocated share of the assets and liabilities associated with securities lending transactions in the University's investment pools, for the year ended June 30, 2017 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS				
	BERKELEY	**SAN FRANCISCO**	**LOS ANGELES**	**ALL OTHER**	**TOTAL**
CONDENSED STATEMENT OF NET POSITION					
Current assets	$76,070	$286,739	$490,034	$350,732	$1,203,575
Noncurrent assets	2,038,355	1,509,773	2,565,913	2,114,987	8,229,028
Total assets	**2,114,425**	**1,796,512**	**3,055,947**	**2,465,719**	**9,432,603**
Total deferred outflows of resources					
Current liabilities	16,379	39,032	263,424	118,887	437,722
Noncurrent liabilities	78,392	254,620	32,449	25,540	391,001
Total liabilities	**94,771**	**293,652**	**295,873**	**144,427**	**828,723**
Total deferred inflows of resources			**1,723**		**1,723**
Restricted	2,015,269	1,502,447	2,600,898	2,290,411	8,409,025
Unrestricted	4,385	413	157,453	30,881	193,132
Total net position	**$2,019,654**	**$1,502,860**	**$2,758,351**	**$2,321,292**	**$8,602,157**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION					
Operating revenues	$114,188	$155,614	$305,490	$293,997	$869,289
Operating expenses	(208,956)	(231,647)	(292,211)	(236,701)	(969,515)
Operating income (loss)	**(94,768)**	**(76,033)**	**13,279**	**57,296**	**(100,226)**
Nonoperating revenues	218,641	155,790	262,941	239,976	877,348
Income before other changes in net position	**123,873**	**79,757**	**276,220**	**297,272**	**777,122**
Permanent endowments	67,737	41,513	70,719	108,216	288,185
Increase in net position	**191,610**	**121,270**	**346,939**	**405,488**	**1,065,307**
Net position – June 30, 2016	1,828,044	1,381,590	2,411,412	1,915,804	7,536,850
Net position – June 30, 2017	**$2,019,654**	**$1,502,860**	**$2,758,351**	**$2,321,292**	**$8,602,157**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$(97,936)	$(100,607)	$(44,964)	$18,771	$(224,736)
Noncapital financing activities	49,682	55,862	52,464	94,106	252,114
Capital and related financing activities				(192)	(192)
Investing activities	49,184	103,578	(7,797)	(112,963)	32,002
Net increase (decrease) in cash and cash equivalents	**930**	**58,833**	**(297)**	**(278)**	**59,188**
Cash and cash equivalents – June 30, 2016	3,657	152,027	5,576	33,652	194,912
Cash and cash equivalents – June 30, 2017	**$4,587**	**$210,860**	**$5,279**	**$33,374**	**$254,100**

Condensed financial statement information related to the University's campus foundations, including their allocated share of the assets and liabilities associated with securities lending transactions in the University's investment pools, for the year ended June 30, 2016 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS				
	BERKELEY	SAN FRANCISCO	LOS ANGELES	ALL OTHER	TOTAL
CONDENSED STATEMENT OF NET POSITION					
Current assets	$78,588	$193,643	$434,051	$259,166	$965,448
Noncurrent assets	1,838,382	1,456,193	2,254,770	1,738,791	7,288,136
Total assets	**1,916,970**	**1,649,836**	**2,688,821**	**1,997,957**	**8,253,584**
Current liabilities	15,950	46,269	246,519	55,988	364,726
Noncurrent liabilities	72,976	221,977	29,430	26,165	350,548
Total liabilities	**88,926**	**268,246**	**275,949**	**82,153**	**715,274**
Total deferred inflows of resources			**1,460**		**1,460**
Restricted	1,825,680	1,381,166	2,344,581	1,890,554	7,441,981
Unrestricted	2,364	424	66,831	25,250	94,869
Total net position	**$1,828,044**	**$1,381,590**	**$2,411,412**	**$1,915,804**	**$7,536,850**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION					
Operating revenues	$127,301	$180,801	$258,641	$225,732	$792,475
Operating expenses	(188,917)	(232,835)	(263,898)	(229,518)	(915,168)
Operating loss	**(61,616)**	**(52,034)**	**(5,257)**	**(3,786)**	**(122,693)**
Nonoperating revenues	(34,417)	(32,548)	(62,363)	(39,535)	(168,863)
Loss before other changes in net position	**(96,033)**	**(84,582)**	**(67,620)**	**(43,321)**	**(291,556)**
Permanent endowments	88,469	39,538	70,138	79,932	278,077
Increase (decrease) in net position	**(7,564)**	**(45,044)**	**2,518**	**36,611**	**(13,479)**
Net position – June 30, 2015	1,835,608	1,426,634	2,408,894	1,879,193	7,550,329
Net position – June 30, 2016	**$1,828,044**	**$1,381,590**	**$2,411,412**	**$1,915,804**	**$7,536,850**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$(93,199)	$(10,622)	$(57,870)	$(59,289)	$(220,980)
Noncapital financing activities	77,929	17,104	59,081	72,982	227,096
Capital and related financing activities				(970)	(970)
Investing activities	16,259	(13,527)	267	(11,509)	(8,510)
Net increase (decrease) in cash and cash equivalents	**989**	**(7,045)**	**1,478**	**1,214**	**(3,364)**
Cash and cash equivalents – June 30, 2015	2,668	159,072	4,098	32,438	198,276
Cash and cash equivalents – June 30, 2016	**$3,657**	**$152,027**	**$5,576**	**$33,652**	**$194,912**

Additional information on the foundations can be found in the foundations' separately issued annual reports, which can be obtained by contacting the individual foundation.

21. COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled $1.6 billion at June 30, 2017. Amounts committed to the developer for the design, construction and financing of the facilities at one of its campuses is $1.6 billion at June 30, 2017. The University has made a commitment to contribute $87.9 million for an investment in a joint venture to fund construction projects.

The University leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2017 and 2016 were $271.4 million and $236.0 million, respectively. The terms of operating leases extend through March 2042.

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

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA
Year Ending June 30	
2018	$248,401
2019	204,936
2020	168,626
2021	137,098
2022	98,912
2023-2027	216,638
2028-2032	68,538
2033-2037	45,504
2038-2042	19,898
Total	**$1,208,551**

Contingencies

Substantial amounts are received and expended by the University, including its medical centers, under federal and state programs, and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, medical center operations and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's financial position.

The University and the campus foundations are contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, University management and general counsel are of the opinion that the outcome of such matters will not have a material effect on the University's financial position.

REQUIRED SUPPLEMENTARY INFORMATION

UCRP

The schedule of changes in net pension liability includes multi-year trend information about whether the pension assets are increasing or decreasing over time relative to the pension liabilities. The University's schedule of changes in the net pension liability for UCRP as of June 30 is:

(in thousands of dollars)	2017	2016	2015
TOTAL PENSION LIABILITY			
Service cost	$1,807,143	$1,710,241	$1,589,267
Interest on the total pension liability	5,035,267	4,784,904	4,538,846
Difference between expected and actual experience	74,664	136,167	(112,155)
Changes of assumptions or other inputs			2,136,793
Benefits paid, including refunds of employee contributions	(3,320,990)	(3,105,641)	(2,976,992)
Net change in total pension liability	**3,596,084**	**3,525,671**	**5,175,759**
Total pension liability - beginning of year	69,230,762	65,705,091	60,529,332
Total pension liability - end of year	**72,826,846**	**69,230,762**	**65,705,091**
PLAN NET POSITION			
Contributions - employer	2,385,576	2,426,683	2,510,046
Contributions - member	891,987	845,036	793,012
Contributions - state	171,000	96,000	
Net investment income	7,866,281	(1,104,655)	1,993,801
Benefits paid, including refunds of employee contributions	(3,320,990)	(3,105,641)	(2,976,993)
Administrative expense	(44,128)	(48,341)	(48,283)
Net change in plan net position	**7,949,726**	**(890,918)**	**2,271,583**
Plan net position - beginning of year	54,164,532	55,055,450	52,783,867
Plan net position - end of year	**62,114,258**	**54,164,532**	**55,055,450**
Net pension liability - end of year	**$10,712,588**	**$15,066,230**	**$10,649,641**

(in thousands of dollars)	2014	2013	2012
TOTAL PENSION LIABILITY			
Service cost	$1,519,183	$1,456,761	$1,531,094
Interest on the total pension liability	4,316,728	4,112,461	3,871,146
Difference between expected and actual experience	(320,624)	(183,253)	(212,758)
Changes of assumptions or other inputs		(3,312,815)	4,923,778
Benefits paid, including refunds of employee contributions	(2,687,540)	(2,487,369)	(2,273,071)
Net change in total pension liability	**2,827,747**	**(414,215)**	**7,840,189**
Total pension liability - beginning of year	57,701,585	58,115,800	50,275,611
Total pension liability - end of year	**60,529,332**	**57,701,585**	**58,115,800**
PLAN NET POSITION			
Contributions - employer	1,580,876	810,056	1,851,460
Contributions - member	577,466	415,641	272,420
Contributions - state			
Net investment income	8,009,980	4,833,339	115,863
Benefits paid, including refunds of employee contributions	(2,687,540)	(2,487,369)	(2,273,071)
Administrative expense	(37,641)	(37,426)	(32,839)
Net change in plan net position	**7,443,141**	**3,534,241**	**(66,167)**
Plan net position - beginning of year	45,340,726	41,806,485	41,872,652
Plan net position - end of year	**52,783,867**	**45,340,726**	**41,806,485**
Net pension liability - end of year	**$7,745,465**	**$12,360,859**	**$16,309,315**

The University's schedule of net pension liability for UCRP as of June 30 is:

(in thousands of dollars)	**2017**	**2016**	**2015**
Total pension liability	$72,826,846	$69,230,762	$65,705,091
Plan net position	62,114,258	54,164,532	55,055,450
Net pension liability	**$10,712,588**	**$15,066,230**	**$10,649,641**
Ratio of plan net position to total pension liability	85.3%	78.2%	83.8%
Covered payroll	$11,301,506	$10,689,424	$10,047,570
Net pension liability as a percentage of covered payroll	94.8%	140.9%	106.0%

(in thousands of dollars)	**2014**	**2013**	**2012**
Total pension liability	$60,529,332	$57,701,585	$58,115,800
Plan net position	52,783,867	45,340,726	41,806,485
Net pension liability	**$7,745,465**	**$12,360,859**	**$16,309,315**
Ratio of plan net position to total pension liability	87.2%	78.6%	71.9%
Covered payroll	$9,372,583	$8,921,077	$8,594,147
Net pension liability as a percentage of covered payroll	82.6%	138.6%	189.8%

The University's schedule of employer contributions for UCRP as of June 30 is:

(in thousands of dollars)

Year Ended June 30	Actuarially Determined Contributions	Contributions in Relation to Actuarial Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2017	$2,654,710	$2,556,576	$98,134	$11,301,506	23%
2016	2,610,953	2,522,683	88,270	10,689,424	24
2015	2,664,384	2,510,046	154,338	10,047,570	25
2014	2,472,697	1,580,876	891,821	9,372,583	17
2013	2,062,022	810,056	1,251,966	8,921,077	9
2012	1,806,205	1,851,459	(45,254)	8,594,147	22
2011	1,695,137	1,677,921	17,216	8,140,629	21
2010	454	148,445	(147,991)	7,973,921	2
2009	2,657	454	2,203	7,468,809	
2008	23,934	2,657	21,277	7,612,726	

Notes to Schedule

Methods and assumptions used to establish "actuarially determined contribution" rates for the campus and medical center segment of UCRP:

Valuation date	Actuarially determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.	
Actuarial cost method	Entry Age Actuarial Cost Method.	
Amortization method	Level dollar, closed periods.	
Remaining amortization period	20.86 years as of July 1, 2016. The July 1, 2010 amortization bases were combined into a single amortization base and amortized over 30 years. Any changes in unfunded actuarial accrued liability ("UAAL") due to actuarial experience gains or losses after July 1, 2010 are separately amortized over a fixed (closed) 30-year period effective with that valuation. Any changes in UAAL due to a change in actuarial assumptions or plan provisions are separately amortized over a fixed (closed) 15-year period. Any changes in UAAL due to actuarial experience gains or losses or a change in actuarial assumptions after July 1, 2014 are separately amortized over a fixed (closed) 20-year period.	
Asset valuation method	The market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual and the expected returns on a market value basis and is recognized over a five-year period.	
	July 1, 2017 valuation date	**July 1, 2016 valuation date**
Investment rate of return	7.25%, net of pension plan investment expense, including inflation.	7.25%, net of pension plan investment expense, including inflation.
Inflation	3.00%.	3.00%.
Projected salary increases	3.75% - 6.15%, includes inflation.	3.75% - 6.15%, includes inflation.
Cost-of-living adjustments	2.00%.	2.00%.
Mortality	Post-retirement Healthy: RP-2014 White Collar Healthy Annuitant Mortality Table projected with the two-dimensional MP-2014 projection scale to 2029, set forward one year.	Post-retirement Healthy: RP-2014 White Collar Healthy Annuitant Mortality Table projected with the two-dimensional MP-2014 projection scale to 2029, set forward one year.
Other assumptions	Same as those used in the July 1, 2017 funding actuarial valuation.	Same as those used in the July 1, 2016 funding actuarial valuation.

UC-VERIP

The University's schedule of changes in net pension liability for UC-VERIP as of June 30 is:

(in thousands of dollars)	**2017**	**2016**	**2015**
TOTAL PENSION LIABILITY			
Interest on the total pension liability	$2,463	$2,533	$2,704
Changes of benefit terms			
Difference between expected and actual experience	(189)	(650)	242
Changes of assumptions or other inputs			1,837
Benefits paid, including refunds of employee contributions	(4,738)	(4,937)	(5,081)
Net change in total pension liability	**(2,464)**	**(3,054)**	**(298)**
Total pension liability - beginning of year	35,008	38,062	38,360
Total pension liability - end of year	**32,544**	**35,008**	**38,062**
PLAN NET POSITION			
Net investment income	8,666	(1,425)	2,550
Benefits paid, including refunds of employee contributions	(4,738)	(4,937)	(5,081)
Administrative expense	(6)	(7)	(6)
Net change in plan net position	**3,922**	**(6,369)**	**(2,537)**
Plan net position - beginning of year	61,056	67,425	69,962
Plan net position - end of year	**64,978**	**61,056**	**67,425**
Net pension liability (asset) - end of year	**$(32,434)**	**$(26,048)**	**$(29,363)**

(in thousands of dollars)	**2014**	**2013**	**2012**
TOTAL PENSION LIABILITY			
Interest on the total pension liability	$2,857	$3,052	$3,227
Changes of benefit terms			11,186
Difference between expected and actual experience	(436)	(241)	172
Changes of assumptions or other inputs			1,267
Benefits paid, including refunds of employee contributions	(5,169)	(5,278)	(5,368)
Net change in total pension liability	**(2,748)**	**(2,467)**	**10,484**
Total pension liability - beginning of year	41,108	43,575	33,091
Total pension liability - end of year	**38,360**	**41,108**	**43,575**
PLAN NET POSITION			
Net investment income	11,035	7,144	90
Benefits paid, including refunds of employee contributions	(5,169)	(5,278)	(5,368)
Administrative expense	(6)	(7)	(7)
Net change in plan net position	**5,860**	**1,859**	**(5,285)**
Plan net position - beginning of year	64,102	62,243	67,528
Plan net position - end of year	**69,962**	**64,102**	**62,243**
Net pension liability (asset) - end of year	**$(31,602)**	**$(22,994)**	**$(18,668)**

The University's schedule of net pension asset for UC-VERIP as of June 30 is:

(in thousands of dollars)	2017	2016	2015
Total pension liability	$32,544	$35,008	$38,062
Plan net position	64,978	61,056	67,425
Net pension asset	**$(32,434)**	**$(26,048)**	**$(29,363)**
Ratio of plan net position to total pension liability (asset)	199.7%	174.4%	177.1%

(in thousands of dollars)	2014	2013	2012
Total pension liability	$38,360	$41,108	$43,575
Plan net position	69,962	64,102	62,243
Net pension asset	**$(31,602)**	**$(22,994)**	**$(18,668)**
Ratio of plan net position to total pension liability (asset)	182.4%	155.9%	142.8%

The University is not required to make contributions to the UC-VERIP due to its fully funded status.

CHRCO PENSION PLAN

The schedule of changes in the net pension liability for the CHRCO Pension Plan as of June 30:

(in thousands of dollars)	2017	2016	2015	2014
TOTAL PENSION LIABILITY				
Service cost	$9,910	$10,410	$9,448	$9,274
Interest on the total pension liability	29,672	27,782	24,683	22,453
Changes of benefit terms	33	24	40	142
Difference between expected and actual experience	2,442	(3,690)	762	2,487
Changes of assumptions or other inputs		3,613	33,105	
Benefits paid, including refunds of employee contributions	(11,767)	(9,509)	(8,082)	(6,994)
Net change in total pension liability	**30,290**	**28,630**	**59,956**	**27,362**
Total pension liability - beginning of year	419,862	391,232	331,276	303,914
Total pension liability - end of year	**450,152**	**419,862**	**391,232**	**331,276**
PLAN NET POSITION				
Contributions - employer	28,800	24,000	18,000	14,500
Net investment income	41,256	214	11,797	48,704
Benefits paid, including refunds of employee contributions	(11,767)	(9,509)	(8,082)	(6,994)
Administrative expense	(2,727)	(1,816)	(1,222)	(718)
Net change in plan net position	**55,562**	**12,889**	**20,493**	**55,492**
Total plan net position - beginning of year	353,446	340,557	320,064	264,572
Total plan net position - end of year	**409,008**	**353,446**	**340,557**	**320,064**
Net pension liability - end of year	**$41,144**	**$66,416**	**$50,675**	**$11,212**

The schedule of net pension liability for the CHRCO Pension Plan as of June 30 is:

(in thousands of dollars)	2017	2016	2015	2014
Total pension liability	$450,152	$419,862	$391,232	$331,276
Plan net position	409,008	353,446	340,557	320,064
Net pension liability	**$41,144**	**$66,416**	**$50,675**	**$11,212**
Ratio of plan net position to total pension liability	90.9%	84.2%	87.0%	96.6%
Covered payroll	$184,083	$165,672	$177,986	$175,189
Net pension liability as a percentage of covered payroll	22.4%	40.1%	28.5%	6.4%

The schedule of employer contributions for the CHRCO Pension Plan as of June 30 is:

(in thousands of dollars)	2017	2016	2015	2014
Actuarially calculated employer contributions	$5,642	$7,823	$12,200	$21,300
Contributions in relation to the actuarially calculated employer contribution	28,800	24,000	18,000	14,500
Annual contribution deficiency (excess)	**$(23,158)**	**$(16,177)**	**$(5,800)**	**$6,800**
Covered payroll	$184,083	$165,672	$177,986	$175,189
Actual contributions as a percentage of covered payroll	15.6%	14.5%	10.1%	8.3%

Notes to schedule

Methods and assumptions used to determine contribution rates:

Valuation date:
Actuarially calculated contributions are calculated as of January 1 of the end of the fiscal year in which contributions are reported.

Actuarially determined contribution	The Plan is subject to funding requirements under ERISA. The contribution shown is the IRC Section 430 minimum contribution prior to offset by credit balances prorated for the number of months in the fiscal year. For the period January 1, 2014 to June 30, 2014, the amount shown does not reflect changes in the Highway and Transportation Funding Act of 2014 (HATFA). The contribution for July 1, 2014 to June 30, 2017 includes HATFA.
Contributions in relation to the actuarially determined contribution	The amount shown is equal to the overall dollar amount contributed to the Plan during the fiscal year shown.
Actuarial cost method	Unit Credit Actuarial Cost Method.
Amortization method	Level dollar, closed amortization.
Remaining amortization period	7 years for changes in unfunded liabilities that occur each valuation date.
Asset valuation method	The actuarial value of assets is equal to the two-year average of Plan asset values as of the valuation date. The two-year average is the average of the two prior year's adjusted market value of assets and the current year's market value of assets. For this purpose, the prior years' market value of assets is adjusted to reflect benefit payments, administrative expenses, contributions and expected returns for the prior years. The resulting actuarial value of assets is adjusted to be within 10% of the market value of assets at the valuation date, as required by IRC Section 430.
Inflation	3.00%.
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation.
Projected salary increases	5.00%, including inflation through 2017, 4.00% afterward.
Cost-of-living adjustments	N/A.
Mortality	RP-2016 Healthy Annuitant Mortality Table for males or females, as appropriate, with generational adjustments for mortality improvements based on Scale AA.

OCERS

The schedule of the University's proportionate share of OCERS' net pension liability is presented below:

(in thousands of dollars)

AS OF JUNE 30	PROPORTION OF THE NET PENSION LIABILITY	PROPORTIONATE SHARE OF NET PENSION LIABILITY	COVERED PAYROLL	PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF ITS COVERED PAYROLL	PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY
2017	0.3%	$18,057	$44	41,038.6%	34.5%
2016	0.3%	18,092	285	6,347.5%	34.8%

University Retiree Health Benefits Plan

The schedule of changes in the net retiree health benefits liability includes multi-year trend information about whether the net retiree health benefits liability is increasing or decreasing over time. The University's net retiree health benefits liability includes liabilities for campuses, medical centers and LBNL. The University's schedule of changes in the net retiree health benefits liability as of, and for, the year ending June 30 is:

(in thousands of dollars)	2017	2016	2015
TOTAL RETIREE HEALTH BENEFIT LIABILITY			
Service cost	$1,004,644	$830,041	$702,935
Interest on the total retiree health benefits liability	646,279	735,294	719,853
Difference between expected and actual experience	101,280	(1,948,111)	
Changes of assumptions or other inputs	(3,827,924)	3,925,503	1,402,476
Retiree contributions	72,716	65,705	56,340
Benefits paid	(467,846)	(451,166)	(435,189)
Net change in total retiree health benefits liability	**(2,470,851)**	**3,157,266**	**2,446,415**
Total retiree health benefits liability - beginning of year	21,867,989	18,710,723	16,264,308
Total retiree health benefits liability - end of year	**19,397,138**	**21,867,989**	**18,710,723**
PLAN NET POSITION			
University contributions	432,953	410,945	367,416
Retiree contributions	72,716	65,705	56,340
Net investment income	606	155	41
Insurance premiums	(467,846)	(451,166)	(435,189)
Other deductions	(4,256)	(3,743)	(3,147)
Net change in UCRHBT net position	**34,173**	**21,896**	**(14,539)**
UCRHBT net position - beginning of year	72,541	50,645	65,184
UCRHBT net position - end of year	**106,714**	**72,541**	**50,645**
Net retiree health benefits liability - end of year	**$19,290,424**	**$21,795,448**	**$18,660,078**

The University's schedule of net retiree health benefits liability as of June 30 is:

(in thousands of dollars)	2017	2016	2015
Total retiree health benefits liability	$19,397,138	$21,867,989	$18,710,723
UCRHBT net position	106,714	72,541	50,645
Net retiree health benefits liability	**$19,290,424**	**$21,795,448**	**$18,660,078**
Ratio of UCRHBT net position to total retiree health benefits liability	0.6%	0.3%	0.3%
Covered payroll	$11,495,997	$10,689,424	$10,047,570
Net retiree health benefits liability as a percentage of covered payroll	167.8%	203.9%	185.7%

University of California Retiree Health Benefit Trust

The schedule of changes in the net retiree health benefits liability includes multi-year trend information about whether the trust assets are increasing or decreasing over time relative to the total retiree health benefits liability for the campuses and medical centers. UCRHBT's schedule of changes in net retiree health benefit liability as of, and for, the year ending June 30 is:

(in thousands of dollars)	2017	2016	2015
TOTAL RETIREE HEALTH BENEFIT LIABILITY			
Service cost	$981,745	$806,817	$683,220
Interest on the total retiree health benefits liability	625,947	711,365	695,999
Difference between expected and actual experience	95,254	(1,875,009)	
Changes of assumptions or other inputs	(3,707,921)	3,798,113	1,358,761
Retiree contributions	69,968	65,705	56,340
Benefits paid	(447,604)	(433,849)	(418,244)
Net change in total retiree health benefits liability	**(2,382,611)**	**3,073,142**	**2,376,076**
Total retiree health benefits liability - beginning of year	21,168,712	18,095,570	15,719,494
Total retiree health benefits liability - end of year	**18,786,101**	**21,168,712**	**18,095,570**
PLAN NET POSITION			
University contributions	415,459	393,628	350,471
Retiree contributions	69,968	65,705	56,340
Net investment income	606	155	41
Insurance premiums	(447,604)	(433,849)	(418,244)
Other deductions	(4,256)	(3,743)	(3,147)
Net change in UCRHBT net position	**34,173**	**21,896**	**(14,539)**
UCRHBT net position - beginning of year	72,541	50,645	65,184
UCRHBT net position - end of year	**106,714**	**72,541**	**50,645**
Net retiree health benefits liability - end of year	**$18,679,387**	**$21,096,171**	**$18,044,925**

UCRHBT's schedule of net retiree health benefits liability as of June 30 is:

(in thousands of dollars)	2017	2016	2015
Total retiree health benefits liability	$18,786,101	$21,168,712	$18,095,570
UCRHBT net position	106,714	72,541	50,645
Net retiree health benefits liability	**$18,679,387**	**$21,096,171**	**$18,044,925**
Ratio of UCRHBT net position to total retiree health benefits liability	0.6%	0.3%	0.3%
Covered payroll	$11,196,485	$10,396,827	$9,758,795
Net retiree health benefits liability as a percentage of covered payroll	166.8%	202.9%	184.9%


PATENT
PENDING
Neck
Injection
Access

UNIVERSITY OF CALIFORNIA

Regents and Officers

APPOINTED REGENTS

(In alphabetical order of last name)

Maria Anguiano
Richard C. Blum
William De La Pena
Gareth Elliott
Howard "Peter" Guber
George D. Kieffer
Sherry L. Lansing
Monica Lozano
Hadi Makarechian
Eloy Ortiz Oakley
Lark Park
Norman J. Pattiz
John A. Perez
Bonnie M. Reiss
Richard Sherman
Ellen Tauscher
Bruce D. Varner
Charlene R. Zettel

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Jerry Brown, *Governor of California*
Gavin Newsom, *Lieutenant Governor*
Anthony Rendon, *Speaker of the Assembly*
Tom Torlakson, *State Superintendent of Public Instruction*
Janet Napolitano, *President of the University*
Francesco Mancia, *President, Alumni Associations of the University of California*
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University of California
Office of the President
1111 Franklin Street
Oakland, CA 94607

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Attachment 2

UNIVERSITY OF CALIFORNIA

Annual Financial Report

Retirement System

16/17

UC faculty and staff strive every day for excellence for the public good. We’re problem solvers, risk takers and restless pioneers. Whether we teach students or feed them, develop the latest vaccine or administer it, write books or shelve them, we all play an important role in making things better for individuals, for California and for the world.

UNIVERSITY OF CALIFORNIA

Retirement System
16/17 Annual Financial Report

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University of California Retirement System

The University of California Retirement System ("UCRS") comprises two defined benefit pension plans and four defined contribution plans. The Regents of the University of California ("The Regents") acts as trustee associated with each of the UCRS Plans other than the UC Tax-Deferred 403(b) Plan ("403(b) Plan") for which the Office of the Chief Investment Officer of The Regents acts as custodian. Administrative authority with respect to the UCRS Plans is vested in the President of the University as plan administrator and the President has re-delegated that authority within UCRS to the Vice President — Human Resources. UCRS consists of two defined benefit pension plans known as the University of California Retirement Plan ("UCRP") and the University of California Voluntary Early Retirement Incentive Program ("UC-VERIP"). UCRS also includes the University of California Retirement Savings Program ("UCRSP") which includes the Defined Contribution Plan ("DC Plan"), the Supplemental Defined Contribution Plan ("SDC Plan"), the 403(b) Plan and the 457(b) Deferred Compensation Plan ("457(b) Plan"). Collectively, UCRS Plans provide for a combination of defined benefits and retirement savings opportunities to eligible University employees and retirees.

SUMMARY STATEMENT

This section contains information on the University of California Retirement Plan (UCRP), which provides lifetime retirement income, disability income, death benefits and post-retirement and preretirement survivor benefits to eligible employees of the University of California (the "University") and its affiliate, Hastings College of the Law, and the survivors and beneficiaries as of and for the fiscal year ended June 30, 2017. Significant statistics relating to UCRP's financial information and membership base as of June 30, 2017, is as follows:

Net position	$62.1 billion
Net investment gain	$7.9 billion
Contributions	$3.5 billion
Benefit payments *(Excluding member withdrawals and lump sum cashouts)*	$2.9 billion
Plan administrative and other expenses	$44.1 million

ACTIVE PLAN MEMBERSHIP	
Senate Faculty and Non-Faculty Academics	24,555 members
Management/Senior Professional	11,990 members
Professional/Support Staff	92,837 members
TOTAL	**129,382 members**
AVERAGE ANNUAL SALARY	
Senate Faculty	$139,524
Non-Faculty Academics	$91,854
Management/Senior Professional	$141,030
Professional/Support Staff	$76,582
AVERAGE AGE	
Senate Faculty	50 years
Non-Faculty Academics	45 years
Management/Senior Professional	49 years
Professional/Support Staff	43 years

INACTIVE PLAN MEMBERSHIP/OTHER *(Not yet receiving benefits)*[1]	
TOTAL	**87,052 members**

RETIREE MEMBERSHIP *(Receiving benefits)*	
Faculty	6,656 members
Management/Senior Professional	10,411 members
Professional/Support Staff	45,686 members
TOTAL	**62,753 members**
AVERAGE RETIREMENT AGE	
Faculty	64 years
Management/Senior Professional	61 years
Professional/Support Staff	60 years
AVERAGE SERVICE CREDIT AT RETIREMENT	
Faculty	25 years
Management/Senior Professional	21 years
Professional/Support Staff	20 years
AVERAGE ANNUAL UCRP INCOME	
Faculty	$84,775
Management/Senior Professional	$61,004
Professional/Support Staff	$34,065
Survivor/Beneficiary	8,802 members
Disabled	1,440 members

[1] Includes terminated nonvested members eligible for a refund of Plan accumulations or CAP payment and members that transferred to the Los Alamos National Security (LANS) or Lawrence Livermore National Security (LLNS) defined benefit plans and are eligible for a CAP payment from UCRP after they separate from employment with LANS or LLNS.

PLAN OVERVIEW AND ADMINISTRATION

UCRP is a key component of the comprehensive benefits package offered to employees of the University of California and its affiliate, Hastings College of the Law. UCRP is a governmental defined benefit pension plan intended to be qualified under §401(a) of the Internal Revenue Code (IRC).

The University's pension program dates back to 1904, with a plan that provided for the purchase of commercial annuities for retiring professors at UC Berkeley and UC San Francisco. The current retirement pension plan was designed in 1961, before the University's participation in Social Security and before the introduction of employee life and disability insurance coverage. Over the years, UCRP has evolved to include provisions for:

- Basic retirement income (includes post-retirement survivor benefits) and four alternative monthly payments;
- Lump sum cashouts in lieu of monthly retirement income;
- Disability income;
- Death benefits;
- Preretirement survivor benefits.

Further, in lieu of lifetime retirement benefits, members may choose a refund of their accumulated employee contributions and earnings.

At June 30, 2017, active UCRP members included 129,382 employees at the University's ten campuses, five medical centers, Lawrence Berkeley National Laboratory and Hastings College of the Law.

The Vice President — Human Resources of the University carries out administrative duties delegated by the President for the day-to-day management and operation of the Plan. These duties include conducting policy research, implementing changes to the Plan document and regulations to preserve the Plan's qualification under the IRC and overseeing the recordkeeping and accounting functions and the receipt and disbursement of UCRP assets to eligible members, their beneficiaries and survivors.

Summary plan descriptions are updated periodically to reflect legislative, Plan and administrative changes. These booklets are available online on UCnet (http://ucnet.universityofcalifornia.edu/) or through the local Benefits Offices.

PLAN MEMBERSHIP

Employees participate in UCRP in one of five plan membership categories/tiers:

- Members of the 1976 Tier
- Members of the 2013 Tier (including the Modified 2013 Tier)
- Members of the 2016 Tier
- Safety Members (police and firefighters)
- Tier Two Members

The following table reflects UCRP Plan membership by category over the past 10 years ended June 30:

ACTIVE AND INACTIVE PLAN MEMBERSHIP

YEAR	1976 TIER	2013 TIER	MODIFIED 2013 TIER	2016 TIER	SAFETY MEMBERS	TIER TWO	TOTAL ACTIVE	INACTIVE MEMBERS/OTHERS	TOTAL ACTIVE AND INACTIVE PLAN MEMBERSHIP
2017	81,270[1]	24,531[2]	18,680[3]	4,494[4]	403[5]	4	129,382	87,052	216,434
2016	88,148	25,450	14,510		399	6	128,513	81,595	210,108
2015	96,270	17,710	9,385		395	8	123,768	75,165	198,933
2014	106,162	9,510	4,482		404	10	120,568	78,229	198,797
2013	117,922				390	9	118,321	73,589	191,910
2012	116,481				396	11	116,888	67,318	184,206
2011	115,149				404	15	115,568	60,903	176,471
2010	114,496				418	14	114,928	55,037	169,965
2009	115,302				417	26	115,745	54,883	170,628
2008	113,810				411	21	114,242	64,566	178,808

[1] *Includes 349 plan members of the 1976 Tier and Tier Two category whose service is not coordinated with Social Security.*
[2] *Includes 6 plan members whose 1976 Tier service is not coordinated with Social Security.*
[3] *Includes 1 plan member whose 1976 Tier service is not coordinated with Social Security.*
[4] *Includes 13 plan members whose 1976 Tier service is not coordinated with Social Security.*
[5] *Includes 3 plan members whose Tier Two service is not coordinated with Social Security.*

PLAN BENEFITS

UCRP paid approximately $2.9 billion in periodic retirement, disability and preretirement survivor benefits to 72,995 members and their beneficiaries and survivors during fiscal year 2016-2017. The retirement payments described include cost-of-living adjustments (COLAs) and exclude lump sum cashouts and member withdrawals. Payments to survivors include basic death payments and survivor annuities. The table below reflects total benefits paid in each category over the past 10 years.

UCRP BENEFIT PAYMENTS *($ in thousands)*

YEAR ENDED JUNE 30	RETIREMENT	DISABILITY	DEATH & SURVIVOR	TOTAL[1]
2017	$2,800,438	$30,470	$57,146	$2,888,054
2016	2,596,632	30,769	56,212	2,683,613
2015	2,412,393	32,201	53,753	2,498,347
2014	2,240,565	33,411	50,271	2,324,247
2013	2,068,402	34,376	49,212	2,151,990
2012	1,908,831	35,189	47,262	1,991,282
2011	1,761,580	35,298	45,059	1,841,937
2010	1,634,114	35,331	41,129	1,710,574
2009	1,517,717	35,984	39,949	1,593,650
2008	1,403,778	36,098	39,624	1,479,500

[1] *Does not include non-periodic member withdrawals (including Capital Accumulation Payment (CAP) distributions) and lump sum cashouts.*

The number of UCRP benefit recipients in each category for the year ended June 30 for each of the past 10 years is shown below.

UCRP BENEFIT RECIPIENTS

YEAR ENDED JUNE 30	RETIRED MEMBERS	DISABLED MEMBERS	SURVIVORS	TOTAL	DECEASED MEMBERS
2017	62,753	1,440	8,802	72,995	1,671
2016	60,178	1,519	8,380	70,077	1,609
2015	57,581	1,620	8,120	67,321	1,678
2014	54,714	1,763	7,714	64,191	1,709
2013	52,300	1,897	7,518	61,715	1,406
2012	49,675	2,000	7,259	58,934	1,377
2011	47,243	2,084	6,969	56,296	1,790
2010	45,111	2,110	6,681	53,902	1,920
2009	42,969	2,157	6,527	51,653	1,659
2008	41,584	2,218	6,369	50,171	1,964

INVESTMENT AND PROXY POLICIES

In a defined benefit plan such as UCRP, the plan bears the mortality and investment risk because members' benefits are based on the employer's promise rather than the contributions or plan assets and their earnings available to pay the benefits.

The Office of the Chief Investment Officer (CIO) has primary responsibility for investing UCRP assets consistent with policies established by The Regents. The Regents has fiduciary responsibility for establishing investment policy for UCRP and for overseeing the implementation of that policy.

The assets of the Plan are held in trust by the Regents separately from the University's assets and are maintained in a custodial account at State Street Bank & Trust Co. The bank carries insurance against loss of property caused by employee dishonesty, theft, misplacement, damage, distribution or mysterious disappearance.

HISTORICAL INVESTMENT PERFORMANCE*

ANNUALIZED RATES OF RETURN AT JUNE 30, 2017 *(shown as percentage)*

	1-YEAR	3-YEAR	5-YEAR	10-YEAR
UCRP	**14.5%**	**5.4%**	**9.0%**	**5.0%**
Policy Benchmark	12.7%	4.5%	8.2%	4.4%
PUBLIC EQUITY	**22.5%**	**6.1%**	**11.6%**	**4.4%**
MSCI All Country World Index Net - IMI - Tobacco Free	19.1%	4.9%	10.8%	4.3%
U.S. Equity	**21.1%**	**8.4%**	**14.3%**	**6.9%**
Russell 3000 Tobacco Free Index	18.5%	8.9%	14.6%	7.1%
Non-U.S. Equity	**31.4%**	**3.6%**	**10.1%**	**2.1%**
MSCI World ex-U.S. Tobacco Free	19.8%	0.6%	8.1%	0.9%
Emerging Market Equity	**17.9%**	**0.7%**	**3.7%**	**1.8%**
MSCI Emerging Markets	23.7%	1.1%	4.0%	1.9%
FIXED INCOME	**2.9%**	**2.8%**	**3.0%**	**5.4%**
Policy Benchmark	2.0%	2.8%	2.6%	5.3%
Core Fixed Income	**1.3%**	**2.8%**	**2.9%**	**4.9%**
Barclays U.S. Aggregate Bond Index	-0.3%	2.5%	2.2%	4.7%
High Yield	**11.0%**	**4.4%**	**7.1%**	**7.4%**
Merrill Lynch High Yield Cash Pay Index	12.8%	4.5%	6.9%	7.5%
Emerging Market Debt	**5.1%**	**3.5%**	**3.9%**	**6.3%**
JP Morgan Emerging Markets Bond Index	6.0%	5.4%	5.7%	7.4%
TIPS	**-0.1%**	**0.8%**	**0.5%**	**4.6%**
Barclays U.S. TIPS	-0.6%	0.6%	0.3%	4.3%
OTHER INVESTMENTS				
Private Equity	**14.0%**	**11.0%**	**13.2%**	**8.2%**
Absolute Return	**4.8%**	**2.1%**	**5.9%**	**3.6%**
Custom Absolute Return Benchmark	6.4%	-0.4%	2.2%	2.4%
Real Estate	**7.7%**	**12.4%**	**12.1%**	**1.0%**
NCREIF-ODCE Index	7.4%	10.9%	11.0%	0.9%
Real Assets	**8.6%**	**-4.7%**	**0.1%**	
Cash	**1.0%**	**1.3%**	**2.1%**	

**Also applies to the UC-VERIP.*

SUMMARY STATEMENT

This section contains information about the University of California Retirement Savings Program (UCRSP) which consists of four defined contribution plans, two plans structured under §401(a) of the IRC; one plan structured under §403(b) of the IRC and a deferred compensation plan structured under IRC §457(b), collectively referred to as the "UCRSP Plans." The UCRSP Plans were created to provide savings incentives and additional retirement security for eligible University employees. The Defined Contribution Plan (DC Plan) was established by resolution of The Regents to accept after-tax contributions effective July 1, 1967, and pretax contributions effective November 1, 1990. The Regents established the Supplemental Defined Contribution Plan (SDC Plan) effective January 1, 2009 to provide retirement benefits to designated employees of the University and their beneficiaries. The 403(b) Plan, also established by Regental resolution, became effective July 1, 1969. The Regents established the 457(b) Plan effective September 1, 2004. Significant statistics relating to the UCRSP Plans' financial information and membership base as of fiscal year ending June 30, 2017 is as follows:

Net position	$22.5 billion
Total contributions	$1.3 billion
Net investment income	$2.2 billion
Program administrative expenses	$8.8 million

Significant statistics relating to the Plans and their participants as of the 2016-2017 fiscal year-end are as follows:

DEFINED CONTRIBUTION PLAN

Pretax Participants:	
Academic Faculty	68
Management/Senior Professional/Other	83
Professional/Support Staff	34,919
Hastings College of the Law	1
Total Pretax Participants	**35,071**
Average Pretax monthly contribution	$225
Average Pretax Account value	$5,683
After-Tax Account Participants:	
Academic Faculty	707
Management/Senior Professional	602
Professional/Support Staff/Other	3,568
Hastings College of the Law	3
Total After-Tax Account Participants	**4,880**
Average After-Tax Account monthly contribution	$434
Average After-Tax Account value	$20,186
Inactive Plan Participation (Including Pretax Accounts)	**171,567**

TAX-DEFERRED 403(b) PLAN

Participants:	
Academic Faculty	9,589
Management/Senior Professional	11,036
Professional/Support Staff/Other	48,470
Hastings College of the Law	110
Total	**69,205**
Average percent of salary contributed	8.6%
Average monthly contribution	$747
Average Plan Account value	$91,157
Outstanding Loan Program loans	18,572
Aggregate outstanding loan principal	$180.5 million
Inactive Plan Participation	**55,114**

457(b) DEFERRED COMPENSATION PLAN

Participants:	
Academic Faculty	4,689
Management/Senior Professional	3,668
Professional/Support Staff/Other	9,904
Hastings College of the Law	40
Total	**18,301**
Average monthly contribution	$989
Average Plan Account balance	$78,247
Inactive Plan Participation	**9,414**

PLAN OVERVIEW AND ADMINISTRATION

Benefits from UCRSP Plans are based on participants' mandatory and voluntary contributions, and certain University contributions, plus earnings. While their savings accumulate, employees have the benefit of reductions in their personal income taxes.

A defined contribution plan was first made available to University employees in 1967. Employees could invest after-tax contributions in two University-managed annuity funds. Two years later, the 403(b) Plan was added for voluntary pretax savings. Over the years, 403(b) Plan features have been expanded to include mutual fund investment options including a brokerage window; a loan program through which participants can borrow from their 403(b) Plan savings; diverse investment options that now include 11 single, diversified investments for building retirement savings; 14 core asset class options and a brokerage window.

The 457(b) Plan was established effective September 1, 2004. Although 457(b) plans have been available for many years, the IRC salary deferral contribution limits were applicable to participants' combined annual contributions to both 457(b) and 403(b) plans, so there was no advantage in offering both. A change in tax law, however, allows the maximum limit to be applied separately to each kind of plan. Thus, with the addition of the 457(b) Plan, University faculty and staff can double the amount of their voluntary, pretax retirement savings.

All employee salary deferral and after-tax contributions to UCRSP Plans are deducted from participants' wages. University contributions are made on behalf of academic employees who earn summer term or equivalent salary and eligible senior managers.

The fiduciary oversight structure for UCRSP Plans aligns Regental oversight of the Plans through the Governance and Compensation Committee, which oversees the administration of the Plans carried out by the Human Resources Department, and the Finance and Capital Strategies Committee through its Subcommittee on Investments which oversees the investment management function carried out by the CIO.

The Vice President — Human Resources serves as the Plan Administrator and oversees policy research, implements regulations to preserve the Plans' qualification and/or tax-advantaged status under IRC and provides administrative services as needed.

The Plans' administration and investment management activities are reviewed semiannually by the Retirement Savings Program Advisory Committee.

Fidelity Workplace Services LLC (FWS) acts as the master recordkeeper for the UCRSP Plans. The master recordkeeping and participant services include daily valuation, daily exchanges, processing of distributions, plan loans and withdrawals, administration and a consolidated recordkeeping platform for the Plans and all the funds offered under UCRSP.

For services rendered in connection with the UCRSP Plans, an administrative fee is charged to the University-managed investment funds each day, based upon the previous day's net assets, and is paid to the University. The fee is deducted before calculating the unit values and interest factors. The fee is intended not to exceed a maximum of 0.15 percent (or $1.50 per $1,000 invested) of the fund's average market value per year, assessed on a daily basis. The administrative fee pays for the Plans' expenses, such as charges for investment management, investor education, accounting, audit, legal and recordkeeping services. There are no front-end or deferred sales loads or other marketing expenses associated with the single, diversified investments and primary asset class options managed by the CIO. Additionally, each investment option is subject to an investment management fee (expense ratio) deducted from the net asset value of the funds. Effective June 2017, the UCRSP Plans charged a per-participant administrative fee. A quarterly administrative fee of $8.75 is deducted from each participant's account to cover costs of plan administrative services.

In addition, any fees paid by participants, including loan fees and brokerage window account fees, and any credits that may be awarded for FWS' failure to meet certain performance standards, will be credited to the Plans' recordkeeping fee account.

A participant can obtain information on fees charged by a mutual fund investment option by reviewing the fund prospectus available on the FWS website (netbenefits.fidelity.com).

Summary plan descriptions are updated periodically to reflect legislative, Plan and administrative changes. These booklets are available online on UCnet (http://ucnet.universityofcalifornia.edu) or through the local Benefits Offices. Copies of these booklets are mailed directly to active participants once every five years.

CONTRIBUTIONS AND INVESTMENTS

Effective July 1, 2016, UCRP was amended to provide a new tier of pension benefits under the Retirement Choice Program. The new program tier provides eligible University employees hired (or becoming eligible) on or after July 1, 2016 (and certain eligible rehires who return to work after a tier break in service) a choice between two primary retirement benefits options: (1) “Pension Choice,” which is the UCRP pension benefit with covered compensation for new hires capped at the California Public Employees’ Pension Reform Act (PEPRA) salary pensionable compensation limit or, (2) “Savings Choice,” which is a defined contribution plan-only option on eligible pay up to the Internal Revenue Service compensation limit. For eligible employees who elect Pension Choice and who are subject to the PEPRA maximum for members coordinated with Social Security, both the University and eligible participants make mandatory DC Plan retirement contributions on a pretax basis for the supplemental defined contribution plan benefit. For designated faculty, the University contributes 5.0 percent on all eligible pay up to the IRS limit and for staff contributes 3.0 percent on eligible pay above the PEPRA maximum up to the IRS limit. Both designated faculty and staff contribute 7.0 percent on eligible pay above the PEPRA maximum up to the IRS limit.

Voluntary DC Plan contributions, which employees make on an after-tax basis, are held in the Plan’s After-Tax Account. The maximum amount employees may contribute annually as after-tax voluntary contributions is determined by the IRC §415(c) limit. Generally, this amount is the lesser of 100 percent of the participant’s adjusted gross University salary or $53,000 in 2016 and $54,000 in 2017. This limit takes into account all annual additions, including any pretax employee and University contributions to the DC Plan. After-tax contributions are deducted from net income and also may be invested in and transferred among any of the investment options available to the UCRSP Plans.

The University makes DC Plan retirement contributions on the summer salaries of eligible academic appointees who teach, conduct research or provide administrative service during the summer session or an equivalent term. To be eligible, the academic appointee must hold an academic year appointment, be an active member of UCRP or another defined benefit plan to which the University contributes, be a Savings Choice participant, or be eligible for a primary retirement benefit option under the Retirement Choice Program even if not yet participating. The contribution rate, through October 31, 2016, is 7.0 percent of eligible summer salary, of which 3.5 percent is University-paid and 3.5 percent is employee-paid, both on a pretax basis.

The 403(b) Plan includes voluntary employee salary deferral contributions that are made on a pretax basis. Within IRC limits, a 403(b) Plan participant may make contributions as a percentage of salary or in flat dollar amounts. Contributions to the 403(b) Plan may be invested in and transferred among any of the investment options available to the Plans. Effective November 1, 2016, contributions for summer salary are directed to the 403(b) Plan. The University may also contribute on behalf of eligible senior managers.

The 457(b) Plan includes voluntary salary deferral employee contributions. University contributions may also be made for eligible senior managers on a pretax basis. Within IRC limits, a Plan participant may make contributions as a percentage of their salary or in a flat dollar amount. Plan contributions may be invested in and transferred among any of the investment options available to the Plans.

All four Plans accept rollovers of pretax distributions from other University-sponsored plans, including lump sum cashouts and Capital Accumulation Payment (CAP) distributions from UCRP, 401(a), 401(k), 403(b) and governmental 457(b) Plans, and from traditional IRAs. In addition, the DC and 403(b) Plans accept direct rollovers of after-tax amounts from 401(a), 401(k) and 403(b) Plans. The 457(b) Plan does not accept rollovers of after-tax distributions.

INVESTMENTS

The Chief Investment Officer (CIO) has primary responsibility for selecting appropriate asset classes and specific investment options, establishing investment guidelines and benchmarks against which performance is measured, and making changes in the UC Funds menu as it deems appropriate based on its periodic evaluations. The CIO’s selection and monitoring responsibilities do not extend to the mutual funds available through the Fidelity brokerage account option. The Regents has fiduciary responsibility for establishing broad investment policy and overseeing the performance of the investment functions.

Proxy Voting Policy

The CIO has instructed The Regents’ custodian bank to vote all proxies on behalf of The Regents according to its guidelines.

Investment Options

In 2016–2017, all UCRSP participants had the following investment options:

Tier 1: Pathway, a Target Date Fund with 11 specific target dates
Tier 2: 14 Core Asset Class choices
Tier 3: Fidelity Brokerage Window

Current detailed information regarding the UC Funds and other investment options is available at netbenefits.com.

UC Funds Investment Performance

UC FUND INVESTMENT PERFORMANCE FOR PERIODS ENDING JUNE 30, 2017

(shown as percentage)

	1-YEAR	3-YEAR	5-YEAR
TARGET DATE FUNDS			
Pathway Income Fund	**6.2%**	**2.7%**	**2.1%**
Policy Benchmark[1]	5.8%	2.4%	1.7%
Pathway Fund 2015	**6.2%**	**2.8%**	**2.8%**
Policy Benchmark[1]	5.8%	2.5%	2.4%
Pathway Fund 2020	**8.8%**	**3.9%**	**4.6%**
Policy Benchmark[1]	8.5%	3.6%	4.2%
Pathway Fund 2025	**10.4%**	**4.1%**	**5.3%**
Policy Benchmark[1]	10.2%	3.9%	5.0%
Pathway Fund 2030	**11.9%**	**4.4%**	**6.0%**
Policy Benchmark[1]	11.8%	4.2%	5.7%
Pathway Fund 2035	**13.3%**	**4.6%**	**6.7%**
Policy Benchmark[1]	13.3%	4.4%	6.4%
Pathway Fund 2040	**14.7%**	**4.8%**	**7.4%**
Policy Benchmark[1]	14.8%	4.6%	7.1%
Pathway Fund 2045	**16.2%**	**5.0%**	**8.1%**
Policy Benchmark[1]	16.3%	4.8%	7.8%
Pathway Fund 2050	**17.5%**	**5.1%**	**8.7%**
Policy Benchmark[1]	17.7%	5.0%	8.5%
Pathway Fund 2055	**17.9%**	**5.2%**	**9.2%**
Policy Benchmark[1]	17.9%	5.0%	9.0%
Pathway Fund 2060	**17.8%**	**5.2%**	**9.7%**
Policy Benchmark[1]	17.9%	5.0%	9.5%
BALANCED FUND			
UC Balanced Growth Fund	**12.7%**	**4.3%**	**8.4%**
Policy Benchmark[2]	12.6%	4.2%	8.2%
U.S. LARGE EQUITY			
UC Domestic Equity Index Fund	**18.7%**	**9.1%**	**14.7%**
Russell 3000 TF Index	18.5%	8.9%	14.6%
Vanguard FTSE Social Index Fund	**22.8%**	**10.7%**	**16.8%**
FTSE Spliced Social Index	22.9%	10.9%	16.9%

	1-YEAR	3-YEAR	5-YEAR
U.S. SMALL/MID CAP EQUITY			
Vanguard Small Cap Index Fund	**22.8%**	**7.9%**	**14.9%**
CRSP Small Cap Index	22.8%	7.8%	14.8%
GLOBAL/WORLD EX-U.S. EQUITY			
UC Global Equity Fund	**18.7%**	**7.8%**	**13.7%**
Policy Benchmark[1]	18.3%	7.6%	13.4%
UC International Equity Index Fund	**20.3%**	**1.0%**	**8.5%**
MSCI World ex-U.S. TF Index	19.5%	0.7%	8.2%
CAPITAL PRESERVATION			
UC Savings Fund	**1.3%**	**1.2%**	**1.2%**
Two-Year U.S. Treasury Notes Income Return	1.0%	0.8%	0.6%
INFLATION SENSITIVE			
UC Short Term TIPS Fund	**0.5%**	**0.1%**	
Barclays 1-3 Year U.S. TIPS Index	0.2%	-0.3%	
UC TIPS Fund	**0.0%**	**1.0%**	**0.6%**
Barclays U.S. TIPS Index	-0.6%	0.6%	0.3%
DIVERSIFIED FIXED INCOME			
UC Bond Fund	**0.5%**	**2.8%**	**2.8%**
Barclays Aggregate Fixed Income Benchmark	-0.3%	2.5%	2.2%
NEW LARGE EQUITY			
Fidelity Growth Company Fund	**32.6%**	**13.5%**	**17.5%**
S&P 500 TF Index	17.9%	9.6%	14.6%
WORLD EX-U.S. EQUITY			
Fidelity Diversified Intl. Fund	**18.0%**	**2.7%**	**9.5%**
MSCI World ex-U.S. TF Index	20.5%	1.3%	8.9%
DFA Emerging Markets Portfolio	**22.5%**	**1.4%**	**4.2%**
MSCI Emerging Markets Index	23.8%	1.1%	4.0%
REAL ESTATE			
Vanguard REIT Index Fund	**-1.9%**	**8.1%**	**9.3%**
REIT Spliced Index	-1.8%	8.2%	9.4%

POLICY BENCHMARKS

[1] Blend of the benchmarks of the individual underlying Core Funds based on holdings according to the Fund asset allocation mix.

[2] Consists of 28.5% times the Benchmark of the UC Equity Fund, 22% times the MSCI World ex-U.S. TF Index, 15% times the MSCI Emerging Markets Net Index, 11% times the MSCI U.S. REIT Index, 20% times the Barclays U.S. Aggregate Index and 3.5% times the Barclays 1-3 Year U.S. TIPS Index.

NET POSITION BY PLAN

The following tables show the assets, liabilities, net position and number of participant accounts in each of the Plans as of June 30, 2017. The participant counts reflect the fact that participants may have an account in more than one Plan and may also have more than one account in one or more of the Plans.

(in thousands of dollars)

June 30, 2017	403(B) PLAN	DC PLANS	457(B) PLAN	TOTAL PLANS
ASSETS				
UC Fund investments	$13,557,256	$3,966,608	$1,979,401	$19,503,265
Investment of securities lending collateral	2,133,382	767,583	116,153	3,017,118
Participants' interests in mutual funds	2,382,304	415,718	553,432	3,351,454
Participant 403(b) Plan loans	180,511			180,511
Other assets	76,249	7,561	1,593	85,403
Total Assets	**18,329,702**	**5,157,470**	**2,650,579**	**26,137,751**
LIABILITIES				
Other liabilities	574,068	54,431	10,876	639,375
Collateral held for securities lending	1,927,494	902,535	185,715	3,015,744
Total Liabilities	**2,501,562**	**956,966**	**196,591**	**3,655,119**
Net Position	**$15,828,140**	**$4,200,504**	**$2,453,988**	**$22,482,632**

PARTICIPANT ACCOUNTS BY PLAN

At June 30, 2017, the participant counts for active employees contributing to the UC Retirement Savings Program, inactive accounts and the 403(b) Plan participant plan loans were as follows:

(number of accounts)

June 30, 2017	403(B) PLAN	DC PLANS	457(B) PLAN	TOTAL PLANS
ACTIVE ACCOUNTS				
Pretax	69,205	35,071	18,301	122,577
After-tax		4,880		4,880
Total Active Accounts	**69,205**	**39,951**	**18,301**	**127,457**
Inactive Accounts	**55,114**	**171,567**	**9,414**	**236,095**
Total Participant Accounts	**124,319**	**211,518**	**27,715**	**363,552**
Participant Plan Loans	**18,572**			**18,572**

TAX-DEFERRED 403(b) PLAN LOAN PROGRAM

As permitted by IRC §72(p), active participants with a 403(b) Plan balance of at least $1,000 may generally borrow from their total 403(b) Plan account balance without incurring taxes or penalties. Certain limitations apply to the available borrowing amount depending on account balance, previous loan activity and highest outstanding loan balance within the past 12 months.

The 403(b) Plan Loan Program offers short-term general-purpose loans with repayment terms of five years or less, and long-term principal-residence loans with repayment terms of up to fifteen years. A participant may have one general-purpose loan and one principal-residence loan outstanding at one time but may not take more than one loan within a 12-month period. Monthly repayments of principal and interest are credited proportionately to the investment fund(s) according to the current 403(b) Plan contribution investment mix established by the participant. A nonrefundable loan initiation fee of $35 is deducted from the 403(b) Plan account balance at the end of the calendar quarter in which the loan is taken. An annual maintenance fee of $15 is deducted ($3.75 per calendar quarter) from the participant's 403(b) Plan account balance.

The interest rate is fixed at the time the loan is granted and equals the prevailing bank Prime Rate as published by The Wall Street Journal plus 1 percent. During fiscal year 2016–2017, the Loan Program interest rate for new loans increased to 5.25 percent. As of June 30, 2017, the loan rate remained at 5.25 percent.

At June 30, 2017, the aggregate outstanding loan balance of 18,572 active loans was $180.5 million compared to 18,707 active loans with an aggregate outstanding balance of $178.7 million at June 30, 2016.

The following table reflects participant loans funded during 10 years ended June 30:

YEAR ENDED JUNE 30	NUMBER OF LOANS FUNDED	$ IN THOUSANDS
2017	6,116	$74,081
2016	5,839	71,857
2015	5,876	73,465
2014	6,003	75,361
2013	5,938	72,417
2012	5,161	62,807
2011	5,150	62,460
2010	5,560	64,253
2009	4,396	48,017
2008	4,162	47,904

Management's Discussion and Analysis *(Unaudited)*

The University of California Retirement System ("UCRS") comprises two defined benefit pension plans and four defined contribution plans. The objective of Management's Discussion and Analysis is to help readers of UCRS' financial statements better understand the financial position and operating activities for the fiscal year ended June 30, 2017, with selected comparative information for the years ended June 30, 2016 and June 30, 2015. This discussion should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2015, 2016, 2017, etc.) in this discussion refer to the fiscal years ended June 30.

This discussion and analysis is intended to serve as an introduction to UCRS' financial statements, which comprise the following:

- Statements of Fiduciary Net Position
- Statements of Changes in Fiduciary Net Position
- Notes to Financial Statements
- Required Supplementary Information
- Note to Required Supplementary Information

The Statements of Fiduciary Net Position present information on UCRS' assets and liabilities and the resulting net position for pension benefits. These statements reflect UCRS' investments at fair value, along with cash and short-term investments, receivables and other assets and liabilities.

The Statements of Changes in Fiduciary Net Position present information showing how UCRS' net position for pension benefits changed during the years ended June 30, 2017 and 2016. It reflects contributions along with investment income (or losses) during the period from investing and securities lending activities. Deductions for retirement benefits, withdrawals, cost-of-living adjustments, survivor, disability and death benefits, and administrative expenses are also presented.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The Required Supplementary Information contains schedules with actuarial information, the net pension liability and contributions for the University of California Retirement Plan (UCRP) and the Voluntary Early Retirement Incentive Program (UC-VERIP).

The Vice President — Human Resources has primary fiduciary responsibility for UCRP administrative functions and the Chief Investment Officer (CIO) has primary fiduciary responsibility for implementing UCRP investment policy. The Regents determines investment policy and retains broad oversight fiduciary responsibility for investment and administrative functions for the UCRS Plans.

Financial Highlights, Results and Analysis

The Plans provide retirement benefits to University employees. Plan benefits are funded by member, participant and University contributions and by investment income. Below are statements of net position and changes in net position for the UCRS Plans:

(in thousands of dollars)

	UCRP			UCRSP			UC-VERIP		
JUNE 30	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
ASSETS									
Investments (including Short Term Investment Pool)	$63,004,945	$55,283,722	$55,999,293	$19,503,265	$17,850,612	$15,527,386	$65,809	$62,601	$ 68,928
Investment of securities lending collateral	3,820,399	3,735,547	3,083,734	3,017,118	3,011,723	2,089,973	4,013	4,222	3,783
Participants' interests in mutual funds				3,351,454	2,767,673	4,947,859			
Participant 403(b) Plan loans				180,511	178,664	176,229			
Receivables	936,331	305,772	311,106	85,403	86,378	29,058	1,068	160	124
Total Assets	**67,761,675**	**59,325,041**	**59,394,133**	**26,137,751**	**23,895,050**	**22,770,505**	**70,890**	**66,983**	**72,835**
LIABILITIES									
Payable for securities purchased, member withdrawals, refunds and other payables	1,828,757	1,426,055	1,254,910	639,375	527,559	389,478	1,900	1,706	1,627
Collateral held for securities lending	3,818,660	3,734,454	3,083,773	3,015,744	3,010,844	2,089,999	4,012	4,221	3,783
Total Liabilities	**5,647,417**	**5,160,509**	**4,338,683**	**3,655,119**	**3,538,403**	**2,479,477**	**5,912**	**5,927**	**5,410**
Net Position	**$62,114,258**	**$54,164,532**	**$55,055,450**	**$22,482,632**	**$20,356,647**	**$20,291,028**	**$64,978**	**$61,056**	**$67,425**

(in thousands of dollars)

	UCRP			UCRSP			UC-VERIP		
YEAR ENDED JUNE 30	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
ADDITIONS									
University and state contributions	$2,556,576	$2,522,683	$2,510,046	$16,433	$7,497	$6,392			
Member and participant contributions	891,987	845,036	793,012	1,314,468	1,175,936	1,149,352			
Investment income (loss)	7,864,809	(1,106,426)	1,991,755	2,178,224	123,934	649,532	$8,666	$(1,425)	$2,550
Other income	1,472	1,771	2,047						
Total Additions	**11,314,844**	**2,263,064**	**5,296,860**	**3,509,125**	**1,307,367**	**1,805,276**	**8,666**	**(1,425)**	**2,550**
DEDUCTIONS									
Retirement, cost-of-living adjustments, lump sum cashouts, survivor, disability and death payments	3,180,324	2,969,393	2,798,546				4,738	4,938	5,081
Member withdrawals	140,666	136,249	178,446						
UCRSP benefit payments and participant withdrawals				1,374,324	1,231,279	1,551,916			
Administrative and other expenses	44,128	48,340	48,285	8,816	10,469	6,486	6	6	6
Total Deductions	**3,365,118**	**3,153,982**	**3,025,277**	**1,383,140**	**1,241,748**	**1,558,402**	**4,744**	**4,944**	**5,087**
Increase (decrease) in net position for pension benefits	**7,949,726**	**(890,918)**	**2,271,583**	**2,125,985**	**65,619**	**246,874**	**3,922**	**(6,369)**	**(2,537)**
Net Position									
Beginning of Year	54,164,532	55,055,450	52,783,867	20,356,647	20,291,028	20,044,154	61,056	67,425	69,962
End of Year	**$62,114,258**	**$54,164,532**	**$55,055,450**	**$22,482,632**	**$20,356,647**	**$20,291,028**	**$64,978**	**$61,056**	**$67,425**

UCRP

UCRP's net position at June 30, 2017 was $62.1 billion compared to $54.2 billion at June 30, 2016 and $55.1 billion at June 30, 2015. The net position is available to meet UCRP's ongoing obligations to plan members, retirees and their beneficiaries. The net position of UCRP increased by $7.9 billion, or 14.7 percent, in 2017 compared to a decrease of $890.9 million, or 1.6 percent, in 2016 and an increase of $2.3 billion, or 4.3 percent, in 2015.

The net pension liability is measured as the total pension liability, less the Plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the Plan's fiscal year end. Projected benefit payments are discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available.

The net pension liability for UCRP was $10.7 billion in 2017, $15.1 billion in 2016 and $10.6 billion in 2015. The decrease in net pension liability for 2017 of $4.4 billion was primarily due to the 14.5 percent return on the market value of assets during 2017, that exceeded the assumed return of 7.25 percent. The increase in net pension liability for 2016 of $4.4 billion was primarily due to the (2.0) percent return on market value of assets during 2016, that was less than the assumed return of 7.25 percent. The ratio of plan net position to total pension liability was 85.2 percent in 2017, 78.3 percent in 2016 and 83.8 percent in 2015. For June 30, 2017, this indicates that, for every dollar of total pension liability, plan assets of $0.85 are available to cover such obligations as compared to $0.78 at July 1, 2016 and $0.84 at July 1, 2015.

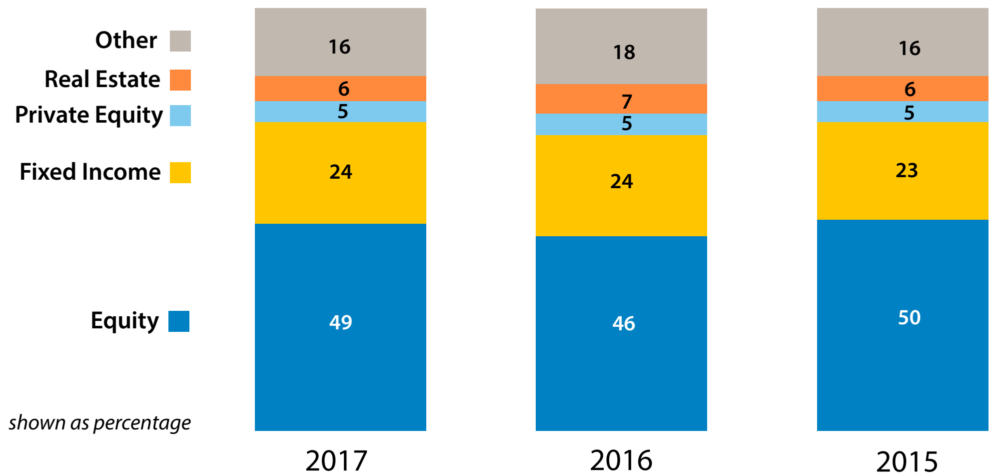
An analysis of the funding progress and University contributions and a discussion of actuarial assumptions and methods is set forth in the required supplementary information section of the financial statements. While all of UCRP's assets are available to pay any member's benefits, assets and liabilities for the campus and medical center segment of UCRP are internally tracked separately from the Department of Energy (DOE) national laboratory segment of UCRP and the DOE has a continuing obligation to fund UCRP benefits for the retirees of the laboratory segment.

Investments

UCRP's total investment rate of return was 14.5 percent in 2017, (2.0) percent in 2016 and 4.5 percent in 2015, compared to UCRPs' total fund policy benchmark returns of 12.7 percent, (0.8) percent and 2.2 percent, respectively.

The total UCRP investment portfolio returned 14.5 percent (net of fees) for the fiscal year, 9.0 percent annually for five years and 5.0 percent annually for ten years. Approximately 86 percent of the UCRP investment portfolio risk is explained by the equity portfolios, as driven by economic growth factors. The key driver of the investment performance was the UCRP investment portfolio's stake in the public equity markets. Approximately 60 percent of the public equity portfolio is managed actively. The MSCI All Country World Investable Market Index Tobacco Free Index (MSCI ACWI IMI-TF), a global passive index of equities, was up 19.1 percent from June 30, 2016 to June 30, 2017, while the public equity portfolio was up 22.5 percent. The fiscal year proved to be a strong year for public equities. Equity markets reached all-time highs with double digit returns for most regions. Developed international markets led the pack, posting returns of over 20 percent year over year. Not surprisingly, the performance of UCRP was driven almost entirely by public equities.

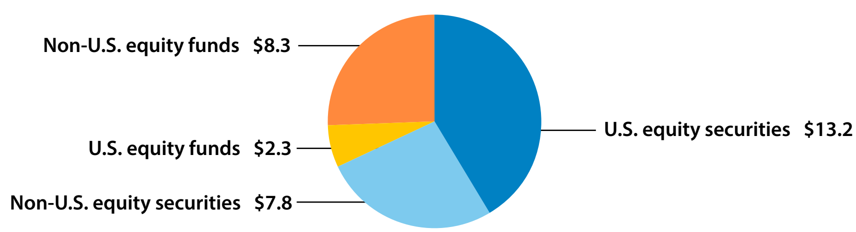
The asset allocation for UCRP's investment portfolio as of June 30, 2017, 2016 and 2015 is as follows:



Equity Portfolio

The $31.6 billion equity portfolio (including commingled equity funds) is diversified across multiple strategic global economic and industry sectors within actively managed accounts of equity securities and passively managed index funds. Of the equity portfolio, $21.0 billion, or 66.4 percent, was invested in U.S. and non-U.S. equity securities and $10.6 billion, or 33.6 percent, was invested in U.S. and non-U.S. equity commingled funds. Combined, U.S. equity securities and U.S. equity funds totaled $15.5 billion, or 49.0 percent, and foreign equity securities and non-U.S. equity commingled funds totaled $16.1 billion, or 51.0 percent.

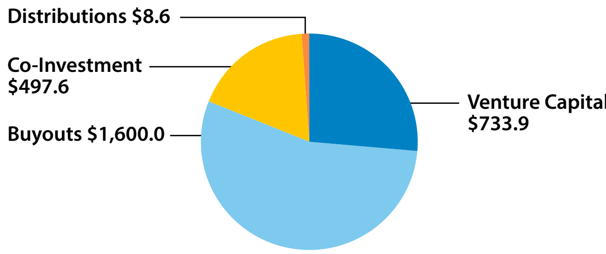
The U.S. equity portfolio return was 21.1 percent in 2017, (2.0) percent in 2016 and 7.5 percent in 2015, compared to the domestic equity policy benchmark returns of 18.5 percent, (1.7) percent and 7.3 percent, respectively. The non-U.S. equity (developed countries) portfolio return was 31.4 percent in 2017, (12.3) percent in 2016 and (3.6) percent in 2015, compared to the non-U.S. equity policy benchmark returns of 19.8 percent, (10.3) percent and (5.3) percent, respectively. The non-U.S. equity (emerging market countries) portfolio return was 17.9 percent in 2017, (13.5) percent in 2016 and (0.1) percent in 2015, compared to the benchmark returns of 23.7 percent, (12.1) percent and (5.1) percent, respectively.



2017 *in billions of dollars*

Private Equity Portfolio

The $2.8 billion private equity segment is invested in venture capital partnerships, buyout funds and international private equity. The private equity segment includes $733.9 million in venture capital, $1.6 billion in buyout funds, $497.6 million in co-investment and $8.6 million in common stock distributions. The private equity portfolio return was 14.0 percent in 2017, 6.2 percent in 2016 and 12.9 percent in 2015.



2017 *in millions of dollars*

Fixed Income Portfolio

The fixed income portfolio of $15.0 billion is invested primarily in high-quality, call-protected, global bonds. The fixed income portfolio is comprised of U.S. government-guaranteed, fixed-income securities of $2.8 billion, or 18.5 percent, other U.S. dollar-denominated fixed-income securities of $8.8 billion, or 58.7 percent, foreign currency-denominated corporate fixed-income securities of $2.3 million, or 15.7 percent, and U.S. and non-U.S. bond funds of $1.1 billion, or 7.1 percent.

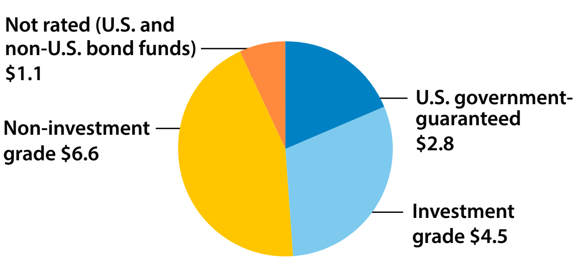
At June 30, 2017, UCRP held $9.3 billion in U.S. government securities (excluding the TIPS portfolio), and other U.S. dollar-denominated and non-U.S. fixed-income securities, compared to $9.7 billion at June 30, 2016 and $8.7 billion at June 30, 2015. The U.S. Core Fixed Income portfolio (excluding TIPS portfolio) earned a total return of 1.3 percent in 2017, 6.1 percent in 2016 and 1.8 percent in 2015, compared to UCRPs' fixed-income policy benchmark returns of (0.3) percent, 6.0 percent and 1.9 percent, respectively.

At June 30, 2017, UCRP held $1.8 billion in the TIPS portfolio, compared to $2.1 billion at June 30, 2016 and $2.6 billion at June 30, 2015. The TIPS portfolio earned a total return of (0.1) percent in 2017, 4.1 percent in 2016 and (1.4) percent in 2015, compared to UCRP's TIPS policy benchmark returns of (0.3) percent, 4.4 percent and (1.7) percent, respectively.

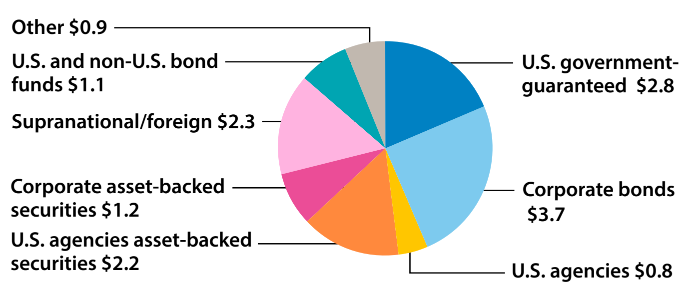
Approximately 18.5 percent of the $15.0 billion fixed income portfolio consists of U.S. government-guaranteed securities, and 81.5 percent of the portfolio consists of high-quality corporate issues rated investment-grade or better and government agency and asset-backed securities. The balance of the fixed income portfolio is comprised of U.S. and non-U.S. bond funds and other lower quality fixed-income securities.

The quality and diversification of fixed income portfolio investments are allocated among the sectors illustrated below.

QUALITY*



DIVERSIFICATION



2017 *in billions of dollars*

*Credit Ratings U.S. Treasury Obligations: Guaranteed by the full faith and credit of the United States and rated AAA by Moody's and AA+ by Standard & Poor's.

Standard & Poor's (S&P):
- Investment grade: AAA through BBB rated considered extremely strong capacity to adequate capacity to meet financial commitments.
- Non-investment grade: BB through CCC or below. Less vulnerable in the near-term to currently highly vulnerable.

Alternative Investments

At June 30, 2017, UCRP held $3.5 billion in institutional real estate investments compared to $3.4 billion in 2016 and 2015. The private real estate portfolio earned a total return of 7.7 percent in 2017, 11.6 percent in 2016 and 18.1 percent in 2015, compared to policy benchmark returns of 7.4 percent, 12.6 percent and 12.9 percent, respectively.

At June 30, 2017, UCRP also held $5.0 billion in absolute return diversified investments compared to $4.6 billion in 2016 and $3.4 billion in 2015. The absolute return diversified segment earned a total return of 4.8 percent in 2017, (4.1) percent in 2016 and 6.7 percent in 2015, compared to policy benchmark returns of 6.4 percent, (9.4) percent and 2.3 percent, respectively.

Separately, at June 30, 2017, UCRP held $0.9 billion in real asset investments compared to $1.0 billion in 2016 and $1.1 billion in 2015. The real asset segment earned a total return of 8.6 percent in 2017 compared to (14.6) percent in 2016 and (6.6) percent in 2015.

For liquidity purposes, UCRP held $4.2 billion in money market funds and the UC Short Term Investment Pool (STIP) in 2017 compared to $4.1 billion in 2016 and $4.6 billion in 2015.

UCRSP PLANS

UCRSP Plans provide savings incentives and the opportunity for additional retirement security for all eligible University of California employees. The University make contributions to UCRSP for Savings Choice participants. Participants' interests in the Plans from contributions and investment income are fully and immediately vested. University contributions for Savings Choice participants vest after one year of service.

UCRSP Plans' net position as of June 30, 2017 amounted to $22.5 billion compared to $20.4 billion at June 30, 2016 and $20.3 billion at June 30, 2015. Additions to UCRSP Plans' net position include contributions, rollovers and investment income. Participant and University contributions, and rollovers for 2017, amounted to $1.3 billion compared to $1.2 billion in 2016 and $1.2 billion in 2015.

UCRSP Plans recognized net investment income of $2.2 billion in 2017 compared to net investment income of $123.9 million in 2016 and net investment income of $649.5 million in 2015. The fiscal year proved to be a strong year for public equities. Equity markets reached all-time highs with double digit returns for most regions. Developed international markets led the pack, posting returns of over 20 percent year over year. The investment gains for the fiscal year reflect the strong global equity markets.

Deductions from UCRSP Plans' net position include benefit payments to participants, participant withdrawals and administrative expenses. For 2017, deductions were $1.4 billion compared to $1.2 billion in 2016 and $1.6 billion in 2015. The deductions fluctuate based upon withdrawals due to retirements and other factors including minimum required distributions and rollovers out of the UCRSP Plans.

The investments of UCRSP, overseen by the Office of the CIO, are available to the securities lending program as a means to augment income. Cash collateral fluctuates in response to changes in demand from borrowers and the availability of securities. UCRSP Plans' investment of cash collateral received for securities lending totaled $3.0 billion at June 30, 2017, compared to $3.0 billion at June 30, 2016 and $2.1 billion at June 30, 2015. Securities lending activity contributed $19.3 million in net investment income, after fees and rebates, in 2017, compared to $17.0 million in 2016 and $12.7 million in 2015.

UC-VERIP

The UC-VERIP provides retirement benefits to UC-VERIP members who elected early retirement under the provisions of the Plan. The net position is available to meet the Plan's ongoing obligations to Plan retirees and their beneficiaries. Plan benefits are funded by investment income. There were no University contributions during the fiscal years ending 2015 through 2017. Retirement benefit payments and other administrative expenses were the only deductions from the UC-VERIP net position. For 2017, deductions were $4.7 million compared to $4.9 million in 2016 and $5.1 million in 2015.

As of June 30, 2017, 2016 and 2015, the UC-VERIP net pension surplus was $32.4 million, $26.1 million and $29.4 million, respectively. The net position of the UC-VERIP at June 30, 2017, was $65.0 million, compared to $61.1 million at June 30, 2016 and $67.4 million at June 30, 2015. The ratio of plan net position to total pension liability was 199.9 percent, 174.4 percent and 177.1 percent as of June 30, 2017, 2016 and 2015, respectively. For June 30, 2017, this indicates that, for every dollar of total pension liability, plan assets of $2.00 are available to cover such obligations as compared to $1.74 at June 30, 2016 and $1.77 at June 30, 2015.

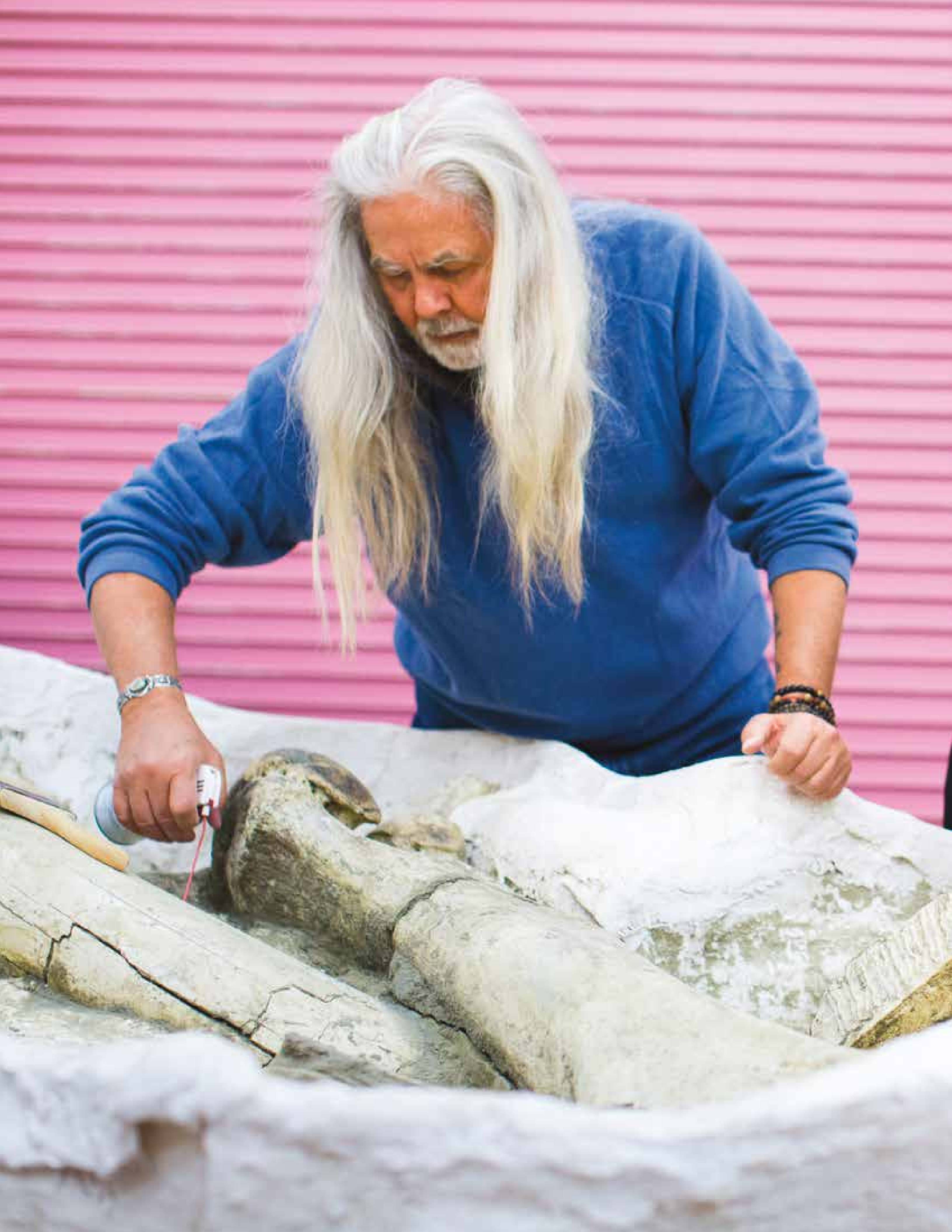
The changes in net pension liability have been primarily driven by the investment performance of the UC-VERIP investment portfolio. The UC-VERIP's total investment rate of return was 14.5 percent in 2017, (2.0) percent in 2016 and 4.5 percent in 2015. The discount rate used to estimate the net pension liability as of June 30, 2017, 2016 and 2015 was 7.25 percent.

LOOKING FORWARD

In July 2017, the Regents approved increasing the University contribution rate for UCRP to 15.0 percent (from 14.0 percent) effective July 1, 2018. Additionally, the state budget for 2018 includes $169 million of one-time funds for UCRP.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information provided by the University, including written information 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 University expects or anticipates will or may occur in the future contain forward-looking information.




UC MERCED

Report of Independent Auditors

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

We have audited the accompanying individual financial statements of the University of California Retirement Plan ("UCRP"), the University of California Voluntary Early Retirement Incentive Program ("PERS Plus 5 Plan") and the University of California Retirement Savings Program ("UCRSP"), of which includes four defined contribution plans known as the Defined Contribution Plan, the Supplemental Defined Contribution Plan, the UC Tax-Deferred 403(b) Plan and the 457(b) Deferred Compensation Plan, collectively referred to herein as the "Plans," which comprise the individual statements of fiduciary net position as of June 30, 2017 and June 30, 2016, and the related individual statements of changes in fiduciary net position for the years then ended, and the related notes to the individual financial statements.

Management's Responsibility for the Individual Financial Statements

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

Auditors' Responsibility

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

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

Opinions

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the individual financial positions of the University of California Retirement Plan, the University of California Voluntary Early Retirement Incentive Program and the University of California Retirement Savings Program as of June 30, 2017 and June 30, 2016, and the changes in their individual fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the individual financial statements of the Plans are intended to present the fiduciary net position and the changes in fiduciary net position of only that portion of activities that are attributable to the Plans. They do not purport to, and do not, present fairly the financial position of the University of California as of June 30, 2017 and June 30, 2016, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matter

The management's discussion and analysis on pages 17 through 23 and the Required Supplementary Information included on pages 57 to 60 related to Actuarial Information, Net Pension Liability, Required Schedule of Employer and Employee Contributions for the Plans are required by accounting principles generally accepted in the United States of America to supplement the Plans' individual financial statements. Such information, although not a part of the individual financial statements of the Plans, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the individual financial statements of the Plans in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the individual financial statements, and other knowledge we obtained during our audit of the individual financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
San Francisco, California
October 12, 2017

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM

STATEMENTS OF FIDUCIARY NET POSITION

At June 30, 2017 and 2016 (in thousands of dollars)

	UCRP		UCRSP		UC-VERIP	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
ASSETS						
Investments, at fair value:						
Equity securities:						
Domestic	$13,160,726	$10,064,966	$6,134,138	$5,414,222	$13,824	$11,376
Foreign	7,821,819	5,898,092	2,294,397	1,950,469	8,217	6,666
Fixed-income securities:						
U.S. government	2,767,877	2,925,332	2,381,734	2,190,901	2,907	3,306
Other U.S. dollar-denominated	11,129,041	8,833,430	6,185,915	6,152,194	11,689	9,985
Foreign		3,886				4
Commingled funds	25,867,475	24,101,536	2,213,689	1,848,285	26,800	27,358
Real estate	1,832,307	2,975,587			1,925	3,363
Publicly traded real estate investment trusts	427,679	455,862	294,413	293,679	449	515
Investment derivatives	(1,979)	25,031	(1,021)	862	(2)	28
Total Investments	**63,004,945**	**55,283,722**	**19,503,265**	**17,850,612**	**65,809**	**62,601**
Investment of cash collateral	3,820,399	3,735,547	3,017,118	3,011,723	4,013	4,222
Participants' interests in mutual funds			3,351,454	2,767,673		
Participant 403(b) Plan loans			180,511	178,664		
Receivables:						
Contributions	13,932	118,236	43,620	10		
Interest and dividends	53,506	70,494	26,922	25,036	165	80
Securities sales and other	868,893	117,042	14,861	61,332	903	80
Total Receivables	**936,331**	**305,772**	**85,403**	**86,378**	**1,068**	**160**
Total Assets	**67,761,675**	**59,325,041**	**26,137,751**	**23,895,050**	**70,890**	**66,983**
LIABILITIES						
Payable for securities purchased	1,745,473	1,132,743	633,135	524,206	1,834	1,281
Member withdrawals, refunds and other payables	83,284	293,312	6,240	3,353	66	425
Collateral held for securities lending	3,818,660	3,734,454	3,015,744	3,010,844	4,012	4,221
Total Liabilities	**5,647,417**	**5,160,509**	**3,655,119**	**3,538,403**	**5,912**	**5,927**
Net Position	**$62,114,258**	**$54,164,532**	**$22,482,632**	**$20,356,647**	**$64,978**	**$61,056**

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the years ended June 30, 2017 and 2016 (in thousands of dollars)

	UCRP		UCRSP		UC-VERIP	
	2017	2016	2017	2016	2017	2016
ADDITIONS						
Contributions:						
University	$2,385,576	$2,426,683	$16,433	$7,497		
State of California	171,000	96,000				
Members	891,987	845,036				
Participants			1,314,468	1,175,936		
Total Contributions	**3,448,563**	**3,367,719**	**1,330,901**	**1,183,433**		
Investment Income:						
Net appreciation (depreciation) in fair value of investments	6,906,968	(1,937,245)	1,701,958	(360,269)	$7,474	$(2,519)
Interest, dividends and other investment income	928,658	803,887	457,014	467,191	1,162	1,063
Securities lending income	53,635	37,001	35,384	23,372	56	42
Less securities lending fees and rebates	(24,452)	(10,069)	(16,132)	(6,360)	(26)	(11)
Total Investment Income (Loss)	**7,864,809**	**(1,106,426)**	**2,178,224**	**123,934**	**8,666**	**(1,425)**
Interest income from contributions receivable	1,472	1,771				
Total Additions	**11,314,844**	**2,263,064**	**3,509,125**	**1,307,367**	**8,666**	**(1,425)**
DEDUCTIONS						
Benefit Payments and Withdrawals:						
Retirement payments	2,325,623	2,165,837			4,738	4,938
Member withdrawals	140,666	136,249				
Cost-of-living adjustments	474,815	430,795				
Lump sum cashouts	292,270	285,780				
Preretirement survivor payments	47,778	46,835				
Disability payments	30,470	30,769				
Death payments	9,368	9,377				
UCRSP benefit payments and participant withdrawals			1,374,324	1,231,279		
Total Benefit Payments and Withdrawals	**3,320,990**	**3,105,642**	**1,374,324**	**1,231,279**	**4,738**	**4,938**
Expenses:						
Plan administration	31,001	37,906	8,816	10,469	6	6
Other	13,127	10,434				
Total Expenses	**44,128**	**48,340**	**8,816**	**10,469**	**6**	**6**
Total Deductions	**3,365,118**	**3,153,982**	**1,383,140**	**1,241,748**	**4,744**	**4,944**
Increase (Decrease) in Net Position	**7,949,726**	**(890,918)**	**2,125,985**	**65,619**	**3,922**	**(6,369)**
NET POSITION						
Beginning of Year	54,164,532	55,055,450	20,356,647	20,291,028	61,056	67,425
End of Year	**$62,114,258**	**$54,164,532**	**$22,482,632**	**$20,356,647**	**$64,978**	**$61,056**

See accompanying notes to financial statements.

Notes to Financial Statements

Years ended June 30, 2017 and 2016

NOTE 1 — DESCRIPTION OF THE PLANS AND SIGNIFICANT ACCOUNTING POLICIES

General Introduction

The University of California Retirement System ("UCRS") comprises two defined benefit pension plans and four defined contribution plans. The Regents of the University of California ("The Regents") acts as trustee associated with each of the UCRS Plans other than the UC Tax-Deferred 403(b) Plan ("403(b) Plan") for which it serves as custodian. Administrative authority with respect to UCRS Plans is vested in the President of the University as plan administrator and the President has re-delegated that authority within the University of California Office of the President to the Vice President — Human Resources. UCRS consists of two defined benefit pension plans known as the University of California Retirement Plan ("UCRP") and the University of California Voluntary Early Retirement Incentive Program ("UC-VERIP"), and also includes the University of California Retirement Savings Program ("UCRSP" or the "Program"), which includes four defined contribution plans known as the Defined Contribution Plan ("DC Plan"), the Supplemental Defined Contribution Plan ("SDC Plan"), the 403(b) Plan and the 457(b) Deferred Compensation Plan ("457(b) Plan"). Collectively, UCRS Plans provide for a combination of defined benefits and voluntary retirement savings opportunities to eligible University of California ("the University") employees and retirees.

UCRP

UCRP is a single-employer defined benefit pension plan providing lifetime retirement income, disability protection, death benefits and post-retirement and preretirement survivor benefits to certain eligible employees of the University and its affiliate, Hastings College of the Law and their survivors and beneficiaries.

UCRP was established in 1961, and prior to July 1, 2016 membership was required for all employees appointed to work at least 50 percent time for one year or more, or for an indefinite period, and certain academic employees are eligible for UCRP membership (or the Retirement Choice Program effective July 1, 2016) after working 1,000 hours (750 hours for the Non-Senate Instructional Unit) in a continuous 12-month period. Lawrence Berkeley National Laboratory (LBNL) is a member of the national laboratory system supported by the U.S. Department of Energy (DOE) through its Office of Science. It is managed by the University of California and is charged with conducting unclassified research across a wide range of scientific disciplines. Certain academic employees become eligible for UCRP membership (or the Retirement Choice Program effective July 1, 2016) after working 1,000 hours (750 hours for the Non-Senate Instructional Unit) in a continuous 12-month period.

Generally, five years of service are required for entitlement to UCRP benefits. The amount of the monthly pension benefit is determined under the basic formula of covered compensation times an age factor times years of service credit. The maximum monthly benefit cannot exceed 100 percent of the employee's eligible highest average plan compensation over a 36-month period. The annual benefit is also subject to limitations established by IRC §415. Annual cost-of-living adjustments (COLAs) are made to monthly retirement benefits according to a specified formula based on the Consumer Price Index (CPI). Ad hoc COLAs may be granted subject to funding availability. Service accrued by a member with coordinated or noncoordinated benefits before July 1, 2013 is deemed to have been accrued in the "1976 Tier." If the member continues as an eligible employee after June 30, 2013, the member continues to accrue in the 1976 Tier until they incur a break of service.

For the period from July 1, 1987 to July 1, 1990, qualifying UCRP members could elect to participate in a noncontributory UCRP membership known as Tier Two. Tier Two provides a lower level of retirement income, disability protection and survivor benefits, calculated using specific Tier Two formulas based on the member's covered compensation times age factor times years of service credit.

Effective July 1, 2013, UCRP was amended to provide a new tier of pension benefits applicable to employees hired, or who returned to work after a tier break in service, on or after July 1, 2013 ("2013 Tier"). In the 2013 Tier, the earliest retirement age was increased from 50 to 55 and the age for the maximum age factor was increased to 65. There are no lump sum cashouts, inactive member COLAs or subsidized survivor annuities for spouses and domestic partners for 2013 Tier members.

Effective July 1, 2016, UCRP was amended to provide a new tier of pension benefits under the Retirement Choice Program. The new program tier provides eligible University employees hired (or becoming eligible) on or after July 1, 2016 (and certain eligible rehires who return to work after a tier break in service) a choice between two primary retirement benefits options: (1) "Pension Choice," which is the UCRP pension benefit with covered compensation for new hires capped at the California Public Employees' Pension Reform Act (PEPRA) salary pensionable compensation limit ($117,020 for 2017 and $140,424 for 2017 for members not coordinated with Social Security) plus for new hires subject to the PEPRA maximum a supplemental defined contribution plan benefit on eligible pay up to the Internal Revenue Service compensation limit ($270,000 for calendar year 2017 and $265,000 for calendar year 2016); or (2) "Savings Choice," which is a defined contribution plan-only option on eligible pay up to the Internal Revenue Service compensation limit.

Members' contributions are recorded separately and accrue interest at a rate determined by The Regents. Currently, member contributions accrue interest at an annual compounded rate of 6.0 percent, credited monthly. Upon termination, members may elect a refund of their contributions plus accumulated interest (and their Capital Accumulation Payment (CAP) balance if any); vested terminated members who are eligible to retire may also elect a lump sum payment (excluding 2013 Tier and 2016 Tier) equal to the actuarially equivalent present value of their accrued benefits. Both actions forfeit the member's right to monthly benefits based on the same service credit.

From July 1, 1966, to June 30, 1971, UCRP maintained a noncontributory period for most members; contributions were required only from members who had reached age thirty and had at least one year of service. Member plan accounts designated "Plan 02" were established to keep track of contributions that would have been made had a member been contributing during this period. Future retirement benefits for members with Plan 02 accounts are reduced to account for the contributions that were not made, unless the member repays the Plan 02 balance.

Certain UCRP members may also have a balance in UCRP consisting of CAP allocations, which were credited on behalf of eligible members on various dates in 1992, 1993, 1994, 2002 and 2003. Provided to supplement basic UCRP benefits, the allocations were equal to a percentage of the eligible member's covered compensation paid during the specified period. The CAP balance is generally payable in a lump sum at retirement or separation from service and includes interest credited monthly equal to an annual percentage yield (APY) of 8.5 percent for allocations made in 1992, 1993 and 1994. For allocations made in 2002 and 2003, the interest credited monthly is equal to UCRP's investment rate of return, which currently equates to an APY of 7.25 percent. The APY applied to the 2002 and 2003 allocation will vary according to changes in the assumed earnings rate for UCRP.

At June 30, 2017 and 2016, the Plan membership included:

	UCRP RETIREES AND MEMBERS	
	2017	**2016**
Retirees and beneficiaries receiving benefits	72,995	70,077
Inactive plan members entitled to, but not yet receiving benefits	87,052	81,595
Active plan members:		
Vested	76,064	75,298
Nonvested	53,318	53,215
Total active plan members	129,382	128,513
Total membership	**289,429**	**280,185**

Employer contributions are made to UCRP on behalf of all members. The annual rate of University contributions is established pursuant to The Regents' funding policy.

UCRSP

The CIO oversees the investment choices of the UCRSP. The fund choices are segmented into 3 tiers. Participants may direct investment of their contributions and transfer Plan accumulations to any of these funds.

Tier 1: Pathway, a Target Date Fund with 11 specific target dates:

· Income, 2015, 2020, 2025, 2030, 2035, 2040, 2045, 2050, 2055 and 2060

Tier 2: 14 Core Asset Class options including:

· Balanced Growth Fund
· Savings Fund
· Bond Fund
· TIPS Fund
· Short Term TIPS Fund
· Domestic Equity Fund
· Global Equity Fund
· International Equity Fund
· Vanguard Small Cap Index Fund
· Vanguard FTSE Social Index Fund
· Vanguard REIT Index Fund
· DFA Emerging Markets Portfolio
· Fidelity Growth Company Fund
· Fidelity Diversified International Fund

Tier 3: Fidelity Brokerage Window Transfers and investment changes must be made in accordance with plan provisions, and all contributions made to UCRSP Plans are allocated to the designated plan and invested in one or more of the available investment options, as directed by the participants.

Participants' interests in UCRSP Plans are fully and immediately vested and are distributable at death, retirement or termination of employment. University contributions for Savings Choice participants vest after one year of service. Participants may elect to defer distribution until age 70 ½ or separation from service, whichever is later, in accordance with IRC minimum distribution requirements. In-service withdrawals are permitted in conformance with the IRC regulations applicable to each plan.

Defined Contribution Plan

Under the Retirement Choice Program, for employees who elect Savings Choice both the University and the participants make mandatory DC Plan retirement contributions, on a pretax basis, on eligible pay up to the IRS compensation limit. The participant contributes 7.0 percent and the University contributes 8.0 percent. University contributions under Savings Choice are fully vested after one year of service credit. For employees who elect Pension Choice and who are subject to the PEPRA maximum, both the University and the participants make mandatory DC Plan retirement contributions on a pretax basis. University contributions under Pension Choice are fully vested after five years of service credit. For designated faculty, the University contributes 5.0 percent on all eligible pay up to the IRS limit. For staff, the University contributes 3.0 percent on eligible pay above the PEPRA maximum up to the IRS limit. Both designated faculty and staff contribute 7.0 percent on eligible pay above the PEPRA maximum up to the IRS limit.

The University also makes DC Plan retirement contributions on the summer or equivalent term salaries of eligible academic appointees who teach, conduct research or provide administrative service during the summer session or an equivalent term. To be eligible, the academic appointees must hold an academic year appointment, be an active member of UCRP or another defined benefit plan to which the University contributes, be a Savings Choice participant, or be eligible for a primary retirement benefit option under the Retirement Choice Program even if not yet participating. The contribution rate, through October 31, 2016, is 7.0 percent of eligible summer salary, of which 3.5 percent is University-paid and 3.5 percent is employee-paid, both on a pretax basis. Effective November 1, 2016, contributions for summer salary are directed to the 403(b) Plan. The University may also contribute on behalf of eligible senior managers.

The DC Plan Pretax Account also includes mandatory contributions from part-time, seasonal and temporary employees at the University who are not currently participating in UCRP or another defined benefit plan to which the University contributes (Pretax Account participants). Pretax participation includes certain University student employees and resident aliens with F-1 and J-1 visa status. Pretax participants contribute 7.5 percent of their gross salary (up to the Social Security wage base) to the Plan in lieu of deductions for Social Security taxes.

All University employees, except students who normally work fewer than 20 hours per week, are eligible to make voluntary contributions to the DC Plan After-Tax Account and defer taxation on their earnings until the accumulations are withdrawn. The maximum amount participants may contribute annually to the After-Tax Account is determined by the IRC §415(c) limit. The University may also make DC Plan contributions on behalf of eligible senior managers. Effective July 1, 2016, the UC offers all eligible new employees a choice of primary retirement benefits — Pension Choice and Savings Choice. Savings Choice works much like a 401(k) plan. The mandatory pretax contribution from participants is 7.0 percent, and University contributions of 8.0 percent (based on eligible pay and any investment earnings) accumulate in the DC plan. Under Pension Choice, the University also contributes 6.0 percent towards the UCRP unfunded liability.

Tax-Deferred 403(b) Plan

The 403(b) Plan is available to all University employees except students who normally work fewer than 20 hours per week. Employees who want to participate in the 403(b) Plan designate a portion of their gross salary within the IRC established limits to be contributed on a pretax basis, thus reducing their taxable income. Income taxes on contributions and any earnings are deferred (that is, postponed) until the participant withdraws the money. The University also makes 403(b) Plan contributions on behalf of eligible senior managers.

Annual salary deferral contribution limits for the 403(b) Plan during fiscal year 2016–2017 were as follows: the maximum annual contribution limit for participants under age 50 for the calendar year 2016 and for calendar year 2017 was $18,000 (or 100 percent of adjusted gross salary, if less). For participants age 50 or older, the total annual contribution limit for calendar year 2016 and for calendar year 2017 was $24,000, (or 100 percent of adjusted gross salary, if less). Participants with 15 or more years of service may be able to increase their limit under additional catch-up provisions.

Effective November 1, 2016, the University makes 403(b) Plan retirement contributions on the summer salaries of eligible academic appointees who teach, conduct research or provide administrative service during the summer session or an equivalent term. To be eligible, the academic appointee must hold an academic year appointment and be an active member of UCRP or another defined benefit plan to which the University contributes, be a Savings Choice participant, or be eligible for a primary retirement benefit option under the Retirement Choice Program even if not yet participating. The contribution rate, effective November 1, 2016, is 7.0 percent of eligible summer salary, of which 3.5 percent is University-paid and 3.5 percent is employee-paid, both on a pretax basis.

457(b) Deferred Compensation Plan

The 457(b) Plan is available to all University employees except students who normally work less than 20 hours per week. Taxes on contributions (deferred compensation) and earnings thereon are deferred until the accumulations are withdrawn. The University may also make 457(b) Deferred Compensation Plan contributions on behalf of eligible senior managers. The deferred compensation limits for the 457(b) Deferred Compensation Plan were the same as the 403(b) Plan limits (described in the previous paragraph) during fiscal year 2016-2017.

University of California Voluntary Early Retirement Incentive Program

Some University employees became members of the California Public Employees' Retirement System (CalPERS) before UCRP was established and continued to participate in CalPERS during their University employment after UCRP was established. The University of California contributed to CalPERS on behalf of these UC-affiliated CalPERS members. The UC-VERIP is a single-employer defined benefit pension plan established by the University that provides lifetime supplemental retirement income and survivor benefits to UC-VERIP members who elected early retirement under CalPERS.

Generally, to participate in the UC-VERIP, an eligible employee was required to elect concurrent retirement under CalPERS and the UC-VERIP effective October 1, 1991, and must have had a combined age plus service credit equal to 80 years as of September 30, 1991, if classified as a Qualified Academic Senate Faculty Member, or equal to 75 years if not classified as a Qualified Academic Senate Faculty Member. Of 1,579 eligible employees, 879 elected to retire under the UC-VERIP. As of June 30, 2017 and 2016, there were 522 and 553 retirees and beneficiaries, respectively, receiving benefits under the UC-VERIP. After eligible employees elected to participate, the UC-VERIP was closed to future participation.

The cost of contributions made to the UC-VERIP is borne entirely by the University. No additional contributions are required as long as the Plan remains fully funded under the actuarial assumptions used by the Plan.

Effective April 1, 2011, the UC-VERIP was amended to provide a 15.2 percent ad hoc COLA to all monthly benefits. Effective July 1, 2011, the UC-VERIP was amended, subject to funding availability, to provide annual COLAs to monthly benefits according to a specified formula based on the Consumer Price Index. Ad hoc COLAs may also be granted subject to funding availability.

Basis of Accounting

The financial statements have been prepared in accordance with U.S. generally accepted accounting principles using the economic resources measurement focus and the accrual basis of accounting. The Plans follow accounting principles issued by the Governmental Accounting Standards Board (GASB).

Valuation of Investments

Investments are measured and recorded at fair value. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer or exchange who regularly trades in the security being valued. Investment in non-exchange traded debt and equity investments are valued using inputs provided by independent pricing services or by broker/dealers who actively trade in these markets. Certain securities may be valued on a basis of a price provided by a single source.

Investments also include private equities, absolute return funds, real estate, real asset and certain corporate asset-backed securities. Private equities include venture capital partnerships, buyout and international funds. Fair values for interests in private equity, absolute return partnerships and real estate partnerships are based on valuations provided by the general partners of the respective partnerships. The valuations are primarily based on the Net Asset Value (NAV) of the underlying investments. The NAV is reported by the external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. The most recent NAV is adjusted for capital calls, distributions and significant known valuation changes, if any, of its related portfolio through June 30, 2017 and 2016, respectively.

Interests in certain direct investments in real estate are estimated based upon independent appraisals. Because the private equity, real estate and absolute return partnerships, along with direct investments in real estate, are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investments existed. These investments are generally less liquid than other investments, and the value reported may differ from the values that would have been reported had a ready market for these investments existed.

For other investments, the Plans consider various factors to estimate fair value, such as the timing of the transaction, the market in which the company operates, comparable transactions, company performance and projections as well as discounted cash flow analysis. The selection of an appropriate technique may be affected by the availability and general reliability of relevant inputs. In some cases, one valuation technique may provide the best indication of fair value while in other circumstances, multiple valuation techniques may be appropriate. Furthermore, the Plans may review the investment's underlying portfolio as well as engage external appraisers, depending on the nature of the investment.

The Plans exercise due diligence in assessing the external managers' use of and adherence to fair value principles. In conjunction with these procedures, estimated fair value is determined by consideration of a wide range of factors, including market conditions, redemption terms and restrictions and risks inherent in the inputs of the external investment managers' valuation. In situations where the information provided by the external manager is deemed to not be representative of the fair value as of the measurement date, management evaluates specific features of the investment and utilizes supplemental fair value information provided by the external manager along with any relevant market data to measure the investment's fair value.

Investments in registered investment companies are valued based upon the reported net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value.

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the Plans' statement of revenues, expenses and changes in net position.

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned. Gifts of securities are recorded based on fair value at the date of donation.

Derivative Financial Instruments

Derivative instruments are recorded at fair value. Futures contracts, foreign currency exchange contracts, stock rights and warrants, options and swaptions are valued at the settlement price on the last day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Financial institutions or independent advisors have estimated the fair value of the interest rate swaps and total return swaps using quoted market prices when available or discounted expected future net cash flows.

Administrative Expenses

Administrative expenses are incurred in connection with the operation of UCRS for costs such as staff salaries and benefits, Office of the CIO operations, information systems, leased space, supplies and equipment, and professional services rendered by the benefits consultants, legal counsel and independent auditor which are paid from UCRS' assets.

UCRP administrative expenses totaled approximately $44.1 million, or approximately 0.1 percent, and $48.3 million or approximately 0.1 percent, of the fiduciary net position for fiscal years 2017 and 2016, respectively.

Under UCRSP prior to June 2017, plan administrative fees were deducted from income on University-managed investment funds before calculating unit values and interest factors. Administrative fees are used to pay for investment management and investor education, accounting, audit, legal, custodial and recordkeeping services. Revenue sharing from certain mutual funds is also applied against recordkeeping costs.

Effective June 2017, the UCRSP Plans charged a per-participant administrative fee; previously, a percent-of-assets administrative fee was imposed. A quarterly administrative fee of $8.75 is deducted from each participant's account to cover costs of plan administrative services. The single quarterly fee applies regardless of how many plan accounts a participant holds. The first single administrative fee was deducted from participants' accounts beginning in July 2017 for the month of June 2017.

For the fiscal years ended June 30, 2017 and 2016, administrative expenses totaled $8.8 million and $10.5 million of the fiduciary net position for fiscal years 2017 and 2016, respectively.

Administrative expenses are assessed to the UC-VERIP through an annual account servicing charge of $10 per retiree.

Status Under the IRC

UCRP is intended to qualify under IRC §401(a) and the regulations thereunder and the UCRP trust is intended to be exempt from taxation under IRC §501(a). In a letter to the University dated November 8, 2007, the Internal Revenue Service (IRS) confirmed its determination that the form of UCRP, as amended through December 11, 2002 (other than amendments authorized by the Economic Growth and Tax Relief Reconciliation Act of 2001), met the requirements for qualification under IRC §401(a). Since then, UCRP has been amended to comply with subsequent tax acts and state laws and to make certain design changes recommended by the President and approved by The Regents. A request for a determination on UCRP, as amended, was submitted to the IRS on January 29, 2016 within Cycle E for governmental plans. The University received a favorable determination letter dated April 5, 2017.

The form of the UC-VERIP is intended to satisfy the qualification requirements under IRC §401(a) and the regulations thereunder, and the UC-VERIP trust is intended to be exempt from taxation under IRC §501(a).

On August 12, 2013, the IRS confirmed its determination that the form of the DC Plan met the requirements for qualification under IRC §401(a). Since then, the DC Plan has been amended to comply with subsequent tax acts and state laws and to make certain design changes recommended by the President and approved by The Regents. The University has requested that the IRS issue an updated determination letter on the DC Plan, as amended. A request for an updated determination letter was submitted to the IRS on January 29, 2016. The University received a favorable determination letter dated April 5, 2017.

Separately, the University has requested that the IRS issue a favorable determination letter on the SDC Plan. The form of the SDC Plan is intended to satisfy the qualification requirements of IRC §401(a) and its trust intended to be exempt from taxation under IRC §501(a). The SDC Plan was intended to be used in conjunction with a defined contribution 415(m) Plan described in Section 415(m) of the IRC. However, the IRS declined to rule on the 415(m) Plan so the University opted to withdraw its request for a determination on the SDC Plan.

The form of the 403(b) Plan is intended to satisfy the requirements of IRC §403(b). The form of the 457(b) Plan is intended to satisfy the requirements of IRC §457(b).

To the best of tax counsel's knowledge, the Plans have been administered in accordance with their terms and the applicable provisions of the IRC and the regulations thereunder, in all material respects.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Although management believes the 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.

NOTE 2 — INVESTMENTS

The Regents, as the governing board and as trustee, is responsible for the oversight of the Plans' investments and establishes investment policies for UCRP, UCRSP and the UC-VERIP, which are carried out by the Chief Investment Officer. The Chief Investment Officer has primary fiduciary responsibility for investing UCRS' assets consistent with the policies established by The Regents.

Participation in the UC Short Term Investment Pool (STIP) maximizes the returns on short-term cash balances in the UCRS Plans by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities. STIP is managed to maximize current earned income. The available cash in UCRS Plans awaiting investment or for administrative expenses is also invested in STIP. Investments authorized by The Regents for STIP include fixed-income securities with a maximum maturity of five and one-half years.

Investments authorized by The Regents for UCRS Plans' investment pools and separate investments include equity securities, fixed-income securities and certain other asset classes. The equity portion of the investment portfolios may include both domestic and foreign common and preferred stocks, and actively managed and passive strategies, along with exposure to private equities. Private equities include venture capital partnerships, buyouts and international funds. Investment portfolios may include certain foreign currency-denominated equity securities.

The fixed-income portion of the investment portfolios may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. Fixed-income investment guidelines permit the use of futures and options on fixed-income instruments in the ongoing management of the portfolios. Real estate investments are authorized for the UCRS Plans. Absolute return strategies, which may incorporate short sales, plus derivative positions to implement or hedge an investment position, are also authorized for the UCRS Plans.

The following was The Regents' adopted target asset allocation policy for the UCRP investment pool (including the UC-VERIP assets) as of June 30, 2017:

(shown as percentage)	TARGET ALLOCATION
Asset class	
U.S. Equity	28.5%
Developed International Equity	18.5
Emerging Market Equity	8.0
Core Fixed Income	12.5
High Yield Bonds	2.5
Emerging Market Debt	2.5
TIPS	4.5
Real Estate	5.5
Private Equity	8.0
Absolute Return	6.5
Real Assets	3.0
Total	**100.0%**

Annual Money-Weighted Rates of Return

A money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. The annual money-weighted rates of return, net of investment expenses, adjusted for changing amounts actually invested were 14.5 percent and (2.0) percent for the years ended June 30, 2017 and 2016, respectively.

The composition of investments and derivative instruments, by investment type, at June 30, 2017 and 2016 is as follows:

(in thousands of dollars)

	UCRP		UCRSP		UC-VERIP	
	2017	2016	2017	2016	2017	2016
Equity securities:						
Domestic	$13,160,726	$10,064,966	$6,134,138	$5,414,222	$13,824	$11,376
Foreign	7,821,819	5,898,092	2,294,397	1,950,469	8,217	6,666
Equity Securities	**20,982,545**	**15,963,058**	**8,428,535**	**7,364,691**	**22,041**	**18,042**
Fixed-income securities:						
U.S. government-guaranteed:						
U.S. Treasury bills, notes and bonds	377,926	495,380	1,441,385	1,390,773	396	560
U.S. Treasury strips	554,067	329,029	345,417	239,204	582	372
U.S. TIPS	1,828,270	2,092,679	592,408	560,924	1,921	2,365
U.S. government-backed asset-backed securities	7,614	8,244	2,524		8	9
Fixed-Income Securities	**2,767,877**	**2,925,332**	**2,381,734**	**2,190,901**	**2,907**	**3,306**
Other U.S. dollar-denominated:						
Corporate bonds	3,711,091	3,220,786	1,035,537	931,073	3,897	3,640
Commercial paper	917,125	142,977			963	162
U.S. agencies	708,561	642,456	3,445,920	3,612,831	744	726
U.S. agencies asset-backed securities	2,225,485	1,883,276	1,095,844	928,904	2,338	2,129
Corporate asset-backed securities	1,218,599	1,132,249	387,547	503,043	1,280	1,280
Supranational/foreign	2,328,200	1,790,751	214,072	168,920	2,446	2,024
Other	19,980	20,935	6,995	7,423	21	24
Other U.S. Dollar-Denominated	**11,129,041**	**8,833,430**	**6,185,915**	**6,152,194**	**11,689**	**9,985**
Foreign currency-denominated:						
Corporate		3,886				4
Foreign Currency-Denominated		**3,886**				**4**
Commingled funds:						
Absolute return	4,982,121	4,620,847			5,234	5,223
U.S. equity funds	2,338,845	3,278,220			2,457	3,705
Non-U.S. equity funds	8,283,542	6,645,925	972,538	848,942	8,702	7,511
U.S. bond funds	1,054,503	1,675,978			1,108	1,894
Non-U.S. bond funds	15					
Private equity	2,839,057	2,664,265	97,485	155,417	2,982	3,011
Real assets	865,336	959,838			909	1,085
Real estate investment trusts	1,267,081	163,740	364,711	352,035	1,331	185
Money market funds*	4,236,975	4,092,723	778,955	491,891	4,077	4,744
Commingled Funds*	**25,867,475**	**24,101,536**	**2,213,689**	**1,848,285**	**26,800**	**27,358**
Real estate	1,832,307	2,975,587			1,925	3,363
Publicly traded real estate investment trusts	427,679	455,862	294,413	293,679	449	515
Investment derivatives	(1,979)	25,031	(1,021)	862	(2)	28
Total Investments	**$63,004,945**	**$55,283,722**	**$19,503,265**	**$17,850,612**	**$65,809**	**$62,601**

** Includes investment of $2,224,574 and $2,011,069 by UCRP, and $451,996 and $314,390 by UCRSP and $1,962 and $2,391 by UC-VERIP in the Short Term Investment Pool as of June 30, 2017 and 2016, respectively.*

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk and foreign currency risk, may affect both equity and fixed-income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed-income securities are particularly sensitive to credit risks and changes in interest rates. Alternative investment strategies and their underlying assets and rights are also subject to an array of economic and market vagaries that can limit or erode value.

Credit Risk

Fixed-income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example, Moody's Investors Service (Moody's) or Standard and Poor's (S&P). The lower the rating, the greater the chance, in the rating agency's opinion, that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

Certain fixed-income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

Asset-backed securities are debt obligations that represent claims to the cash flows from pools of commercial, mortgage, credit card or student loans. Mortgage-backed securities issued by Ginnie Mae are backed by the full faith and credit of the U.S. government.

The investment guidelines for STIP recognize that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk-adjusted return over its benchmark. (The benchmark for STIP, the two-year Treasury Note, does not contain credit risk.) No more than 5 percent of the total market value of the STIP portfolio may be invested in securities rated below investment grade (BB, Ba or lower). The average credit quality of STIP must be A or better, and commercial paper must be rated at least A-1, P-1 or F-1.

The Regents recognize that credit risk is appropriate in balanced investment pools such as UCRS Plans by virtue of the benchmark chosen for the fixed-income portion of the pool.

The Barclays Capital Aggregate Bond Index is the fixed-income benchmark for the UCRS Plans, and is comprised of approximately 25.3 percent corporate bonds and 30.5 percent mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 44.2 percent is comprised of government-issued bonds.

Credit risk in UCRS Plans is managed primarily by diversifying across issuers. In addition, portfolio guidelines for UCRS Plans through May 2016 mandate that no more than 10 percent of the market value of fixed-income securities may be invested in issues with a credit rating below investment grade, and thereafter, new guidelines were approved that limit the amount below investment grade to 15 percent. Further, the weighted average credit rating must be A or higher.

In addition, the investment policies for UCRS Plans allow for dedicated allocations to non-investment grade and emerging market bonds, investment which entails credit, default and/or sovereign risk.

The credit risk profile for fixed- or variable-income securities at June 30, 2017 and 2016 is as follows:

Fixed- or variable-income securities ($ in thousands)

	UCRP		UCRSP		UC-VERIP	
	2017	2016	2017	2016	2017	2016
U.S. government-guaranteed	$2,767,877	$2,925,332	$2,381,734	$2,190,901	$2,907	$3,306
Other U.S. dollar-denominated:						
AAA	1,057,299	807,564	406,912	367,532	1,111	914
AA	313,906	194,357	3,076,458	3,224,891	330	220
A	880,486	694,516	362,582	344,783	925	785
BBB	2,206,313	1,910,831	738,147	693,445	2,317	2,160
BB	1,197,517	1,129,137	44,076	61,963	1,258	1,276
B	1,054,432	869,220	1,758	1,853	1,107	982
CCC or below	192,748	331,868		26,269	202	375
A-1 / P-1/F-1		1,947				2
Not rated	4,226,340	2,893,990	1,555,982	1,431,458	4,439	3,271
Foreign currency-denominated:						
Not rated		3,886				4
Commingled funds:						
U.S. bond funds: Not rated	1,054,503	1,675,978			1,108	1,894
Non-U.S. bond funds: Not rated	15					
Money market funds: Not rated	4,236,975	4,092,723	778,955	491,891	4,077	4,744

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the custodian, the investments may not be returned. Substantially, all of the UCRS Plans' securities are registered in the name of The Regents by the custodial bank. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk for such investments is remote.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing UCRS Plans to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments.

The U.S. and non-U.S. equity portions of UCRS may be managed either passively or actively. For the portion managed passively, the concentration of individual securities is similar to their concentration in the benchmark. While some securities have a larger representation in the benchmark than others, The Regents considers that passive management results in an absence of concentration of credit risk. For the portion managed actively, asset class guidelines do not specifically address concentration risk, but do state that the U.S. equity asset class in the aggregate will be appropriately diversified to control overall risk and will exhibit portfolio characteristics similar to the asset class benchmark (including concentration of credit risk). Concentration risk for individual portfolios is monitored relative to their individual benchmarks and agreed-upon risk parameters in their guidelines.

Investment guidelines addressing concentration of credit risk related to the investment-grade fixed-income portion of UCRS' investment portfolio include a limit of no more than 3 percent of the portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies) at the time of purchase. These same guidelines apply to the STIP. For high-yield and emerging market debt, the corresponding limit is 5 percent.

Investments in issuers other than U.S. government-guaranteed securities that represent 5 percent or more of fixed-income investments held at June 30, 2017 and 2016 are as follows:

(in thousands of dollars)

	UCRSP	
	2017	2016
Federal National Mortgage Association	$1,590,726	$1,371,563
Federal Home Loan Mortgage Corporation	971,499	1,157,609

Interest Rate Risk

Interest rate risk is the risk that the value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in the price of a security resulting from a 100-basis-point (1-percentage-point) change in the level of interest rates. It is not a measure of time.

Interest rate risk for the STIP is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on the weighted average maturity of the portfolio as it is managed relative to the liquidity demands of the investors. The nature and maturity of individual securities in the STIP allow for the use of weighted average maturity as an effective risk management tool, rather than the more complex measure, effective duration.

Portfolio guidelines for the fixed-income portion of the UCRS Plans' investment portfolio limit the weighted average effective duration of the portfolio to the effective duration of the benchmark Barclays Capital Aggregate Bond Index, plus or minus 20 percent. These portfolio guidelines constrain the potential price movement due to interest rate changes of the portfolio being similar to that of the benchmark. There are similar restrictions for the high-yield and emerging market debt portfolios relative to their benchmarks.

The effective duration for fixed-income securities at June 30, 2017 and 2016 are as follows:

Fixed- or variable-income securities (in years)

	UCRP		UCRSP		UC-VERIP	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Fixed-income securities:						
U.S. government-guaranteed:						
U.S. Treasury bills, notes and bonds	4.3	2.1	2.5	1.5	4.3	2.1
U.S. Treasury strips	11.1	6.5	9.8	9.3	11.1	6.5
U.S. TIPS	4.3	5.1	2.1	3.1	4.3	5.1
U.S. government-backed asset-backed securities	2.8	1.9	3.7	1.9	2.8	1.9
Other U.S. dollar-denominated:						
Corporate bonds	5.8	5.8	7.2	7.2	5.8	5.8
U.S. agencies	3.7	4.0	1.8	1.4	3.7	4.0
U.S. agencies asset-backed securities	3.6	2.5	3.7	2.5	3.6	2.5
Corporate asset-backed securities	2.5	2.6	2.4	2.4	2.5	2.6
Supranational/foreign	5.8	5.9	5.5	5.1	5.8	5.9
Other	15.7	16.2	16.0	16.5	15.7	16.2
Foreign currency-denominated:						
Corporate		4.7		2.7		4.7
Commingled funds:						
U.S. bond funds	1.9	3.7			1.9	3.7
Non-U.S. bond funds	7.0				7.0	

The money market funds consist of underlying securities that are of a short-term, liquid nature.

Investments may also include various mortgage-backed securities, collateralized mortgage obligations, structured notes, variable-rate securities and callable bonds that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features. Although the effective durations of the securities may be low, they are considered to be highly sensitive to changes in interest rates.

At June 30, 2017 and 2016, the fair values of such investments are as follows:

(in thousands of dollars)

	UCRP		UCRSP		UC-VERIP	
	2017	2016	2017	2016	2017	2016
Mortgage-backed securities	$2,057,991	$2,077,917	$1,034,686	$996,687	$2,162	$2,349
Collateralized mortgage obligations	256,846	345,928	51,003	161,207	270	391
Other asset-backed securities	659,607	476,812	268,628	241,589	693	539
Variable-rate securities	1,301,387	58,540	372,220	10,667	1,367	66
Callable bonds	4,219,294	2,292,159	4,057,431	3,587,366	4,432	2,591
Convertible Bonds	2,526				3	
Total	**$ 8,497,651**	**$5,251,356**	**$5,783,968**	**$4,997,516**	**$8,927**	**$5,936**

Mortgage-Backed Securities

These securities are issued by Fannie Mae, Ginnie Mae and Freddie Mac, and various commercial entities and may include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

Collateralized Mortgage Obligations

Collateralized mortgage obligations (CMOs) generate a return based upon the payment of either interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the opposite is true.

Other Asset-Backed Securities

Other asset-backed securities also generate a return based upon the payment of either interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMOs, the relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates.

Variable-Rate Securities

These securities are investments with terms that provide for the adjustment of their interest rates on set dates and are expected to have fair values that will be relatively unaffected by interest rate changes. Variable-rate securities may have limits on how high or low the interest rate may change. These constraints may affect the market value of the security.

Callable Bonds

Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The called bond must then be replaced with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.

At June 30, 2017 and 2016, the effective durations for these securities are as follows:

(in years)

	UCRP		UCRSP		UC-VERIP	
	2017	2016	2017	2016	2017	2016
Mortgage-backed securities	3.7	2.8	3.8	2.8	3.7	2.8
Collateralized mortgage obligations	2.5	2.4	2.9	1.8	2.5	2.4
Other asset-backed securities	1.0	1.3	0.9	1.5	1.0	1.3
Variable-rate securities	1.2	3.1	1.8	2.3	1.2	3.1
Callable bonds	5.2	6.2	2.8	2.2	5.2	6.2
Convertible bonds	2.5				2.5	

Liquidity Risks

Alternative investments are subject to liquidity risk. Alternative investments include hedge funds, limited partnerships, private equity, venture capital funds, real estate and real assets. Additionally, certain asset-backed securities are thinly traded and subject to liquidity risk.

Alternative investments include ownership interests in a wide variety of vehicles including partnerships and corporations that may be domiciled in the United States or offshore. Generally, there is little or no regulation of these investment vehicles by the Securities and Exchange Commission or the applicable state agencies. Managers of these investments employ a wide variety of strategies and have areas of concentration including absolute return, venture capital or early stage investing, private equity or later stage investing and the underlying investments may be leveraged to enhance the total investment return. Each asset class has guidelines and policies regarding the use of leverage. Such underlying investments may include financial assets such as marketable securities, non-marketable securities, derivatives and other synthetic and structured investments as well as tangible and intangible assets.

Alternative investments do not have a ready market and ownership interests in these investment vehicles may not be traded without the approval of the general partner or fund management. These investments are subject to the risks generally associated with equities and fixed-income instruments with additional risks due to leverage and the lack of a ready market for acquisition or disposition of ownership interests.

The UCRS Plans' investment portfolios include the following investments subject to liquidity risk as of June 30, 2017 and 2016:

(in thousands of dollars)

	UCRP		UCRSP		UC-VERIP	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Absolute return funds	$4,982,121	$4,620,847			$5,234	$5,223
Private equity	2,839,057	2,664,265	$97,485	$155,417	2,982	3,011
Real estate	1,832,307	2,975,587			1,925	3,363
Real estate investment trusts	1,267,081	163,740	364,711	352,035	1,331	185
Real assets	865,336	959,838			909	1,085
Total	**$11,785,902**	**$11,384,277**	**$462,196**	**$507,452**	**$12,381**	**$ 12,867**

Foreign Currency Risk

The Regents' strategic asset allocation policies include allocations to non-U.S. equities and non-dollar-denominated bonds. The benchmarks for these investments are not hedged; therefore, foreign currency risk is an essential part of the investment strategies. Portfolio guidelines for U.S. investment-grade, fixed-income securities also allow exposure to non-U.S. dollar-denominated bonds up to 10 percent of the total portfolio market value. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency exchange contracts. Under The Regents' investment policies, such instruments are not permitted for speculative use or to create leverage. Similar limits on foreign exchange exposure apply to the high-yield debt and emerging market debt portfolios (10 percent and 20 percent, respectively).

At June 30, 2017 and 2016, the U.S. dollar-denominated balances organized by currency denominations and investment type are as follows:

(in thousands of dollars)

	UCRP		UCRSP		UC-VERIP	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Equity securities:						
Euro	$2,287,739	$1,633,148	$696,463	$540,074	$2,403	$1,845
British Pound	1,142,693	1,106,052	355,258	365,766	1,200	1,250
Japanese Yen	1,047,815	974,740	501,555	322,340	1,101	1,102
Swiss Franc	484,477	434,099	178,991	143,554	509	491
South Korean Won	473,214	221,124		73,125	497	250
Canadian Dollar	439,285	350,369	193,815	115,865	461	396
New Taiwan Dollar	204,591	93,549		30,936	215	106
Indian Rupee	255,970	113,131		37,412	269	128
Australian Dollar	287,156	257,367	143,257	85,110	302	291
Hong Kong Dollar	239,214	124,237	68,510	41,085	252	140
Swedish Krona	199,802	149,143	63,067	49,321	210	169
South African Rand	147,318				155	
Thailand Baht	115,272				121	
Danish Krone	102,830	64,038	39,802	21,177	108	72
Singapore Dollar	55,538	48,924	25,770	16,179	58	55
Norwegian Krone	43,587	37,656	13,711	12,453	46	43
Brazilian Real	29,694				31	
Other	265,624	290,515	14,198	96,072	279	328
Subtotal	**7,821,819**	**5,898,092**	**2,294,397**	**1,950,469**	**8,217**	**6,666**
Fixed-income securities:						
Euro		1,777				2
Other		2,109				2
Subtotal		**3,886**				**4**
Commingled funds						
Various currency denominations:						
Non-U.S. equity funds	8,283,542	6,645,925	972,538	848,942	8,702	7,511
Real assets	80,970	51,761	6,012		85	59
Private equity	108,274	115,347			114	131
Non-U.S. bond funds	15					
Subtotal	**8,472,801**	**6,813,033**	**978,550**	**848,942**	**8,901**	**7,701**
Investment derivatives:						
Hong Kong Dollar		134	(7)	69		
Australian Dollar	(1)	40	(9)	24		
Canadian Dollar	(24)	242	(16)	24		
British Pound	(135)	16,407	(109)	632		19
Japanese Yen	(374)	853	(210)	(790)		1
Other	131	879	(234)	339		1
Subtotal	**(403)**	**18,555**	**(585)**	**298**		**21**
Real estate:						
Publicly traded real estate investment trusts						
Euro	34,480	30,230	7,539	9,113	36	34
Australian Dollar	32,199	33,902	12,134	10,220	34	38
British Pound	25,085	21,213	5,435	6,395	26	24
Japanese Yen	23,737	22,668	6,094	6,833	25	26
Singapore Dollar	10,122	4,187	2,308	1,262	11	5
South African Rand	10,089	5,667		1,708	11	6
Canadian Dollar	5,191	4,550	1,146	1,372	5	5
Mexican Peso	3,044	2,306		695	3	3
Other	3,117	2,889	2,793	871	3	3
Subtotal	**147,064**	**127,612**	**37,449**	**38,469**	**154**	**144**
Total exposure to foreign currency risk	**$16,441,281**	**$12,861,178**	**$3,309,811**	**$2,838,178**	**$17,272**	**$14,536**

NOTE 3 — SECURITIES LENDING

UCRS Plans participate in a securities lending program as a means to augment income. Securities invested by the Chief Investment Officer are lent to selected brokerage firms for which collateral received equals or exceeds the fair value of such investments during the period of the loan. Securities loans immediately terminate upon notice by either the UCRS Plans or the borrower. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Collateral securities cannot be pledged or sold by the UCRS Plans unless the borrower defaults.

Loans of domestic equities and all fixed-income securities are initially collateralized at 102 percent of the fair value of securities lent. Loans of foreign equities are initially collateralized at 105 percent. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of securities lent.

Cash collateral received from the borrower is invested by lending agents, as agents for the UCRS Plans, in investment pools in the name of the UCRS Plans, with guidelines approved by the Plans. These investments are shown as investment of cash collateral in the statements of net position. At June 30, 2017 and 2016, the securities in these pools had a weighted average maturity of 20 and 34 days, respectively. UCRS Plans record a liability for the return of the cash collateral shown as collateral held for securities lending in the statements of net position. Securities collateral received from the borrower is held in an investment pool by the UCRS Plans' custodial bank.

At June 30, 2017 and 2016, the UCRS Plans had little exposure to borrowers because the amounts the UCRS Plans owed the borrowers were substantially the same as the amounts the borrowers owed the UCRS Plans. UCRS Plans are fully indemnified by their lending agents against any losses incurred as a result of borrower default.

Securities lending transactions at June 30, 2017 and 2016 are as follows:

(in thousands of dollars)

	UCRP		UCRSP		UC-VERIP	
	2017	2016	2017	2016	2017	2016
SECURITIES LENT						
For cash collateral:						
Equity securities:						
Domestic	$1,772,670	$2,256,175	$1,015,179	$1,651,452	$1,862	$2,550
Foreign	97,566	124,636	32,156	19	102	141
Fixed-income securities:						
U.S. government	253,930	644,980	549,234	344,453	267	729
Other U.S. dollar-denominated	1,500,873	664,721	1,354,322	973,756	1,577	751
Foreign currency denominated	109,682				115	
Lent for Cash Collateral	**3,734,721**	**3,690,512**	**2,950,891**	**2,969,680**	**3,923**	**4,171**
For securities collateral:						
Equity securities:						
Domestic	1,942,598	1,236,592	1,080,580	585,990	2,041	1,398
Foreign	532,853	666,639	293,368	21	560	753
Fixed-income securities:						
U.S. government	1,076,940	1,314,183	1,054,722	1,211,082	1,131	1,485
Other U.S. dollar-denominated	199,850	203,304	305,550	306,556	210	230
Foreign currency-denominated	15,065				16	
Lent for Securities Collateral	**3,767,306**	**3,420,718**	**2,734,220**	**2,103,649**	**3,958**	**3,866**
Total Securities Lent	**$7,502,027**	**$7,111,230**	**$5,685,111**	**$5,073,329**	**$7,881**	**$8,037**
COLLATERAL RECEIVED						
Cash	$3,818,660	$3,734,454	$3,015,744	$3,010,844	$4,012	$4,221
Securities	4,051,839	3,676,294	2,940,725	2,260,822		4,155
Total Collateral Received	**$7,870,499**	**$7,410,748**	**$5,956,469**	**$5,271,666**	**$4,012**	**$8,376**
INVESTMENT OF CASH RECEIVED						
Fixed- or variable-income securities:						
Other U.S. dollar-denominated:						
Corporate bonds	$358,958	$454,108	$283,483	$366,116	$377	$513
Commercial paper	264,650		209,004		278	
Repurchase agreements		838,468		676,002		948
Corporate asset-backed securities	1,052,968	306,891	831,570	247,426	1,106	347
Certificates of deposit/time deposits	98,216	1,982,011	77,565	1,597,964	103	2,240
Supranational/foreign	1,847,673	153,904	1,459,180	124,083	1,941	174
U.S. Agencies	199,975		157,927		210	
Assets (liabilities), net*	(2,041)	165	(1,611)	132	(2)	
Total Investment of Cash Collateral	**$3,820,399**	**$3,735,547**	**$3,017,118**	**$3,011,723**	**$4,013**	**$4,222**

**Other assets (liabilities), net is comprised of pending settlements of cash collateral investments.*

UCRS Plans earn interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and are obligated to pay a fee and rebate to the borrower. UCRS receives the net investment income. The securities lending income and fees and rebates for the years ended June 30, 2017 and 2016 are as follows:

(in thousands of dollars)

	UCRP		UCRSP		UC-VERIP	
	2017	2016	2017	2016	2017	2016
Securities lending income	$53,635	$37,001	$35,384	$23,372	$56	$42
Securities lending fees and rebates	(24,452)	(10,069)	(16,132)	(6,360)	(26)	(11)
Securities lending income, net	**$29,183**	**$26,932**	**$19,252**	**$17,012**	**$30**	**$31**

Investment Risk Factors

There are a variety of potential risk factors involved in a securities lending program. Risks associated with the investment of cash collateral may include the credit risk from fixed-income securities, concentration of credit risk, interest rate risk and foreign currency risk. In addition, there may be custodial credit risk associated with both cash and securities received as collateral for securities lent.

The UCRS Plans' investment policies and other information related to each of these risks are summarized below.

Credit Risk

The UCRS Plans' investment policies for the investment of cash collateral maintained in separately managed collateral pools restrict the credit rating of issuers to no less than A-1, P-1 or F-1 for short-term securities and no less than A2/A for long-term securities. Asset-backed securities must have a rating of AAA.

The credit risk profile for fixed- or variable-income securities and commingled funds associated with the investment of cash collateral at June 30, 2017 and 2016 is as follows:

(in thousands of dollars)

	UCRP		UCRSP		UC-VERIP	
	2017	2016	2017	2016	2017	2016
Other U.S. dollar-denominated:						
AAA	$286,677	$385,681	$226,400	$310,947	$301	$436
AA	497,428	538,059	392,837	433,801	523	608
A	1,036,337	1,054,721	818,434	850,351	1,090	1,192
A1/P1/F1	949,031	918,454	749,485	740,489	997	1,038
Assets (liabilities), net: Not rated[1]	(2,041)	165	(1,611)	132	(2)	

[1] *Liabilities, net is comprised of pending settlements of cash collateral investments.*

Custodial Credit Risk

Cash collateral received for securities lent is invested in pools by the UCRS Plans' lending agents. The UCRS Plans' securities related to the investment of cash collateral are registered in the UCRS Plans' name by the lending agent. Securities collateral received for securities lent are held in investment pools by the UCRS Plans' lending agent. As a result, custodial credit risk is remote.

Concentration of Credit Risk

The UCRS Plans' investment policies, with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pools, restricts investments in any single issuer of corporate debt securities, time deposits, certificates of deposit, bankers acceptances and money market funds to no more than 5 percent of the portfolio value at the time of purchase.

Investments in issuers other than U.S. government-guaranteed securities that represent 5 percent or more of the total investment of cash collateral held at June 30, 2017 and 2016 were as follows:

(in thousands of dollars)

	UCRP		UCRSP		UC-VERIP	
	2017	2016	2017	2016	2017	2016
Goldman Sachs & Company	$215,870		$170,482		$227	
Morgan Stanley & Co LLC	287,827		227,309		302	
Svenska Handelsbanken AB		$242,732		$195,699		$274

Interest Rate Risk

The nature of individual securities in the collateral pools allows for the use of weighted average maturity as an effective risk management measure. The UCRS Plans' investment policy with respect to the interest rate risk associated with the investment of cash collateral in the separately managed collateral pools requires the weighted average maturity of the entire collateral pool to be less than 120 days. The maturity of securities issued by the U.S. government and asset-backed securities must be less than five years, corporate debt obligations must be less than two years and time deposits must be less than 190 days. Floating rate debt may be used, but it is limited to 65 percent of the market value of the portfolio.

The weighted average maturity expressed in days outstanding for fixed- or variable-income securities associated with the investment of cash collateral at June 30, 2017 and 2016 is as follows:

(in days)

	UCRP		UCRSP		UC-VERIP	
	2017	2016	2017	2016	2017	2016
Other U.S. dollar-denominated:						
Corporate bonds	38	44	38	44	38	44
Commercial paper	19		19		19	
Repurchase agreements	9	8	9	8	9	8
Corporate asset-backed securities	97	18	97	18	97	18
Certificates of deposit/time deposits	19	46	19	46	19	46
Supranational/foreign	17	26	17	26	17	26

Investment of cash collateral may include various asset-backed securities, structured notes and variable-rate securities that may be considered highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the weighted average maturity may be short.

At June 30, 2017 and 2016, the fair value of investments that are considered to be highly sensitive to changes in interest rates is as follows:

(in thousands of dollars)

	UCRP		UCRSP		UC-VERIP	
	2017	2016	2017	2016	2017	2016
Other asset-backed securities	$298,167	$385,681	$235,492	$310,947	$337	$436
Variable-rate investments	2,731,260	2,313,565	2,157,153	1,865,274	3,087	2,615

At June 30, 2017 and 2016, the weighted average maturity expressed in days for asset-backed securities was 43 days and 18 days, respectively and for variable-rate investments was 19 days and 23 days, respectively.

Foreign Currency Risk

The UCRS Plans' investment policies with respect to the foreign currency risk associated with the investment of cash collateral maintained in separate collateral pools restricts investments to U.S. dollar-denominated securities. Therefore, there is no foreign currency risk.

NOTE 4 — FINANCIAL DERIVATIVE INSTRUMENTS

The UCRS Plans' investments, overseen by the Chief Investment Officer, may use derivatives including futures, foreign currency exchange contracts, options, forward contracts, stock rights and warrants as a substitute for investment in equity and fixed-income securities or to reduce the effect of fluctuating foreign currencies on foreign currency-denominated investments or to limit their exposure of variable-rate bonds to changes in market interest rates.

UCRS Plans enter into futures contracts for the purpose of acting as a substitute for investment in equity and fixed-income securities. A futures contract is an agreement between two parties to buy and sell a security or financial index, interest rate or foreign currency at a set price on a future date. They are standardized contracts that can be easily bought and sold and are exchange-traded. Upon entering into such a contract, UCRS Plans are required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contract is traded. Pursuant to the contract, UCRS Plans agree to receive from, or pay to, the counterparty an amount of cash equal to the daily fluctuation in the value of the contract. These contracts are settled on a daily basis, with the resulting realized gain or loss included in the statement of changes in fiduciary net position. The settlement amount at the end of each day for each of the contracts, or variation margin, is included in investments and represents the fair value of the contracts.

Forward contracts are similar to futures contracts, although they are not exchange-traded. Foreign currency exchange contracts are forward contracts used to hedge against foreign currency exchange rate risks on non-U.S. dollar-denominated investment securities and to increase or decrease exposure to various foreign currencies.

An option contract gives the UCRS Plans the right, but not the obligation, to buy or sell a specified security or index at a fixed price during a specified period for a nonrefundable fee (the “premium”). The maximum loss to the UCRS Plans is limited to the premium originally paid for covered options. The UCRS Plans record premiums paid for the purchase of these options in the statements of fiduciary net position as an investment which is subsequently adjusted to reflect the fair value of the options, with unrealized gains and losses included in the statements of changes in fiduciary net position. UCRS held no option contracts at June 30, 2017 and 2016.

A swap is a contractual agreement entered into between the Plans and a counterparty under which each agrees to exchange periodic fixed or variable payments for an agreed period of time based upon a notional amount of principal or value of the underlying contract. The payments correspond to an equity index, interest rate or currency. The Plans consider their futures, forward contracts, options, rights, warrants and interest rate swaps to be investment derivatives.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2017 and 2016, categorized by type, and the changes in fair value of such derivatives for the years then ended are as follows:

UCRP *(in thousands of dollars)*

	NOTIONAL AMOUNT		FAIR VALUE–POSITIVE (NEGATIVE)			CHANGES IN FAIR VALUE		
CATEGORY	2017	2016	CLASSIFICATION	2017	2016	CLASSIFICATION	2017	2016
INVESTMENT DERIVATIVES								
Futures contracts:								
Domestic equity futures:								
Long positions	$8,635	$163	Investments	$(1,885)	$6,318	Net appreciation (depreciation)	$(1,884)	$47,793
Short positions	(17,382)	(8,303)	Investments	(19)	133	Net appreciation (depreciation)	(19)	229
Foreign equity futures:								
Long positions	504	23,947	Investments	(565)	(15,400)	Net appreciation (depreciation)	103,421	(34,434)
Short positions			Investments			Net appreciation (depreciation)	(10,484)	(328)
Futures contracts, net				**(2,469)**	**(8,949)**		**91,034**	**13,260**
Foreign currency exchange contracts, net:*								
Long positions	1,526,266	33,227,672	Investments	(318)	16,259	Net appreciation (depreciation)	28,157	(22,749)
Short positions	(1,609)	(4,490,605)	Investments	(26)	17,170	Net appreciation (depreciation)	54,433	131,073
Foreign currency exchange contracts, net				**(344)**	**33,429**		**82,590**	**108,324**
Swaps:								
Credit Default swaps			Investments			Net appreciation (depreciation)		(37)
Swaps, net								**(37)**
Other, net:								
Stock rights/warrants	1,349	3,922	Investments	834	551	Net appreciation (depreciation)	(7)	870
Options/swaps			Investments			Net appreciation (depreciation)		1
Other, net				**834**	**551**		**(7)**	**871**
Total investment derivatives				**$(1,979)**	**$25,031**		**$173,617**	**$122,418**

**Notional amounts reported in local currency.*

UCRSP *(in thousands of dollars)*

CATEGORY	NOTIONAL AMOUNT 2017	NOTIONAL AMOUNT 2016	FAIR VALUE–POSITIVE (NEGATIVE) CLASSIFICATION	FAIR VALUE 2017	FAIR VALUE 2016	CHANGES IN FAIR VALUE CLASSIFICATION	CHANGES 2017	CHANGES 2016
Futures contracts:								
Domestic equity futures:								
Long positions	$44	$32	Investments	$(436)	$561	Net appreciation (depreciation)	$(437)	$2,371
Foreign equity futures:								
Long positions	732	1,065	Investments	(494)	180	Net appreciation (depreciation)	22,597	(8,829)
Futures contracts, net				**(930)**	**741**		**22,160**	**(6,458)**
Foreign currency exchange contracts:*								
Long positions	954,381	1,161,087	Investments	(210)		Net appreciation (depreciation)	(1,840)	3,065
Short positions		(5,035)	Investments			Net appreciation (depreciation)	1,014	(3,651)
Foreign currency exchange contracts, net				**(210)**			**(826)**	**(586)**
Other, net:								
Stock rights/warrants	233	778	Investments	119	121	Net appreciation (depreciation)	(26)	(587)
Other, net				**119**	**121**		**(26)**	**(587)**
Total investment derivatives				**$(1,021)**	**$862**		**$21,308**	**$(7,631)**

**Notional amounts reported in local currency.*

UC-VERIP *(in thousands of dollars)*

CATEGORY	NOTIONAL AMOUNT 2017	NOTIONAL AMOUNT 2016	FAIR VALUE–POSITIVE (NEGATIVE) CLASSIFICATION	FAIR VALUE 2017	FAIR VALUE 2016	CHANGES IN FAIR VALUE CLASSIFICATION	CHANGES 2017	CHANGES 2016
Futures contracts:								
Domestic equity futures:								
Long positions	$9		Investments	$(2)	$7	Net appreciation (depreciation)	$(2)	$54
Short positions	(18)	$(9)	Investments			Net appreciation (depreciation)		
Foreign equity futures:								
Long positions	1	27	Investments	(1)	(17)	Net appreciation (depreciation)	109	(39)
Short positions			Investments			Net appreciation (depreciation)	(11)	
Futures contracts, net				**(3)**	**(10)**		**96**	**15**
Foreign currency exchange contracts, net:*								
Long positions	1,603	37,555	Investments		18	Net appreciation (depreciation)	30	(26)
Short positions	(2)	(5,075)	Investments		19	Net appreciation (depreciation)	57	148
Foreign currency exchange contracts, net					**37**		**87**	**122**
Other, net:								
Stock rights/warrants	1	4	Investments	1	1	Net appreciation (depreciation)		1
Other, net				**1**	**1**			**1**
Total investment derivatives				**$(2)**	**$28**		**$183**	**$138**

**Notional amounts reported in local currency.*

NOTE 5 — FAIR VALUE

Fair value is defined in the accounting standards as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Level 1 investments include equity securities, commingled funds (exchange traded funds and mutual funds), certain exchange traded derivatives (warrants, rights, options, futures) and other publicly traded securities.

Level 2 – Quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly are classified as Level 2. Level 2 investments include fixed- or variable-income securities, commingled funds (institutional funds not listed in active markets), certain non-exchange traded derivatives (warrants, rights, options, futures, repurchase agreements, swaptions and swaps) and other assets that are valued using market information.

Level 3 – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment. Level 3 investments include private equity investments and real estate.

Net Asset Value (NAV) – Investments whose fair value is measured at NAV are excluded from the fair value hierarchy. Investments in non-governmental entities that do not have a readily determinable fair value may be valued at NAV. Investments measured at NAV include hedge funds, private equity investments and commingled funds.

Not Leveled – Cash and cash equivalents are not measured at fair value and, thus, are not subject to the fair value disclosure requirements.

The following tables summarize the investments and other assets reported at fair value within the fair value hierarchy as of June 30, 2017 and 2016:

UCRP 2017 *(in thousands of dollars)*

	TOTAL	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	NET ASSET VALUE (NAV)	NOT LEVELED
Equity securities	$20,982,545	$20,139,526		$1,095	$841,924	
Fixed- or variable-income securities:						
U.S. government-guaranteed	2,767,877		$2,767,877			
Other U.S. dollar-denominated	11,129,041		11,078,050	50,991		
Foreign currency-denominated						
Commingled funds	25,867,475	2,010,250	1,896	272,866	23,581,977	$486
Investment derivatives	(1,979)	(1,635)	(344)			
Publicly traded real estate investment trusts	427,679	427,679				
Real estate	1,832,307			10,085	1,822,222	
Total investments	**$63,004,945**	**$22,575,820**	**$13,847,479**	**$335,037**	**$26,246,123**	**$486**
Securities lending investments of cash collateral	**$3,820,399**		**$3,822,440**			**$(2,041)**

UCRP 2016 *(in thousands of dollars)*

	TOTAL	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	NET ASSET VALUE (NAV)	NOT LEVELED
Equity securities	$15,963,058	$15,962,030		$1,028		
Fixed- or variable-income securities:						
U.S. government-guaranteed	2,925,332		$2,925,332			
Other U.S. dollar-denominated	8,833,430		8,783,288	50,142		
Foreign currency-denominated	3,886		3,886			
Commingled funds	24,101,536	1,963,565	83,966	637,449	$21,379,982	$36,574
Investment derivatives	25,031	(8,398)	33,429			
Publicly traded real estate investment trusts	455,862	455,862				
Real estate	2,975,587			1,598,996	1,376,591	
Total investments	**$55,283,722**	**$18,373,059**	**$11,829,901**	**$2,287,615**	**$22,756,573**	**$36,574**
Securities lending investments of cash collateral	**$3,735,547**		**$3,349,702**	**$385,680**		**$165**

UCRSP 2017 *(in thousands of dollars)*

	TOTAL	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	NET ASSET VALUE (NAV)	NOT LEVELED
Equity securities	$8,428,535	$8,428,450		$85		
Fixed- or variable-income securities:						
U.S. government-guaranteed	2,381,734		$2,381,734			
Other U.S. dollar-denominated	6,185,915		6,185,915			
Commingled funds	2,213,689	1,664,208		2,737	$546,744	
Investment derivatives	(1,021)	(812)	(209)			
Publicly traded real estate investment trusts	294,413	294,413				
Total investments	**$19,503,265**	**$10,386,259**	**$8,567,440**	**$2,822**	**$546,744**	
Securities lending investments of cash collateral	**$3,017,118**		**$3,018,729**			**$(1,611)**

UCRSP 2016 *(in thousands of dollars)*

	TOTAL	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	NET ASSET VALUE (NAV)	NOT LEVELED
Equity securities	$7,364,691	$7,364,545		$146		
Fixed- or variable-income securities:						
U.S. government-guaranteed	2,190,901		$2,190,901			
Other U.S. dollar-denominated	6,152,194		6,152,194			
Commingled funds	1,848,285	1,354,405	22,773		$469,806	$1,301
Investment derivatives	862	862				
Publicly traded real estate investment trusts	293,679	293,679				
Total investments	**$17,850,612**	**$9,013,491**	**$8,365,868**	**$146**	**$469,806**	**$1,301**
Securities lending investments of cash collateral	**$3,011,723**		**$2,700,643**	**$310,948**		**$132**

UC-VERIP 2017 *(in thousands of dollars)*

	TOTAL	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	NET ASSET VALUE (NAV)	NOT LEVELED
Equity securities	$22,041	$21,156		$1	$884	
Fixed- or variable-income securities:						
U.S. government-guaranteed	2,907		$2,907			
Other U.S. dollar-denominated	11,689		11,636	53		
Commingled funds	26,800	2,111	2	287	24,399	$1
Investment derivatives	(2)	(2)				
Publicly traded real estate investment trusts	449	449				
Real estate	1,925			11	1,914	
Total investments	**$65,809**	**$23,714**	**$14,545**	**$352**	**$27,197**	**$1**
Securities lending investments of cash collateral	**$4,013**		**$4,015**			**$(2)**

UC-VERIP 2016 *(in thousands of dollars)*

	TOTAL	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	NET ASSET VALUE (NAV)	NOT LEVELED
Equity securities	$18,042	$18,041		$1		
Fixed- or variable-income securities:						
U.S. government-guaranteed	3,306		$3,306			
Other U.S. dollar-denominated	9,985		9,928	57		
Foreign currency-denominated	4		4			
Commingled funds	27,358	2,219	95	720	$24,283	$41
Investment derivatives	28	(9)	37			
Publicly traded real estate investment trusts	515	515				
Real estate	3,363			1,807	1,556	
Total investments	**$62,601**	**$20,766**	**$13,370**	**$2,585**	**$25,839**	**$41**
Securities lending investments of cash collateral	**$4,222**		**$3,786**	**$436**		

The following tables presents significant terms of certain investments at June 30, 2017:

UCRP *(in thousands of dollars)*

Investment Type	Fair Value	Unfunded Commitments	Remaining life (years)	Redemption Terms and Restrictions
Absolute return	$4,982,121	$395,257	0 to 5	Generally, lock up provisions ranging from 0 to 3 years. After initial lock-up expires, redemptions are available on a rolling basis and require 5 to 95 days' prior notification.
Private equity	2,839,057	1,124,124	0 to 15	Not eligible for redemption.
Real assets	865,336	389,326	0 to 15	Not eligible for redemption.
Real estate and real estate investment trusts	3,099,388	354,670	0 to 6	Not eligible for redemption.

UCRSP *(in thousands of dollars)*

Investment Type	Fair Value	Unfunded Commitments	Remaining life (years)	Redemption Terms and Restrictions
Private equity	$97,485	$27,069	0 to 15	Not eligible for redemption.

UC-VERIP *(in thousands of dollars)*

Investment Type	Fair Value	Unfunded Commitments	Remaining life (years)	Redemption Terms and Restrictions
Absolute return	$5,234	$415	0 to 5	Generally, lock up provisions ranging from 0 to 3 years. After initial lock-up expires, redemptions are available on a rolling basis and require 5 to 95 days' prior notification.
Private equity	2,982	1,181	0 to 15	Not eligible for redemption.
Real assets	909	409	0 to 15	Not eligible for redemption.
Real estate and real estate investment trusts	3,256	373	0 to 6	Not eligible for redemption.

NOTE 6 — CONTRIBUTIONS

Contributions to UCRP are based upon rates determined by the Regents. The Regents' funding policy provides for contributions at rates to maintain UCRP on an actuarially sound basis. While the University's independent actuary annually determines the total funding policy contributions, the University is not required to contribute an amount equal to the total funding contribution. The actual contributions and the contribution rates of the University and employees are based on numerous factors, including the availability of funds to the University, the impact of employee contributions on the competitiveness of the University's total remuneration package and collective bargaining agreements.

The Regents determines the portion of the total contribution to be made by the employer (University) and by the employees (members). Effective July 1, 2014, the University paid a uniform contribution rate of 14.0 percent of covered payroll on behalf of all UCRP members. For members who elect the Savings Choice, the University maintains a 6.0 percent contribution rate on pensionable salary up to the IRC limit towards paying down the unfunded liability of UCRP.

Mandatory employee contributions, made as a condition of employment, are based upon covered University wages less a specified monthly reduction, determined periodically by The Regents, as shown below:

EFFECTIVE	1976 TIER*	2013/MODIFIED 2013 TIER, AND 2016 TIER	SAFETY*
7/1/2017	8.00%, 9.00%	7.00%, 9.00%	9.00%
7/1/2016	8.00%, 9.00%	7.00%, 9.00%	9.00%
7/1/2015	8.00%, 9.00%	7.00%, 9.00%	9.00%
7/1/2014	8.00%, 9.00%	7.00%, 9.00%	9.00%
3/1/2014	6.50%, 8.60%	7.00%, 8.60%	7.50%
2/1/2014	6.50%, 8.00%	7.00%, 8.00%	7.50%

** Contributions offset by $19 per month.*

Under current collective bargaining agreements, employees represented by several unions participate in a modified version of the 2013 Tier ("Modified 2013 Tier"), where the retirement ages and age factors are not increased and lump sum cashouts are available. In exchange for these modifications, all employees represented by these unions (including those who are not 2013 Tier members) pay 9.0 percent of their retirement covered gross salary effective July 1, 2014.

Member contributions to UCRP are accounted for separately and currently accrue interest at 6.0 percent annually. Upon termination, members may elect a refund of their contributions plus accumulated interest. Vested terminated members who are eligible to retire may also elect monthly retirement income or, if entitled, a lump sum equal to the present value of their accrued benefits.

LBNL is required to make employer and employee contributions in conformity with The Regents' contract with the Department of Energy (DOE). In addition, under certain circumstances the University contributes to the Plan based upon a contractual arrangement with the DOE designed to maintain the 100-percent funded status of the Los Alamos National Laboratory (LANL) and Lawrence Livermore National Laboratory (LLNL) segments within UCRP, and is reimbursed by the DOE.

NOTE 7 — CONTRIBUTIONS RECEIVABLE FROM THE STATE OF CALIFORNIA

Contributions receivable includes $13.6 million and $17.4 million at June 30, 2017 and 2016, respectively, related to agreements between the state of California and the University on behalf of UCRP. In 1990, the state agreed to pay the University for contributions due to UCRP of $57.2 million in 30 annual installments of approximately $5.3 million, including interest at 8.46 percent, based on the discount rate used in the 1990 actuarial valuation.

NOTE 8 — NET PENSION LIABILITY

The components of the net pension liability of UCRP and the UC-VERIP at June 30, 2017 and 2016, were as follows:

(in thousands of dollars)

	UCRP		UC-VERIP	
	2017	**2016**	**2017**	**2016**
Total pension liability	$72,826,846	$69,230,762	$32,544	$35,008
Plan net position	62,114,258	54,164,532	64,978	61,056
Net pension liability (surplus)	**$10,712,588**	**$15,066,230**	**$(32,434)**	**$(26,048)**
Ratio of plan net position to total pension liability	85%	78%	200%	174%
Covered-employee payroll	11,301,506	$10,689,424		
Net pension liability as a percentage of covered-employee payroll	95%	141%		

Actuarial Assumptions

The net pension liability was measured as of June 30, 2017 and June 30, 2016. Plan net position was valued as of the measurement date (June 30), while the total pension liability was determined based upon rolling forward the total pension liability from the July 1, 2016 and 2015 actuarial valuations. The actuarial assumptions used as of June 30, 2017 and June 30, 2016 were based on the results of an experience study for the period of July 1, 2010 through June 30, 2014. The following assumptions were used:

(shown as percentage)

Inflation	3.0%
Investment rate of return	7.25
Projected salary increases	3.8 - 6.2
Cost-of-living adjustments	2.0

For preretirement mortality rates, the RP-2014 White Collar Employee Mortality Tables (separate table for males and females) projected with the two-dimensional MP-2014 projection scale to 2029 were used. For post-retirement, healthy mortality rates are based on the RP-2014 White Collar Healthy Annuitant Mortality Table projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females.

The long-term expected investment rate of return assumption for UCRP was determined in 2015 using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected expenses and a risk margin. The projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

(shown as percentage)	**PROJECTED REAL RATE OF RETURN**
Asset class	
U.S. Equity	6.1%
Developed International Equity	7.0
Emerging Market Equity	8.6
Core Fixed Income	0.8
High Yield Bonds	3.0
Emerging Market Debt	3.9
TIPS	0.4
Real Estate	4.8
Private Equity	11.2
Absolute Return	4.2
Real Assets	4.4
Weighted average	**5.6%**

Discount Rate

The discount rate used to estimate the net pension liability as of June 30, 2017 and 2016 was 7.25 percent. To calculate the discount rate, cash flows into and out of the Plans were projected in order to determine whether the Plan has sufficient cash in future periods for projected benefit payments for current members. For this purpose, University, state and member contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected University, state and member contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions of future plan members, are not included. The Plan was projected to have assets sufficient to make projected benefit payments for current members for all future years.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the current-period net pension liability (surplus) of the UCRP and the UC-VERIP's calculated using the current-period discount rate assumption of 7.25 percent, as well as what the net pension liability (surplus) would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	**1% DECREASE (6.25%)**	**CURRENT ASSUMPTION (7.25%)**	**1% INCREASE (8.25%)**
UCRP	$19,885,642	$10,712,588	$3,125,799
UC-VERIP	(30,667)	(32,434)	(33,952)

NOTE 9 — PLAN TERMINATION

The Regents expects to continue the UCRS Plans indefinitely, but reserves the right to amend or discontinue the UCRS Plans at any time provided that any such action shall not lessen accrued benefits of any members. In the event that UCRP or UC-VERIP is terminated, UCRP or UC-VERIP assets shall be applied solely for the benefit of retired, vested or active participants and beneficiaries, until all liabilities of UCRP or UC-VERIP have been satisfied. Once all liabilities have been satisfied, any excess assets of UCRP or UC-VERIP shall revert to The Regents.

The benefits of UCRS noted above are not insured by the Pension Benefit Guaranty Corporation, a federal insurance agency established under Title IV of the Employee Retirement Income Security Act of 1974.

REQUIRED SUPPLEMENTARY INFORMATION — UCRP

Actuarial Information

The schedule of changes in net pension liability includes multi-year trend information about whether the pension assets are increasing or decreasing over time relative to the pension liabilities. The schedule of changes in the net pension liability for the Plan as of June 30 is:

(in thousands of dollars)	2017	2016	2015	2014	2013	2012
TOTAL PENSION LIABILITY						
Service cost	$1,807,143	$1,710,241	$1,589,267	$1,519,183	$1,456,761	$1,531,094
Interest on the total pension liability	5,035,267	4,784,904	4,538,846	4,316,728	4,112,461	3,871,146
Difference between expected and actual experience	74,664	136,167	(112,155)	(320,624)	(183,253)	(212,758)
Changes of assumptions or other inputs			2,136,793		(3,312,815)	4,923,778
Benefits paid, including refunds of employee contributions	(3,320,990)	(3,105,641)	(2,976,992)	(2,687,540)	(2,487,369)	(2,273,071)
Net change in total pension liability	**3,596,084**	**3,525,671**	**5,175,759**	**2,827,747**	**(414,215)**	**7,840,189**
Total pension liability - beginning of year	69,230,762	65,705,091	60,529,332	57,701,585	58,115,800	50,275,611
Total pension liability - end of year	**72,826,846**	**69,230,762**	**65,705,091**	**60,529,332**	**57,701,585**	**58,115,800**
PLAN NET POSITION						
Contributions - employer	1,904,576	1,863,154	2,510,046	1,580,876	810,056	1,851,460
Contributions - member	891,987	845,036	793,012	577,466	415,641	272,420
Contributions - STIP transfer	481,000	563,529				
Contributions - state funding	171,000	96,000				
Net investment income (loss)	7,866,281	(1,104,655)	1,993,801	8,009,980	4,833,339	115,863
Benefits paid, including refunds of employee contributions	(3,320,990)	(3,105,642)	(2,976,993)	(2,687,540)	(2,487,369)	(2,273,071)
Administrative expense	(44,128)	(48,340)	(48,283)	(37,641)	(37,426)	(32,839)
Net change in plan net position	**7,949,726**	**(890,918)**	**2,271,583**	**7,443,141**	**3,534,241**	**(66,167)**
Plan net position - beginning of year	54,164,532	55,055,450	52,783,867	45,340,726	41,806,485	41,872,652
Plan net position - end of year	**62,114,258**	**54,164,532**	**55,055,450**	**52,783,867**	**45,340,726**	**41,806,485**
Net pension liability - end of year	**$ 10,712,588**	**$15,066,230**	**$10,649,641**	**$7,745,465**	**$12,360,859**	**$16,309,315**

Net Pension Liability

All plan assets are available to pay any member's benefit. The Plan's net pension liability was measured as of June 30. Plan fiduciary net position (plan assets) was valued as of the measurement date while the total pension liability was determined based upon rolling forward the total pension liability from the July 1 actuarial valuations.

(in thousands of dollars)	2017	2016	2015	2014	2013	2012
Total pension liability	$72,826,846	$69,230,762	$65,705,091	$60,529,332	$57,701,585	$58,115,800
Plan net position	62,114,258	54,164,532	55,055,450	52,783,867	45,340,726	41,806,485
Net pension liability	**$10,712,588**	**$15,066,230**	**$10,649,641**	**$ 7,745,465**	**$12,360,859**	**$16,309,315**
Ratio of plan net position to total pension liability	85%	78%	84%	87%	79%	72%
Covered-employee payroll	$11,301,506	$10,689,424	$10,047,570	$9,372,583	$8,921,077	$8,594,147
Net pension liability as a percentage of covered-employee payroll	95%	141%	106%	83%	139%	190%

Required Schedule of Employer and Employee Contributions

The Regents' funding policy provides for actuarially determined contributions at rates reasonably expected to maintain the Plan on an actuarially sound basis.

The total funding policy contribution is determined based on various amortization periods (up to 30 years) for different components of the Unfunded Actuarial Accrued Liability (UAAL). Employee contributions by represented employees are subject to collective bargaining agreements. During the year ended June 30, 2010, University and employee contributions were reinstated. Effective March 2011, The Regents delegated to the President discretion to fully fund the modified annual required contribution (ARC) for the Plan. The "modified ARC" is the "Normal Cost," or the cost for future UCRP benefits allocated to each year of service for active members, plus interest on the unfunded liability.

LBNL is required to make employer and employee contributions in conformity with The Regents' contract with the DOE. In addition, under certain circumstances the University contributes to the Plan based upon a contractual arrangement with the DOE designed to maintain the 100-percent funded status of the LANL and LLNL segments within UCRP, and is reimbursed by the DOE.

The annual contribution deficiency (excess) as June 30 is:

(in thousands of dollars)

YEAR ENDED JUNE 30	ACTUARIALLY DETERMINED CONTRIBUTIONS	CONTRIBUTIONS IN RELATION TO ACTUARIAL CONTRIBUTIONS	CONTRIBUTION DEFICIENCY (EXCESS)	COVERED-EMPLOYEE PAYROLL	CONTRIBUTIONS AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL
2017	$2,654,710	$2,556,576	$98,134	$11,301,506	23%
2016	2,610,953	2,522,683	88,270	10,689,424	24
2015	2,664,384	2,510,046	154,338	10,047,570	25
2014	2,472,697	1,580,876	891,821	9,372,583	17
2013	2,062,022	810,056	1,251,966	8,921,077	9
2012	1,806,205	1,851,459	(45,254)	8,594,147	22
2011	1,695,137	1,677,921	17,216	8,140,629	21
2010	454	148,445	(147,991)	7,973,921	2
2009	2,657	454	2,203	7,468,809	
2008	23,934	2,657	21,277	7,612,726	

Notes to Schedule

Methods and assumptions used to determine contribution rates:

Valuation date	Actuarially determined contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry age actuarial cost method.
Amortization method	Level dollar, closed periods.
Remaining amortization period	20.86 years as of July 1, 2016.
	The July 1, 2010 amortization bases were combined into a single amortization base and amortized over 30 years. Any changes in unfunded Actuarial Accrued Liability (UAAL) due to actuarial experience gains or losses after July 1, 2010 are separately amortized over a fixed (closed) 30-year period effective with that valuation. Any changes in UAAL due to a change in actuarial assumptions or plan provisions are separately amortized over a fixed (closed) 15-year period. Any changes in UAAL due to actuarial experience gains or losses or a change in actuarial assumptions after July 1, 2014 are separately amortized over a fixed (closed) 20-year period.
Asset valuation method	The market value of assets less unrecognized returns in each of the last five years. An unrecognized return is equal to the difference between the actual and the expected return on a market value basis and is recognized over a five-year period.
Inflation	3.00%.
Investment rate of return	7.25%, net of investment expenses, includes inflation.
Projected salary increases	3.75 - 6.15%, includes inflation.
Cost-of-living adjustments	2.00%.
Mortality	For active and inactive members, mortality rates are based on the RP-2014 White Collar Employee Mortality Table, projected with the two-dimensional MP-2014 projection scale to 2029. For healthy retirees, mortality rates are based on the RP-2014 White Collar Healthy Annuitant Mortality Table, projected with the two-dimensional MP-2014 projection scale to 2029 with ages set forward one year. For disabled retirees, mortality rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP-2014 projection scale to 2029 with ages set back one year for males and set forward 5 years for females.

A money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. The annual money-weighted rates of return, net of investment expense adjusted for changing amounts actually invested for the years ended June 30 were as follows:

(shown as percentage)

LAST 10 FISCAL YEARS	ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE
2017	14.5%
2016	(2.0)
2015	3.4
2014	17.3
2013	11.2
2012	0.9
2011	22.3
2010	13.2
2009	(19.3)
2008	(5.7)

REQUIRED SUPPLEMENTARY INFORMATION — UC-VERIP

Actuarial Information

The schedule of changes in net pension liability includes multi-year trend information about whether the pension assets are increasing or decreasing over time relative to the pension liabilities. The schedule of changes in the net pension liability for the UC-VERIP as of June 30 is:

(in thousands of dollars)	2017	2016	2015	2014	2013	2012
TOTAL PENSION LIABILITY						
Interest on the total pension liability	$2,463	$2,533	$2,704	$2,857	$3,052	$3,227
Changes of benefit terms						11,186
Difference between expected and actual experience	(189)	(650)	242	(436)	(241)	172
Changes of assumptions or other inputs			1,837			1,268
Benefits paid, including refunds of employee contributions	(4,738)	(4,937)	(5,081)	(5,169)	(5,278)	(5,369)
Net change in total pension liability (surplus)	**(2,464)**	**(3,054)**	**(298)**	**(2,748)**	**(2,467)**	**10,484**
Total pension liability - beginning of year	35,008	38,062	38,360	41,108	43,575	33,091
Total pension liability - end of year	**32,544**	**35,008**	**38,062**	**38,360**	**41,108**	**43,575**
PLAN NET POSITION						
Net investment income (loss)	8,666	(1,425)	2,550	11,035	7,144	90
Benefits paid, including refunds of employee contributions	(4,738)	(4,937)	(5,081)	(5,169)	(5,278)	(5,369)
Administrative expense	(6)	(7)	(6)	(6)	(7)	(7)
Net change in plan net position	**3,922**	**(6,369)**	**(2,537)**	**5,860**	**1,859**	**(5,286)**
Plan net position - beginning of year	61,056	67,425	69,962	64,102	62,243	67,529
Plan net position - end of year	**64,978**	**61,056**	**67,425**	**69,962**	**64,102**	**62,243**
Net pension surplus - end of year	**$(32,434)**	**$(26,048)**	**$(29,363)**	**$(31,602)**	**$(22,994)**	**$(18,668)**

Actuarial valuations represent a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multi-year trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Net Pension Liability

There is no covered payroll for the UC-VERIP. The schedule of net pension liability for the UC-VERIP as of June 30 is:

(in thousands of dollars)	2017	2016	2015	2014	2013	2012
Total pension liability	$(32,544)	$35,008	$38,062	$38,360	$41,108	$43,575
Plan net position	64,978	61,056	67,425	69,962	64,102	62,243
Net pension surplus	**$(32,434)**	**$(26,048)**	**$(29,363)**	**$(31,602)**	**$(22,994)**	**$(18,668)**
Ratio of plan net position to total pension liability	200%	174%	177%	182%	156%	143%

Required Schedule of University Contributions

Since 1996, the University has not been required to contribute to the UC-VERIP due to its fully funded status.

Note to Required Supplementary Information

The actuarial assumptions are based on the presumption that the UC-VERIP will continue in operation. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

UNIVERSITY OF CALIFORNIA

Plan Oversight —The Board of Regents

INVESTMENT MANAGEMENT | Chief Investment Office

Jagdeep Singh Bachher
Chief Investment Officer, Vice President of Investments

PLAN ADMINISTRATION | Office of the President

Rachael Nava
Executive Vice President and Chief Operating Officer

Dwaine B. Duckett
Vice President Human Resources

Michael C. Baptista
Executive Director, Benefits Programs & Strategy, Human Resources Department

Gary Schlimgen
Executive Director, Retirement Programs & Services, Human Resources Department

Esther Cheung Hill
Director, HR Benefits Information Systems, Benefits Programs & Strategy, Human Resources Department

Ellen Lorenz
Director, Retirement Administration Service Center, Human Resources Department

David L. Olson
Director, Benefit Plan Accounting, CFO Division, Financial Accounting

PLAN FINANCIAL REPORTING, ACTUARY & INDEPENDENT AUDITOR

Peggy Arrivas
Associate Vice President and Systemwide Controller, CFO Division, Financial Accounting

Segal Consulting
Plan Actuary

PricewaterhouseCoopers LLP
Independent Plan Auditor

Requests for Information: *This financial report is designed to provide The Regents, the Plans' retirees and others with a general overview of the Plans' financial positions and results. Questions concerning this report should be addressed to:*

University of California Office of the President
Human Resources Department
P.O. Box 24570
Oakland, CA 94623-1570

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Medical Centers Report

16/17

UC Health is rooted in its three missions of patient care, teaching and research. They come together in a powerful way to improve the lives of people in California and beyond. From medical innovations and clinical trials to the high-quality, compassionate health care in our hospitals and clinics, UC pushes the boundaries of medicine forward.

UNIVERSITY OF CALIFORNIA

Medical Centers
16/17 Annual Financial Report

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Letter from the Executive Vice President

In a rapidly changing health care environment, UC Health is taking steps to stay ahead of the curve and build upon its leadership in patient care, education and research.

UC Health's efforts continue to be reflected in our strong showing in external rankings. All five UC medical centers were named among the nation's best hospitals by *U.S. News & World Report*, with two listed among the nation's top 10 hospitals: UCSF (5) and UCLA (7). In California, U.S. News ranked all five UC medical centers in the top 11, UCSF (1), UCLA (2), UC Davis (5), UC San Diego (7) and UC Irvine (11).

The UC Health initiative known as Leveraging Scale for Value completed its third year in fiscal year 2017. The initiative saved more than $178 million in fiscal year 2015, more than $380 million in fiscal year 2016, and almost $540 million in fiscal year 2017, and continues to demonstrate how system-wide efficiencies produce savings and quality improvement in the ever-changing landscape of health care. In recognition of UC Health's demonstration of excellence in balancing cost, quality and outcomes, our system was awarded the Healthcare Supply Chain Achievement Award from the ECRI Institute.

In the past year, the University of California's Board of Regents has empowered UC Health to promote the continued growth of the University's academic medical centers and health professional schools. In January of 2017, the Board of Regents established the fourth school of nursing at UC Irvine. Overall, UC has the nation's largest health sciences instructional program, with 18 professional schools in seven fields on seven campuses — schools known for their excellence. In July of 2017, UC Health and the Healthforce Center at UC San Francisco collectively produced a report of recommendations that identified strategies to expand health professional educational opportunities in pursuit of enhancing health care delivery options and access to care in the San Joaquin Valley. These actions were taken as part of the University's broader efforts to address future health workforce needs in the state of California.

UC Health has made strides as a system to increase innovation and improve patient care by forging new partnerships, creating collaborations and enhancing facilities. In November of 2016, UC San Diego opened the 245-bed Jacobs Medical Center that supports highly specialized multidisciplinary services for women and infants, advanced surgery and cancer care. With the formation of the UC Cancer Consortium, a system-wide effort is underway to reflect a new model for cancer research and treatment. The consortium is empowered by advances in collecting and analyzing large data and is comprised of the UC Davis Comprehensive Cancer Center, the UC Irvine Chao Family Comprehensive Cancer Center, the UCLA Jonsson Comprehensive Cancer Center, the UC San Diego Moores Cancer Center and the UCSF Helen Diller Family Comprehensive Cancer Center.

By working together as a system to serve the public, UC Health will continue to advance health in California and beyond.

JOHN D. STOBO, EXECUTIVE VICE PRESIDENT
UC HEALTH, UNIVERSITY OF CALIFORNIA

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

The following table presents certain historical utilization statistics for the primary and secondary service areas for the 12-month period ended December 31, 2016. Data for the 12-month period ended December 31, 2016, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	Sacramento, Placer, Yolo	83	2,110,793	68.1%	10.6%
Secondary	Alpine, Amador, Colusa, El Dorado, Nevada, Sierra, Sutter, Yuba	65	519,647	9.6%	5.8%

The University of California, Davis Medical Center

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

Licensed as a 627-bed general acute care hospital with more than 30 operating rooms, the Davis Medical Center provides a full range of inpatient general acute and intensive care, and a full complement of ancillary, support and ambulatory services. These services are housed in about 4.9 million gross square feet of facilities, most of which are located on the 144-acre campus in the city of Sacramento. Ambulatory care is provided at the hospital-based clinics and at satellite clinics in Sacramento and in the surrounding communities of Auburn, Carmichael, Davis, Elk Grove, Folsom, Natomas, Rancho Cordova, Rocklin and Roseville.

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

The Davis Medical Center participates in a variety of cooperative outreach activities with regional health care providers. The Davis Medical Center's Cancer Care Network is composed of community-based cancer centers in Marysville, Merced, Bakersfield and Truckee, and expanded this fiscal year to include sites in Tahoe and the southeastern Sierra. The Davis Medical Center's nationally recognized clinical telemedicine, distance education and rural affiliation programs have affiliations with the Veterans Administration, Lawrence Livermore National Laboratory and the adjacent Shriners' Hospital for Children — Northern California. The UC Davis Medical Group, supported by 1,540 faculty and contract physicians and approximately 900 residents and fellows, provides inpatient and outpatient medical services.

Significant events during the year are highlighted below:

The Davis Medical Center continues to maintain an outstanding local and national reputation

- The Davis Medical Center is the top-ranking hospital in the Sacramento metropolitan area, according to the results of the annual *U.S. News & World Report (USNWR)* "Best Hospitals" 2016-17 survey.
- The Davis Medical Center ranked as one of the nation's best hospitals for 2016-17 in 10 adult medical specialties, including cancer care; cardiology and heart surgery; ear, nose and throat; geriatrics; gynecology; nephrology; neurology and neurosurgery; orthopaedics; pulmonology; and urology, according to the annual *U.S. News & World Report* "Best Hospitals" 2016-17 survey.

- *U.S. News & World Report* also released ratings for common types of care or procedures for 2016-17, and ranked the Davis Medical Center as high performing in abdominal aortic aneurysm repair, chronic obstructive pulmonary disease, colon cancer surgery, heart failure, hip replacement, knee replacement and lung cancer surgery.
- *U.S. News & World Report* ranked the Davis Children's Hospital among the nation's top children's hospitals in five specialties in its 2016-17 rankings. The specialties include neonatology, diabetes and endocrinology and nephrology. Together with its longstanding partner Shriners Hospital for Children — Northern California, UC Davis Children's Hospital also ranked in orthopaedics and urology.
- UC Davis Children's Hospital became the first hospital on the West Coast, and only the fourth in the nation at the time, to earn verification as a Level I Children's Surgery Center by the American College of Surgeons (ACS). The designation from the ACS Children's Surgery Verification Quality Improvement Program focuses on the nation's first and only multi-specialty standards of surgical care for pediatric patients.
- For the second consecutive year, *Becker's Hospital Review* included UC Davis Medical Center in its list of 100 Great Hospitals in America. The publication for U.S. health care leaders notes that listed hospitals are "home to many medical and scientific breakthroughs, provide best-in-class patient care and are stalwarts of their communities, serving as research hubs or local anchors of wellness."
- For the sixth consecutive year, the nation's largest lesbian, gay, bisexual and transgender (LGBT) civil rights organization recognized the Davis Medical Center as a Leader in LGBT Healthcare Equality in 2016 for creating an inclusive and welcoming environment for LGBT patients and employees.
- UC Davis Health also earned its sixth consecutive "Most Wired" designation in 2016, as one of the nation's top health leaders in information technology. The award is based on a national survey conducted by *Hospitals & Health Networks* magazine.

New one-stop care center

To better serve patients who live or work in the heart of Sacramento, UC Davis Medical Group opened an expanded primary and specialty care clinic in August 2016 at the edge of the city's center. The new UC Davis Midtown Ambulatory Care Center consolidates three primary-care clinics into a single "one stop shop" location convenient to major downtown and Midtown employment centers, two major regional freeways, and several prominent core-area residential neighborhoods. The newly renovated, state-of-the-art medical building offers a wide range of services such as adult and pediatric primary care; on-site appointments in popular medical specialties such as neurology, gastroenterology and sleep medicine; and laboratory and imaging services.

Regional outreach

UC Davis Health continues to increase its affiliations with regional health care providers by providing seamless transfer and repatriation processes, supported by electronic health record interoperability, to ensure that patients receive access to tertiary and quaternary services at the Davis Medical Center when needed. With our Comprehensive Cancer Center, UC Davis Health System now has six regional Cancer Care Network partners located throughout California that bring advanced cancer care and the latest clinical research to patients in their local communities. The UC Davis telehealth program connects 33 specialties to 70 sites, enabling patients throughout California to receive direct clinical and specialty care without leaving their own communities. Leveraging its leadership in telehealth and using an integrated approach for simulation-based education and distance learning, the program serves as a model for regional population health.


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

The following table presents certain historical utilization statistics for the primary and secondary service areas for the 12-month period ended December 31, 2015. Data for the 12-month period ended December 31, 2015, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	Orange	91	1,914,292	69.4%	8.2%
Secondary	Orange, Los Angeles, Riverside, San Bernardino	80	1,805,559	15.7%	2.3%

The University of California, Irvine Medical Center

UC Irvine Medical Center is a major clinical component of UC Irvine Health and is the primary teaching facility for the UC Irvine School of Medicine. In 1976, The Regents purchased the land and facilities that now include UC Irvine Medical Center from the Orange County Board of Supervisors. The medical center subsequently expanded with the addition of the University Hospital Tower, UCI Neuropsychiatric Center, Chao Family Comprehensive Cancer Center and the H.H. Chao Comprehensive Digestive Disease Center (CDDC). The UC Irvine Health Douglas Hospital opened as the main inpatient facility in March 2009. It was designed to meet and exceed the needs of a world-class academic medical center and provide a top notch patient experience.

Orange County's only academic medical center, UC Irvine Medical Center is licensed to operate 417 beds and offers specialty inpatient care and specialty/primary care outpatient services, teaching and clinical research.

It serves as a major tertiary and quaternary care referral center for nearly 4 million people residing in and around Orange County, western Riverside County and southeastern Los Angeles County. It is also Orange County's only combined Level I Trauma Center and Level II Pediatric Trauma Center verified by the American College of Surgeons, combined high-risk obstetrics and regional neonatal programs, and American Burn Association-verified Regional Burn Center. The UC Irvine Medical Center campus is home to Orange County's only National Cancer Institute-designated comprehensive cancer center, providing access to leading clinical care and trials not available anywhere else in the county.

UC Irvine Health provides inpatient and outpatient services through a clinical practice group of more than 400 faculty physicians and surgeons. Outpatient services are provided at the medical center's pavilion buildings, Chao Family Comprehensive Cancer Center, H. H. Chao Comprehensive Digestive Disease Center and Gottschalk Medical Plaza on the UC Irvine campus. In addition to these locations, UC Irvine Health owns and operates two Federally Qualified Health Centers in Santa Ana and Anaheim to meet the needs of underserved populations in Orange County.

These sites enable UC Irvine Health to provide a full scope of high-quality patient care services to the community and attract a broad and diverse patient population required to support the education and research programs of the UC Irvine School of Medicine.

Significant events during the year are highlighted below:

National recognition

For the 17th consecutive year, UC Irvine Medical Center is one of "America's Best Hospitals" and the only Orange County hospital consistently rated among the nation's best, according to the 2017-18 *U.S. News & World Repor*t survey. The annual rankings recognize hospitals that excel in treating the most challenging patients. The UC Irvine Health program in geriatrics and senior health was rated among the country's top 50 in

2017. Since 2001, the magazine has listed UC Irvine Health programs in urology, gynecology, geriatrics, cancer, digestive disorders/ gastroenterology & GI surgery, nephrology, orthopaedics and ear, nose & throat among the top 50 nationwide.

In 2017, UC Irvine Health received its sixth consecutive "A" grade in The Leapfrog Group's *Hospital Safety Grade*, which rates how well hospitals protect patients from errors, injuries and infections. UC Irvine Health features more than 100 physicians listed as Best Doctors in America by Best Doctors Inc., more than any hospital or health system in Orange County.

UC Irvine Health Clinical Network

Primary Care

- UC Irvine Health continues to expand its community-based primary care presence, providing access to family medicine, internal medicine, pediatrics and senior health in Placentia, Yorba Linda, Orange and Tustin.

Specialty Care

- UC Irvine Health continues to expand its specialty care services in the coastal region, with neurology, cancer and digestive disease services at the UC Irvine Health Cancer Center – Newport, UC Irvine Health Digestive Disease Center – Newport and UC Irvine Health Neurology – Newport, respectively.
- In the Inland Empire, UC Irvine Health continues to deepen its affiliation with Corona Regional Medical Center to provide the region with convenient access to academic-based medicine. The affiliation's tele-stroke program is particularly successful, offering residents of western Riverside County emergent access to the stroke neurology expertise at UC Irvine Medical Center's Joint Commission-certified Comprehensive Stroke Center, the region's first. The affiliation also includes UC Irvine Health cardiology and gastroenterology clinics in Corona.
- UC Irvine Health has also opened two new urology clinics in Riverside County.
- The UC Irvine Health Department of Emergency Medicine (EM) now provides emergency services to residents of Catalina Island through an agreement with Catalina Island Medical Center in Avalon. UC Irvine Health EM specialists provide round-the-clock daily high-level emergency and urgent care evaluation services for 4,500 Catalina Island residents and more than 1 million annual visitors.

Major hospital projects

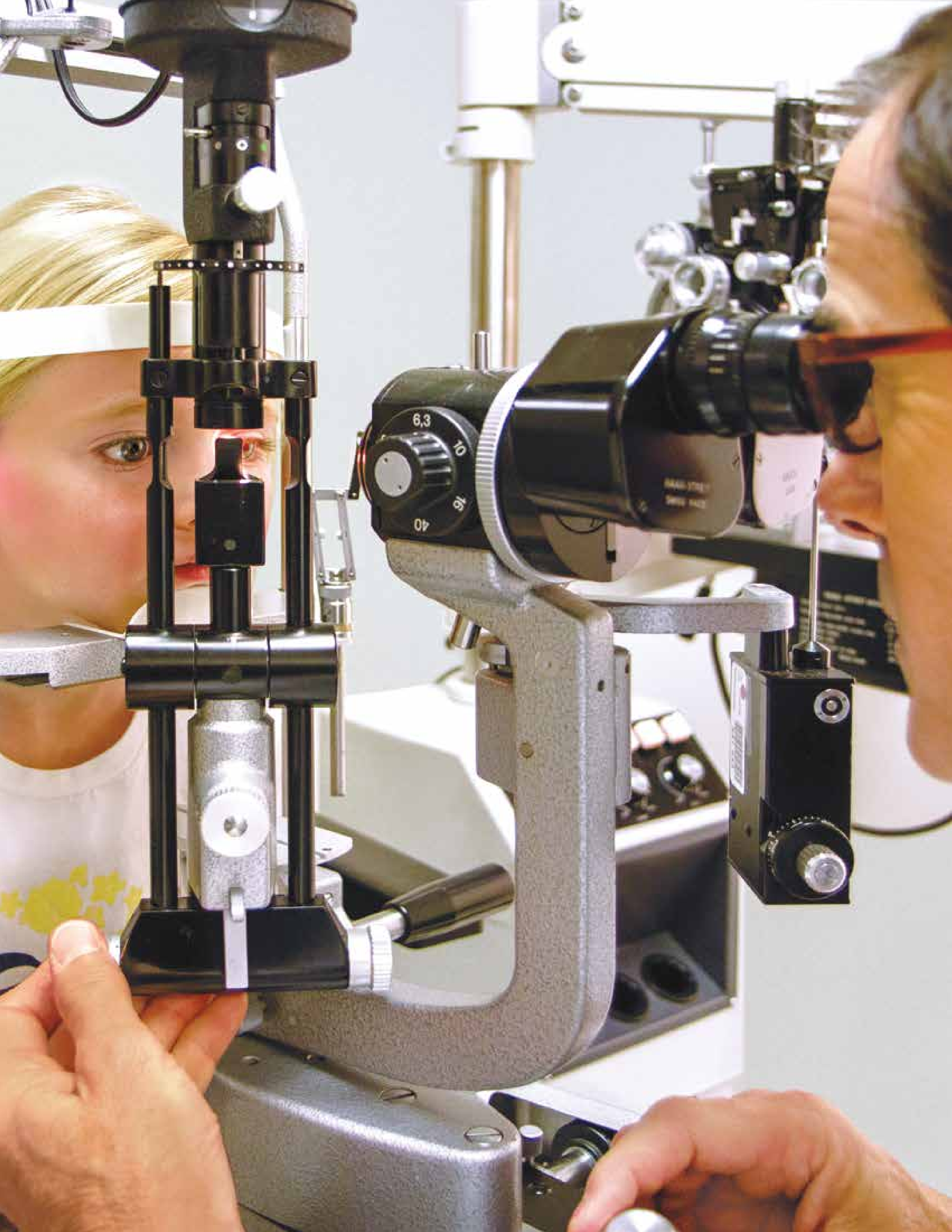
The renovation of the H.H. Chao Comprehensive Digestive Disease Center (CDDC) is complete, on schedule and on budget. The project includes renovation and a 14,100-square-foot expansion, a new entrance and waiting area, six interventional procedure rooms, 17 new pre- and post-operative procedure bays, nine additional exam rooms and a conference room. The CDDC is a regional leader in the delivery of interventional endoscopy treatments and diagnostic screening services for patients with a variety of digestive disorders. It is one of the few facilities in the nation to provide full-spectrum care specifically for disorders of the esophagus, stomach, liver, pancreas, small intestines, colon and rectum. The CDDC annually treats more than 20,000 patients and the renovated center has capacity to meet the region's increasing needs. The new building features a three-story, sunlight-filled atrium designed to reduce noise and soothe patients. The spacious exam and procedure rooms permit patients to receive all diagnostic, treatment, follow-up care and visits with other specialists in the same building.

Information Services infrastructure

During 2017, Information Services (IS) implemented the following initiatives:

- Replacement of Quest electronic medical record (EMR) with Epic EMR in conjunction with UCSD.
- Implementation of an IT Joint Service Model with UCSD to create an integrated IS department over time.
- Preparation for Epic Go-Live beginning Nov. 4, 2017.
- Focus on migration to the cloud of both infrastructure and applications to meet the needs of UC Irvine Health.
- Implement an enterprise clinical and financial data warehouse to support outcomes driven quality improvement and patient safety.
- Implement a quality measures engine to drive improvements in population health management.
- Continue to enhance the privacy and security of UC Irvine Health's IS environment.

These activities position UC Irvine Health to deliver world-class health care to our patient population.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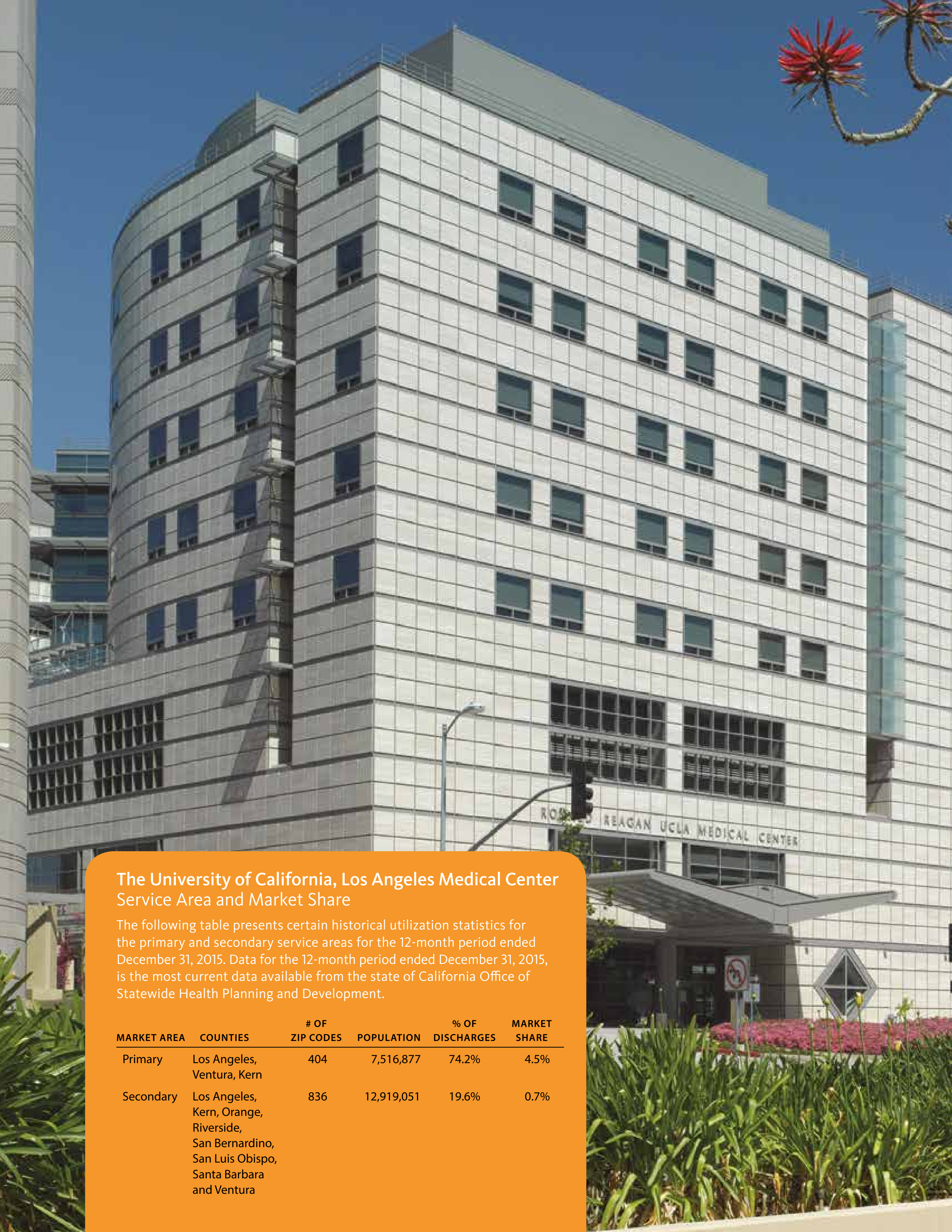


The University of California, Los Angeles Medical Center
Service Area and Market Share

The following table presents certain historical utilization statistics for the primary and secondary service areas for the 12-month period ended December 31, 2015. Data for the 12-month period ended December 31, 2015, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	Los Angeles, Ventura, Kern	404	7,516,877	74.2%	4.5%
Secondary	Los Angeles, Kern, Orange, Riverside, San Bernardino, San Luis Obispo, Santa Barbara and Ventura	836	12,919,051	19.6%	0.7%

The University of California, Los Angeles Medical Center

The UCLA Medical Center (UCLA) is the hospital component of the UCLA Health System, which also includes the UCLA Faculty Practice Group, responsible for the clinical care of UCLA Health System patients.

UCLA operates licensed-bed facilities at the 445-bed Ronald Reagan UCLA Medical Center (RRUCLA) in Westwood which includes the UCLA Mattel Children's Hospital (MCH), the 265-bed Santa Monica-UCLA Medical Center and Orthopaedic Hospital (SMUCLA) in Santa Monica, and the 74-bed Resnick Neuropsychiatric Hospital at UCLA (RNPH) in Westwood. The financial statements also include the activities of the UCLA Tiverton House, a 100-room hotel facility for patients and their families.

UCLA is the principal teaching site for the David Geffen School of Medicine at UCLA (DGSOM). The mission is to provide leading-edge patient care in support of the educational and scientific programs of the schools of the UCLA Center for the Health Sciences, including the Schools of Medicine, Dentistry, Nursing and Public Health.

The Westwood campus opened in 1955 as a 320-bed hospital and expanded to 669 beds by 1967. On June 29, 2008, the RRUCLA then 466-bed and RNPH 74-bed state-of-the-art replacement hospital opened for patient care, meeting the seismic requirements of the state of California's SB 1953 Hospital Facilities Seismic Safety Act.

UCLA offers patients of all ages comprehensive care, from routine to highly specialized medical and surgical treatment. In addition, the Westwood campus is known for its wide range of tertiary/quaternary care offerings including Level I trauma care, regional neonatal and pediatric intensive care units (ICUs), neurosurgery/neurology and organ transplantation. SMUCLA also serves the University's teaching and research missions while meeting the health care needs of Los Angeles' west side community. RNPH is one of the leading centers for comprehensive patient care, research and education in the fields of mental and developmental disabilities and offers a full range of treatment options for patients.

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

Significant events during the year are highlighted below:

UCLA Health Sciences maintains its outstanding national reputation

- UCLA Health hospitals in Westwood and Santa Monica placed No. 1 in Los Angeles, No. 2 in California and No. 7 in the nation in the 2017–18 *U.S. News and World Report (USNWR)* rankings. UCLA received top 10 rankings in eight specialties: ear, nose and throat (2); geriatrics (4); urology (4); ophthalmology at the UCLA Stein and Doheny Eye Institutes (5); nephrology (6); rheumatology (6); psychiatry at the Resnick Neuropsychiatric Hospital at UCLA (8) and pulmonology (10).

- MCH was recognized as one of the nation's best pediatric hospitals by *USNWR* and is among a select group of hospitals to be ranked in all 10 of the specialty areas in the 2017-18 "Best Children's Hospitals" survey.
- DGSOM ranks No. 6 among best medical schools for primary care in the *USNWR* 2018 annual survey of the best graduate schools in the U.S. DGSOM ranks No. 11 in the ranking of the nation's best medical schools for research.
- UCLA's hospitals were recognized as "Leaders in LGBTQ Healthcare Equality" as part of the Human Rights Campaign Foundation's Healthcare Equality Index (HEI) 2017.
- The UCLA Lung Transplant Program performed its 1,000th surgery in September 2016, becoming the first program on the West Coast, and only one of seven centers nationwide, to do so.
- UCLA Health and DGSOM earned the 2017 Seal of Distinction from WorldatWork, an award given to organizations that meet defined standards of workplace programs, policies and practices.
- UCLA Health cardiology program was named in *Becker's Hospital Review* of top 100 heart programs.
- Twenty UCLA Health clinics received URAC Patient-Centered Medical Home accreditation for excellence in ambulatory patient care delivery.
- RRUCLA received the Greenhealth Partner for Change Award for its commitment to safe and sustainable environmental policies.
- SMUCLA was recognized with Press Ganey's 2016 Guardian of Excellence Award for outstanding Neonatal Intensive Care.
- RRUCLA was awarded a "Baby-Friendly" designation as part of the Baby-Friendly Hospital Initiative, recognizing its quality care for breastfeeding mothers and their babies.
- A group of 20 nurses from the RRUCLA medical ICU received the 2017 National Patient Safety Foundation and DAISY Foundation Team Award for Extraordinary Nurses.
- UCLA Medical Group's Santa Monica Bay Physicians network was awarded 4.5 out of 5 stars by the Integrated Healthcare Association, a statewide non-profit that aims to enhance quality and affordability.

UCLA Medical Center continues to work on strategic initiatives

UCLA's strategic activities are focused on increasing tertiary/quaternary care delivery at the Westwood campus while securing primary and secondary care partners and creating a robust health care delivery platform for managing all aspects of health care delivery. These activities are related to a carefully orchestrated clinical growth strategy that advances UCLA's depth, scope and reach, promotes increased market presence, rationalizes care by utilizing lower-cost clinical settings, secures alignments that fuel additional clinical growth and provides partners with access to a large and vibrant academic community.

- The Los Angeles Lakers and UCLA Health agreed to a long-term partnership that includes UCLA Health's designation as the exclusive in-game health provider for the team's players and naming rights for the new training facility and offices in El Segundo, the UCLA Health Training Center.
- The 138-bed California Rehabilitation Institute opened in Century City — it is a partnership between UCLA Health, Cedars-Sinai Medical Center and Select Medical to serve the community's rehabilitation needs.
- MCH and Miller Children's & Women's Hospital announced their intent to form a strategic affiliation bringing together their academic, clinical and research expertise, along with their pooled resources to enhance children's health care services.
- UCLA and AccentCare formed a joint venture to provide home health services to patients in Los Angeles County and the surrounding areas, positioning UCLA to have minority ownership and clinical oversight of services provided in the post-acute care environment to improve patient care, clinical quality and overall patient experience.
- The Institute for Precision Health at UCLA launched as a home for precision and genomic health activities to facilitate current and future large-scale initiatives in genetic and genomic medicine; create new, currently untapped, opportunities for innovative discovery; and further solidify UCLA's international leadership in a broad range of scholarship and training, information technology and clinical care.

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

The following table presents certain historical utilization statistics for the primary and secondary service areas for the 12-month period ended December 31, 2015. Data for the 12-month period ended December 31, 2015, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	San Diego	77	1,447,484	54.3%	14.6%
Secondary	San Diego	95	1,816,364	30.3%	5.7%

The University of California, San Diego Medical Center

UC San Diego Health maintains a two-campus strategy at locations in La Jolla and Hillcrest, with both locations integrating clinical care, research and teaching. Each medical complex supports acute inpatient care and a spectrum of outpatient primary and specialty medical and surgical services, including ambulatory and emergency patient care.

With the opening of Jacobs Medical Center in November 2016, the health system has a current combined capacity of 808 beds, a 43 percent increase since the last reporting period. Operating under one license, its three hospitals are the 364-bed Jacobs Medical Center (which includes the 119-bed Thornton Pavilion), the 54-bed Sulpizio Cardiovascular Center and the 390-bed UC San Diego Medical Center.

The La Jolla campus, located on the eastern portion of the main university campus, is home to the 10-story Jacobs Medical Center, a specialty hospital focused on surgery, complex oncology, and high-risk obstetrics and neonatal care. Among its many advanced medical features is the region's only intraoperative imaging suite consisting of four operating rooms with both MRI and CT imaging capabilities, and an entire floor dedicated to the care and recovery of blood and marrow transplant recipients. Jacobs Medical Center is connected to Sulpizio Cardiovascular Center, the region's first comprehensive cardiovascular center and the global leader in pulmonary thromboendarterectomy (PTE), an operation for removing blood clots from the pulmonary arteries to treat chronic pulmonary hypertension.

A sky bridge connects the cardiovascular center to another facility that opened in 2016, the Altman Clinical and Translational Research Institute. This seven-story structure provides the physical space, biomedical infrastructure and proximity to patient care facilities to support the development and management of clinical trials. UC San Diego Health initiates approximately 250 new clinical trials a year and currently has about 7,000 patients receiving investigational therapies for cancer and other serious conditions.

The La Jolla campus also includes Moores Cancer Center, the primary site for outpatient oncology care and the region's only NCI-designed Comprehensive Cancer Care Center, and the Shiley Eye Institute, a multi-specialty vision center with the region's only facility dedicated to children.

UC San Diego Medical Center in Hillcrest, established in 1966, currently serves as the principal clinical teaching site for the UC San Diego School of Medicine and the focal point for community service missions. It houses several specialty care centers that allow the urban campus to serve as a major tertiary and quaternary referral center for San Diego, Riverside and Imperial counties. These care centers include the area's only Regional Burn Center, a Comprehensive Stroke Center, and one of only two Level I Trauma Centers in the county. The campus is also home to the Owen Clinic, among the nation's top HIV care programs, as well as inpatient and intensive outpatient psychiatric care for adults and older adults.

Ambulatory care is provided at both campuses, as well as in the surrounding communities of Chula Vista, Encinitas, Kearny Mesa, Scripps Ranch and Vista.

These combined sites enable UC San Diego Health to deliver a continuum of care and attract the volume and diversity of patients needed to achieve its tripartite mission of clinical, research and education excellence.

UC San Diego Health maintains strong reputation for patient care

UC San Diego Health was ranked among the nation's best in eight adult medical and surgical specialties in *U.S. News & World Report's* 2017-2018 "Best Hospitals" report.

Specialties listed in the top 50 nationally include: cancer; cardiology and heart surgery; gastroenterology and GI surgery; geriatrics; gynecology; neurology and neurosurgery; orthopedics, and pulmonology. It was considered high performing in urology and nephrology and achieved the highest rating possible for eight common adult procedures/common conditions, including aortic valve surgery, heart bypass surgery, heart failure, colon cancer surgery, chronic obstructive pulmonary disease (COPD), hip replacement, knee replacement and lung cancer surgery.

In November 2016, UC San Diego Health surgeons performed the region's first combined heart-liver transplant. Fewer than 10 of these technically challenging surgeries are performed in the U.S. each year. It is also the only local hospital system to perform heart-lung, living donor liver and multi-organ chest-abdominal transplants.

It received an "A" for hospital safety in April 2017 from The Leapfrog Group, reflecting its low rates of medical errors and preventable harm to patients. For the fourth year in a row, Healthgrades awarded it with a "Distinguished Hospital Award for Clinical Excellence," placing it among the top 5 percent of U.S. hospitals delivering superior care to the Medicare population based on clinical outcomes.

In addition, it was recertified as a Magnet hospital from the American Nurses Credentialing Center, considered among the highest recognitions for nursing excellence. In its evaluation, the credentialing board noted UC San Diego Health's team-based approach to care as a best practice that more hospitals should follow.

It had a perfect score on the 2017 Healthcare Equality Index from the nation's largest LGBTQ civil rights organization, and reflects the provision of inclusive and welcoming care to LGBTQ patients and their families.

Finally, UC San Diego Health received The Joint Commission (TJC) Gold Seal of Approval in recognition of its quality patient care, and is currently California's only hospital that holds advanced certification in chronic kidney disease care from TJC.

Strategic growth to meet the region's demand for value-based care close to home

UC San Diego Health continues to expand its clinical capabilities and adapt its business model to thrive in an intensely competitive local market while meeting the challenges of value-based payer models.

To this end, a four-story, 156,000-square-foot Outpatient Pavilion is being built on the La Jolla campus, near Jacobs Medical Center. Scheduled to open in 2018, the facility will house eight operating rooms in which procedures that once required hospitalization will be performed on an outpatient basis. In addition to the outpatient surgery center, the facility will house a breast health center, stem cell center, apheresis services, orthopedic/sports medicine services, urology center, radiology services and a pain management clinic.

It continues to extend its reach beyond its employed physician base to meet consumer demand for primary care close to home. More than 250 select community physicians are now part of the UC San Diego Health Physician Network. To complement the physician network, UC San Diego Health is forging affiliations with hospitals in the region to further its clinical footprint. UC San Diego Health physicians now provide care to patients at Rady Children's Hospital San Diego, Veteran Affairs San Diego Healthcare System and El Centro Regional Medical Center in Imperial Valley. It also maintains partnerships with Scripps Health, Sharp HealthCare and others to provide services as diverse as proton therapy for cancer to at-home hospice care.


San Diego
HALYARD

The University of California, San Francisco Medical Center and Children's Hospital and Research Center Oakland

Service Area and Market Share

The following table presents certain historical utilization statistics for the primary and secondary service areas for the 12-month period ended December 31, 2015. Data for the 12-month period ended December 31, 2015, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	San Francisco, Alameda, Contra Costa and San Mateo	149	4,419,000	62.1%	7.9%
Secondary	Marin, Napa, Santa Clara, Solano and Sonoma	138	3,265,000	14.3%	2.6%

The University of California, San Francisco Medical Center and Children's Hospital and Research Center Oakland

UCSF Health is comprised of the hospitals of UCSF Medical Center, the UCSF Faculty Clinical Practices, Langley Porter Psychiatric Hospital and Clinics and UCSF Benioff Children's Hospital Oakland. UCSF Health serves as the principal clinical teaching site for the University of California, San Francisco, School of Medicine, affiliated with the University of California since 1873.

UCSF Medical Center in San Francisco is licensed to provide inpatient care at Moffitt-Long Hospital on the 107-acre Parnassus campus and at UCSF Benioff Children's Hospital and Bakar Cancer Hospital in San Francisco's Mission Bay neighborhood. UCSF Medical Center also provides outpatient hospital care at the hospital sites, UCSF Mount Zion and physician clinical care at those hospitals and other locations primarily in San Francisco. It also has a national cancer institute designated as a National Comprehensive Cancer Network Member Institution. The UCSF Medical Center in San Francisco is licensed to operate 1,019 beds.

UCSF Health's financial statements also include the activities of the UCSF Faculty Clinical Practices — the faculty practice organization for more than 1,100 UCSF faculty physicians. The net revenues from clinical practices are recorded in net patient service revenue; the direct expenses of non-physician staff and non-labor expenses are included in operating expenses.

Effective January 1, 2014, UCSF Medical Center affiliated with Children's Hospital & Research Center Oakland and the University of California became its sole corporate and voting member. Now known and doing business as UCSF Benioff Children's Hospital Oakland (BCHO), the 105-year-old hospital retains its status as a private, not-for-profit 501(c)(3) medical center, offering children and their families outstanding medical, surgical and mental health care. BCHO has 190 licensed beds and more than 500 physicians in 43 specialties.

The BCHO hospital is one of only five ACS Pediatric Level I Trauma Centers in the state, and has one of the largest pediatric intensive care units in Northern California.

UCSF Health continues to maintain an outstanding local and national reputation

- UCSF Medical Center is the leading hospital in San Francisco and a destination for patients with complex conditions from around the world.
- U.S. News & World Report ranked UCSF Medical Center the fifth best hospital in the country in its 2017–18 survey and awarded Honor Roll status for exceptional performance in 15 medical specialties, including thirteen in the top ten.
- UCSF Benioff Children's Hospitals are nationally recognized by U.S. News & World Report in all ranked ten specialties.
- The UCSF School of Medicine was ranked third and fourth in the nation by U.S. News & World Report in its survey for 2017-18 best medical schools for its primary care training and its research training, respectively — the only medical school in the country ranked in the top five in both categories.

- UCSF is designated as a Magnet hospital by the American Nurses Credentialing Center (ANCC) which recognizes organizations for quality patient care, nursing excellence and innovations in nursing.
- UCSF Medical Center was named one of Health Care's Most Wired Hospitals in 2017 by the American Hospital Association. Hospitals with this designation are using smartphones, telehealth, remote patient monitoring technologies, secure messaging and other tools to increase patients' access to health care providers, and to record valuable health data for improving safety and quality.
- UCSF Medical Center became the only institution in the country to receive a perfect score on the national LGBT Healthcare Equality Index (HEI) for eight consecutive years. The HEI annually invites health care facilities nationwide to complete a survey describing how they provide equitable, inclusive care for lesbian, gay, bisexual and transgender (LGBT) patients and their families.

UCSF Health continues to focus on strategic initiatives and network expansion to meet its mission and community needs

- UCSF Health is self-supporting and uses its margins to meet important needs in the community, including training physicians and other health professionals, supporting medical research, providing care to the medically and financially needy, and building and operating facilities to serve the diverse needs of its patients.
- UCSF Health continued to implement its Health System Strategic Plan to foster strategic alignments with other providers in order to provide more access to clinical care. Included in the strategic plan are the following initiatives:
  - Creating a high value system of care for regional populations of patients through an Accountable Care Organization (ACO) network.
  - Expansion of regional tertiary care services and other destination programs.
  - Continued implementation of a culture of continuous process improvement.
- Construction has continued on Phase I of the BCHO Master Plan that began in October 2015. Phase 1 includes building a six story outpatient center with clinics for cardiology, rehabilitation, neurology and other subspecialties, while also addressing California seismic compliance standards.
- Canopy Health, a Bay Area-wide health care network developed by UCSF Health, John Muir Health and three physician groups, has grown to include more than 4,000 physicians and dozens of care centers and hospitals throughout the San Francisco Bay Area. The breadth of the Canopy Health network enables patients to have in-network access to a full continuum of care, through close connections between primary care providers, community hospitals, medical groups (facilities and practitioners) and academic medical centers. In 2017, more than 14,000 UC Health employees became members of Canopy Health.

UCSF Health: Commitment to the Community

- UCSF Health entered into an affiliation agreement with Dignity Health, the nation's sixth largest health system. As part of the agreement, UCSF Health staff and faculty will provide consulting services at Dignity Health hospitals in the San Francisco Bay Area. This will enable patients to receive surgical and specialty care sooner and in more places, including their own community hospital.
- UCSF Health collaborated with the San Francisco Department of Public Health and other health and social service agencies to develop a community health needs assessment report in 2016 to identify key health priorities in its primary service area. These priorities are important components in the Health System Strategic Plan mentioned above and are included in future goals for UCSF Health.
- UCSF Health provided more than $492 million in uncompensated or undercompensated care in 2017.
- While UCSF Health is known and respected nationally and internationally, its primary commitment is providing leading-edge health care services to the people of the San Francisco Bay Area and communities throughout Northern California and offering the best possible experience for patients and their families.

Management's Discussion and Analysis *(Unaudited)*

INTRODUCTION

The objective of Management's Discussion and Analysis is to help readers better understand the UC Medical Centers' financial position and operating activities for the year ended June 30, 2017, with selected comparative information for the years ended June 30, 2016 and 2015. 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 (2015, 2016, 2017 etc.) in this discussion refer to the fiscal years ended June 30.

OVERVIEW

The University of California, Medical Centers (the "Medical Centers") are operating units of the University of California (the "University"), a California public corporation under Article IX, Section 9 of the California Constitution. The University is administered by The Regents of the University of California ("The Regents") of which, under the formation documents of the University, administrative authority with respect to the Medical Centers is vested in the President of the University. The Medical Centers consist of the University of California, Davis Medical Center ("UC Davis Medical Center" or "Davis"), the University of California, Irvine Medical Center ("UC Irvine Medical Center" or "Irvine"), the University of California, Los Angeles Medical Center ("UCLA Medical Center" or "Los Angeles"), the University of California, San Diego Medical Center ("UCSD Medical Center" or "San Diego") and the University of California, San Francisco Medical Center ("UCSF Medical Center" or "San Francisco"), each of which provides educational and clinical opportunities for students in the University's Schools of Medicine ("Schools of Medicine") and offers a comprehensive array of medical services including tertiary and quaternary care services. The San Francisco Medical Center's financial statements include Children's Hospital & Research Center Oakland ("CHRCO"), a blended component unit of the University of California. The Regents are the sole corporate and voting member of CHRCO, a private, not-for-profit 501(c)(3) corporation. San Francisco provides certain management services for CHRCO. The San Francisco Medical Center's financial statements also include the activities of the UCSF Medical Group.

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

OPERATING STATISTICS

The following table presents utilization statistics for the Medical Centers:

(shown in fiscal year)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
Licensed beds						
2017	627	417	784	808	1,276	3,912
2016	621	411	795	563	1,276	3,666
2015	621	411	805	563	1,266	3,666
Admissions						
2017	34,564	21,173	40,966	29,264	45,480	171,447
2016	33,002	20,777	41,282	28,713	43,456	167,230
2015	32,292	20,226	42,345	28,185	41,934	164,982
Average daily census						
2017	536	338	741	504	755	2,874
2016	502	338	744	476	719	2,779
2015	483	317	738	451	675	2,664
Discharges						
2017	34,565	21,270	40,979	29,200	45,549	171,563
2016	32,955	20,872	41,263	28,719	43,310	167,119
2015	32,222	20,234	42,303	28,043	41,907	164,709
Average length of stay						
2017	5.6	5.8	6.6	6.3	6.0	6.1
2016	5.6	5.9	6.6	6.1	6.1	6.1
2015	5.4	5.7	6.4	5.9	5.9	5.9
Patient days						
2017	195,678	123,191	270,550	184,135	275,446	1,049,000
2016	183,667	123,557	272,191	174,101	262,430	1,015,946
2015	176,180	115,793	269,368	164,526	246,351	972,218
Case mix index[1]						
2017	1.87	1.83	2.00	1.96	1.97	
2016	1.80	1.81	1.99	1.91	1.96	
2015	1.73	1.77	1.88	1.82	1.87	
Outpatient visits						
2017	1,007,187	786,917	776,341	827,160	1,704,965	5,102,570
2016	995,688	751,629	806,359	777,452	1,531,435	4,862,563
2015	1,005,292	666,183	766,640	710,398	1,360,770	4,509,283

[1]*Case mix index is calculated at the patient level and is not determinable systemwide.*

Licensed Beds

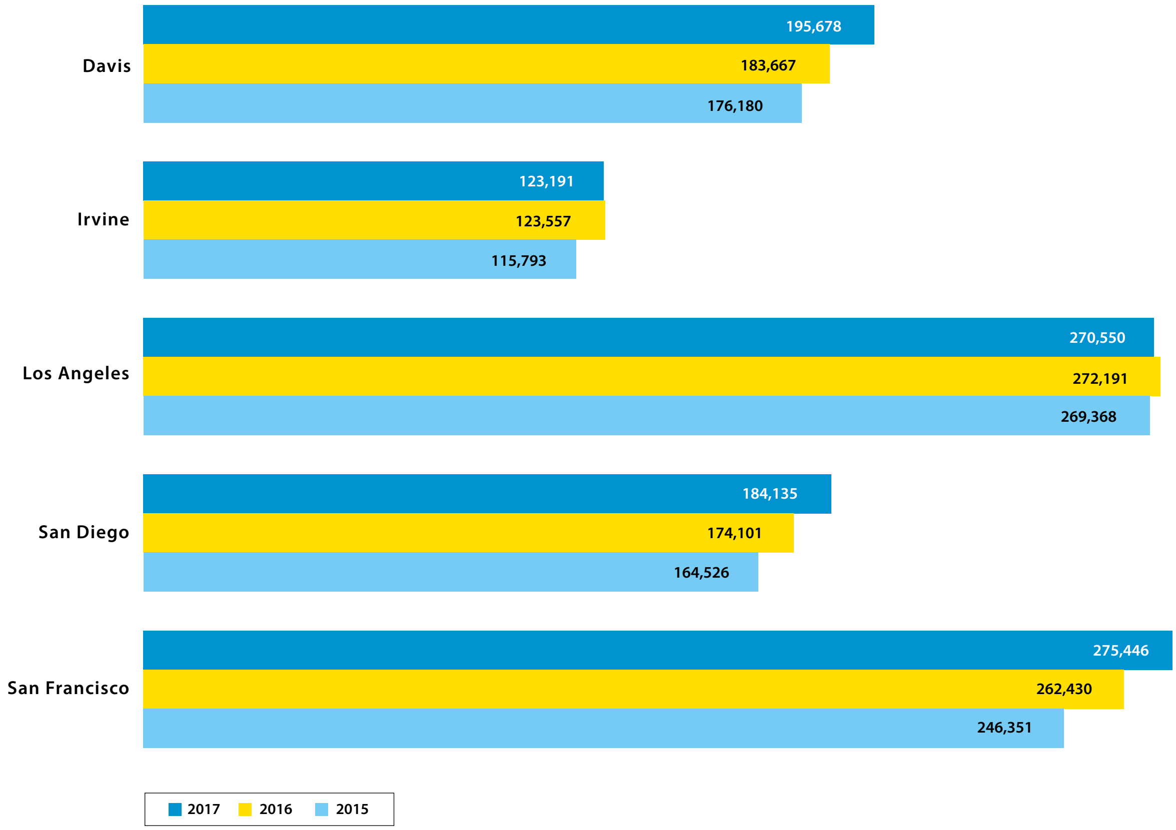
Licensed beds changed as follows:

Increased (decreased)

	2017	2016	
Davis	6		Space changes due to seismic compliance requirements resulted in six new beds.
Irvine	6		Licensed beds increased by six general acute care beds.
Los Angeles	(11)	(10)	Licensed beds decreased due to the closure of the Ronald Reagan rehabilitation center.
San Diego	245		Jacobs Medical Center (JMC) opened in November 2016 adding 245 new beds.
San Francisco		10	Additional general acute care beds were added in 2016.

Admissions and Patient Days

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



Admissions and patient days changed in 2017 as follows:

Increased (decreased)

	Admissions		Patient Days		
Davis	1,562	4.7%	12,011	6.5%	Admissions and patient days are higher due to an increase in the acuity of patients.
Irvine	396	1.9%	(366)	(0.3%)	Slight admissions increase and patient days decrease due to continued focus on lower length of stay.
Los Angeles	(316)	(0.8%)	(1,641)	(0.6%)	Admissions and patient days decreased due to lower Medicare, Medi-Cal and capitation patient days.
San Diego	551	1.9%	10,034	5.8%	Admissions and patient days increased primarily due to the opening of new beds at Jacobs Medical Center for the final seven months of the fiscal year.
San Francisco	2,024	4.7%	13,016	5.0%	Admissions and patient days increased primarily due to growth in Children's Hospital volume that has continued to grow since the opening of the Mission Bay Hospital in 2015. Adult volumes also increased due to growth of targeted programs.

Admissions and patient days changed in 2016 as follows:

Increased (decreased)

	Admissions		Patient Days		
Davis	710	2.2%	7,487	4.2%	Admissions and patient days are higher due to an increase in the acuity of patients being seen in the emergency room requiring admission.
Irvine	551	2.7%	7,764	6.7%	Admissions and patient days increased due to increased acuity of patients at ICU-Infant Special Care and surgery.
Los Angeles	(1,063)	(2.5%)	2,823	1.0%	Lower inpatient admissions and higher Medi-Cal HMO and Covered CA patient days.
San Diego	528	1.9%	9,575	5.8%	Admissions and patient days increased due to an increase in emergency room visits, with patient days also reflecting increased patient acuity with longer length of stays.
San Francisco	1,522	3.6%	16,079	6.5%	Admissions and patient days increased due to the full year of operations of the Mission Bay Hospital that had been open for only five months in the previous year.

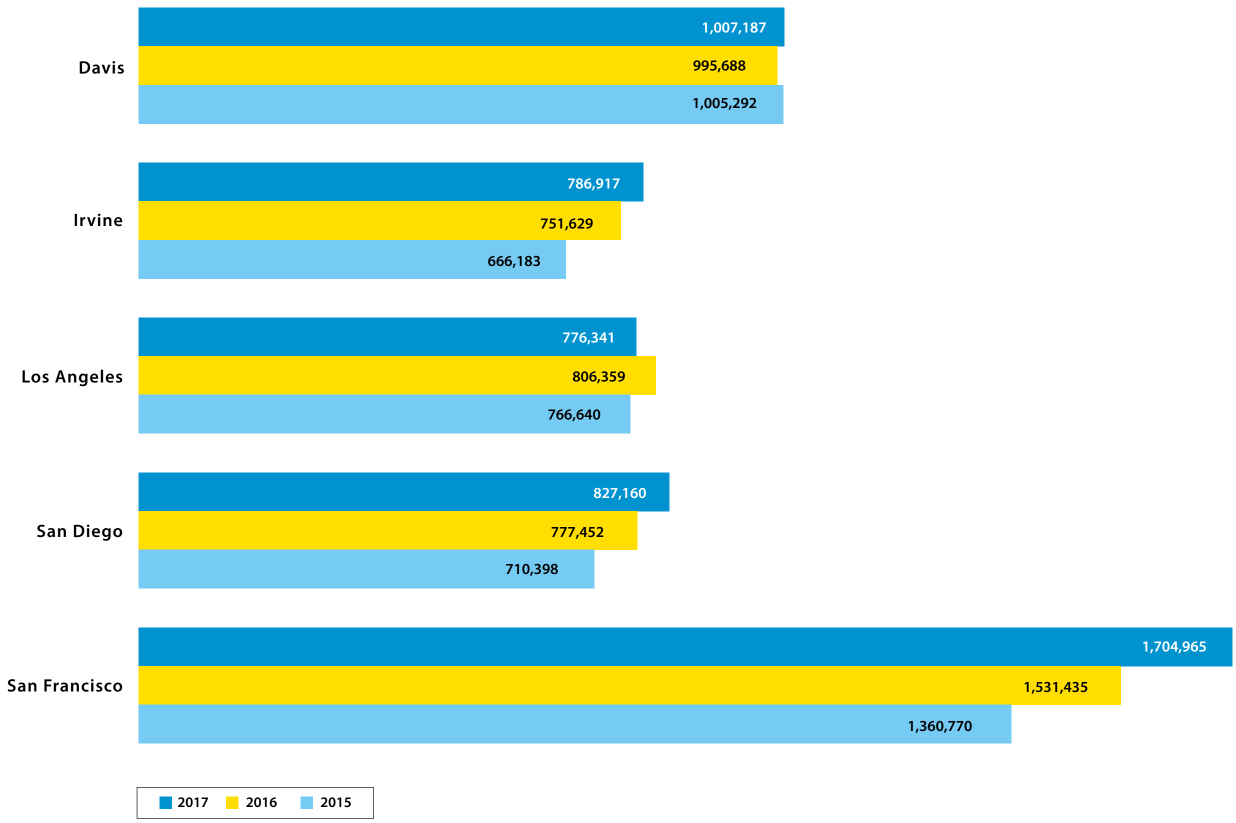
Outpatient Visits

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

(shown in fiscal year)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2017						
Hospital clinics	460,417	677,593	695,529	234,056	1,600,025	3,667,620
Primary care network	466,313	57,490		515,501		1,039,304
Home health and hospice	23,072				3,072	26,144
Emergency visits	57,385	51,834	80,812	77,603	101,868	369,502
Total	**1,007,187**	**786,917**	**776,341**	**827,160**	**1,704,965**	**5,102,570**
2016						
Hospital clinics	455,050	656,274	727,264	228,290	1,407,805	3,474,683
Primary care network	456,511	46,219		472,166		974,896
Home health and hospice	22,848				22,459	45,307
Emergency visits	61,279	49,136	79,095	76,996	101,171	367,677
Total	**995,688**	**751,629**	**806,359**	**777,452**	**1,531,435**	**4,862,563**
2015						
Hospital clinics	445,872	595,299	693,355	213,978	1,241,799	3,190,303
Primary care network	480,050	22,469		422,140		924,659
Home health and hospice	18,267				19,742	38,009
Emergency visits	61,103	48,415	73,285	74,280	99,229	356,312
Total	**1,005,292**	**666,183**	**766,640**	**710,398**	**1,360,770**	**4,509,283**

The volume of total outpatient visits for the Medical Centers are as follows:



Total outpatient visits changed in 2017 as follows:

Increased (decreased)			
Davis	11,499	1.2%	Visits continue to increase based on a new clinic and continued demand for oncology services.
Irvine	35,288	4.7%	Overall visits increased due to the continued expansion in community based primary and specialty care services.
Los Angeles	(30,018)	(3.7%)	Outpatient visits decreased due to a reduction in hospital clinic visits.
San Diego	49,708	6.4%	Clinic visits increased 7.0% due to clinic expansion, while emergency room visits increased 0.8%.
San Francisco	173,530	11.3%	Outpatient visits increased due to growth of outpatient programs and clinical outreach to grow targeted areas.

Total outpatient visits changed in 2016 as follows:

Increased (decreased)			
Davis	(9,604)	(1.0%)	Visits decreased due to lack of physician staffing.
Irvine	85,446	12.8%	Overall hospital based visits and off-site visits increased due to expansion of primary care and specialty care services in communities.
Los Angeles	39,719	5.2%	Outpatient visits increased due to the expansion of outpatient programs and clinical outreach efforts.
San Diego	67,054	9.4%	Emergency room visits increased 3.7% primarily due to expanded Medi-Cal coverage through the Affordable Care Act (ACA). Clinic visits increased 11.9% due to clinic expansion, scheduling improvements and expansion of Medi-Cal through the ACA.
San Francisco	170,665	12.5%	Outpatient visits increased due to the growth of the pediatric emergency room opened in conjunction with the new Mission Bay Hospital operating for a full year in 2016.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2017						
Net patient service revenue	$2,105,499	$1,088,317	$2,388,924	$1,595,867	$3,748,100	$10,926,707
Other operating revenue	41,875	28,010	113,628	92,295	203,654	479,462
Total operating revenue	2,147,374	1,116,327	2,502,552	1,688,162	3,951,754	11,406,169
Total operating expenses	1,983,662	1,050,777	2,384,772	1,668,586	4,003,451	11,091,248
Income (loss) from operations	163,712	65,550	117,780	19,576	(51,697)	314,921
Total net non-operating revenues (expenses)	9,467	(17,961)	(36,579)	(10,470)	24,067	(31,476)
Income (loss) before other changes in net position	173,179	47,589	81,201	9,106	(27,630)	283,445
Other changes in net position	(29,562)	(50,705)	(166,007)	(88,902)	(47,588)	(382,764)
Increase (decrease) in net position	143,617	(3,116)	(84,806)	(79,796)	(75,218)	(99,319)
Net position - beginning of year	(852,162)	(349,128)	(181,496)	45,120	(291,416)	(1,629,082)
Net position - end of year	**$(708,545)**	**$(352,244)**	**$(266,302)**	**$(34,676)**	**$(366,634)**	**$(1,728,401)**
2016						
Net patient service revenue	$1,888,702	$984,161	$2,266,980	$1,465,431	$3,370,854	$9,976,128
Other operating revenue	46,572	25,490	97,058	79,227	196,463	444,810
Total operating revenue	1,935,274	1,009,651	2,364,038	1,544,658	3,567,317	10,420,938
Total operating expenses	1,974,918	1,035,154	2,336,904	1,507,201	3,822,694	10,676,871
Income (loss) from operations	(39,644)	(25,503)	27,134	37,457	(255,377)	(255,933)
Total net non-operating revenues (expenses)	(461)	(20,450)	(24,398)	16	(15,663)	(60,956)
Income (loss) before other changes in net position	(40,105)	(45,953)	2,736	37,473	(271,040)	(316,889)
Other changes in net position	(49,060)	(60,492)	(170,042)	(48,663)	(20,939)	(349,196)
Decrease in net position	(89,165)	(106,445)	(167,306)	(11,190)	(291,979)	(666,085)
Net position - beginning of year	(762,997)	(242,683)	(14,190)	56,310	563	(962,997)
Net position - end of year	**$(852,162)**	**$(349,128)**	**$(181,496)**	**$45,120**	**$(291,416)**	**$(1,629,082)**
2015						
Net patient service revenue	$1,693,445	$906,595	$2,167,150	$1,423,546	$3,084,035	$9,274,771
Other operating revenue	30,521	26,569	86,716	66,700	174,963	385,469
Total operating revenue	1,723,966	933,164	2,253,866	1,490,246	3,258,998	9,660,240
Total operating expenses	1,748,774	902,100	2,103,820	1,342,923	3,252,781	9,350,398
Income (loss) from operations	(24,808)	31,064	150,046	147,323	6,217	309,842
Total net non-operating revenues (expenses)	(5,262)	(5,170)	(11,833)	2,789	28,812	9,336
Income (loss) before other changes in net position	(30,070)	25,894	138,213	150,112	35,029	319,178
Other changes in net position	(38,351)	(57,455)	(123,202)	(83,900)	14,701	(288,207)
Increase (decrease) in net position	(68,421)	(31,561)	15,011	66,212	49,730	30,971
Net position - beginning of year:						
Beginning of year, as previously reported	324,206	289,190	1,102,762	615,801	1,213,823	3,545,782
Cumulative effect of accounting change	(1,018,782)	(500,312)	(1,131,963)	(625,703)	(1,262,990)	(4,539,750)
Beginning of year, as restated	(694,576)	(211,122)	(29,201)	(9,902)	(49,167)	(993,968)
Net position – end of year	**$(762,997)**	**$(242,683)**	**$(14,190)**	**$56,310**	**$563**	**$(962,997)**

Retiree Health Benefits

Operating results for 2016 and 2015 have been restated for accounting changes related to reporting retiree health benefits that were implemented in 2017. The University administers single-employer health and welfare plans to provide primarily medical, dental and vision benefits to eligible retirees (and their eligible family members) of the University of California and its affiliates through the University of California Retiree Health Benefit Trust ("UCRHBT"). The University has a financial responsibility for retiree health benefits associated with UCRHBT, and the Medical Centers' financial statements for 2016 and 2015 have been restated for their proportionate share of the University's retiree health benefits expense. Retiree health benefits expense is allocated to the Medical Centers based on their proportionate share of covered compensation for the fiscal year.

Prior to adopting the retiree health benefits accounting changes, the Medical Centers reported retiree health benefits expense based on cash contributions to UCRHBT. The Medical Centers are required to contribute at a rate assessed each year by the University. The contribution requirements are based upon projected pay-as-you-go financing requirements. These retiree health benefits accounting changes do not impact the Medical Centers' requirements for making contributions to UCRHBT.

Retiree health benefits expense and contributions for the Medical Centers are as follows:

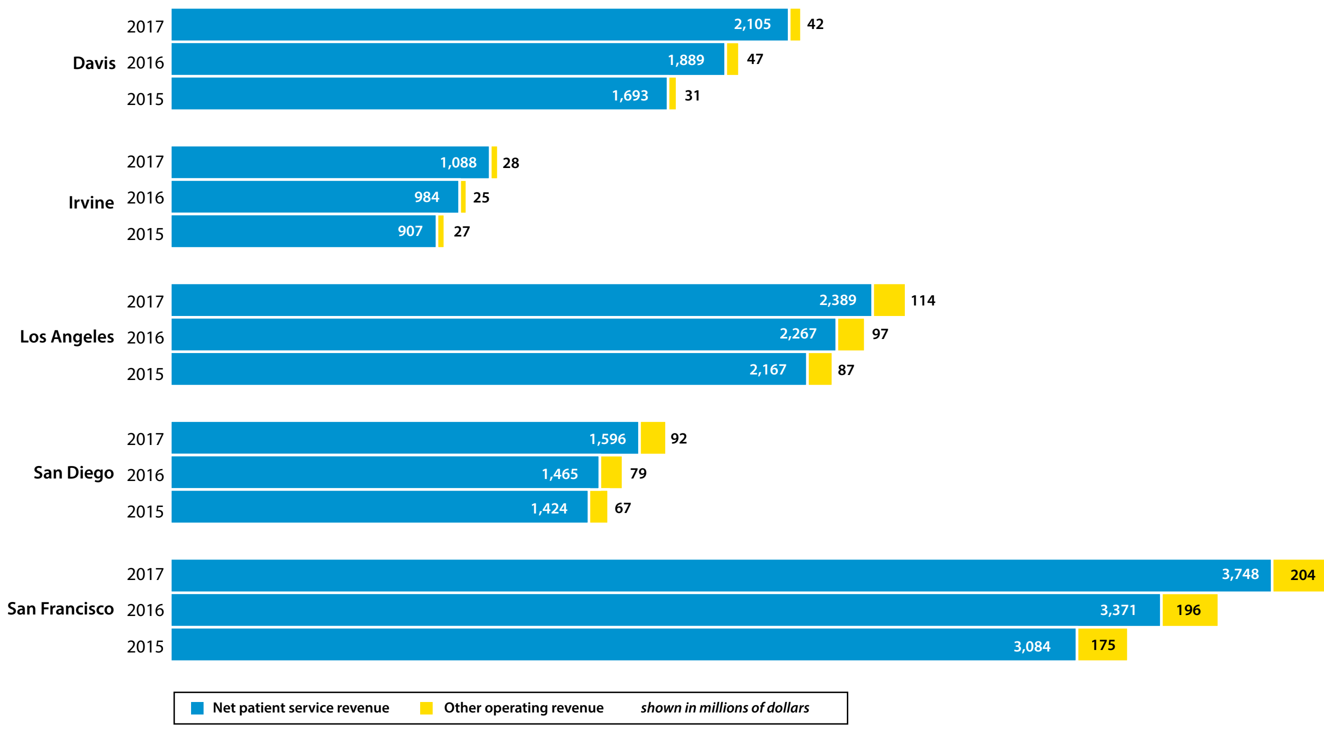
(in thousands of dollars)

	2017		2016		2015	
	Retiree health expense	Retiree health contributions	Retiree health expense	Retiree health contributions	Retiree health expense	Retiree health contributions
Davis	$104,795	$21,562	$124,210	$20,334	$99,492	$16,824
Irvine	46,113	10,089	60,645	10,433	48,859	8,686
Los Angeles	127,609	24,975	136,790	23,664	110,545	19,899
San Diego	79,684	14,677	80,253	12,780	61,105	10,307
San Francisco	177,865	31,217	170,434	28,147	123,340	22,100
Total	**$536,066**	**$102,520**	**$572,332**	**$95,358**	**$443,341**	**$77,816**

Revenues

Patient service revenue depends on inpatient occupancy levels, the volume of outpatient visits, the complexity of care provided and the charges or negotiated payment rates for services provided. Patient service revenues are net of bad debts and estimated allowances from contractual arrangements with Medicare, Medi-Cal and other third-party commercial payors and have been estimated based on the terms of reimbursement for contracts currently in effect. Other operating revenue consisted primarily of clinical teaching support funds, grants and contract revenues and other non-patient services such as contributions, pharmacy rebate programs and cafeteria revenues.

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



Revenues for 2017 as compared to 2016 are as follows:

Increased (decreased) in millions of dollars

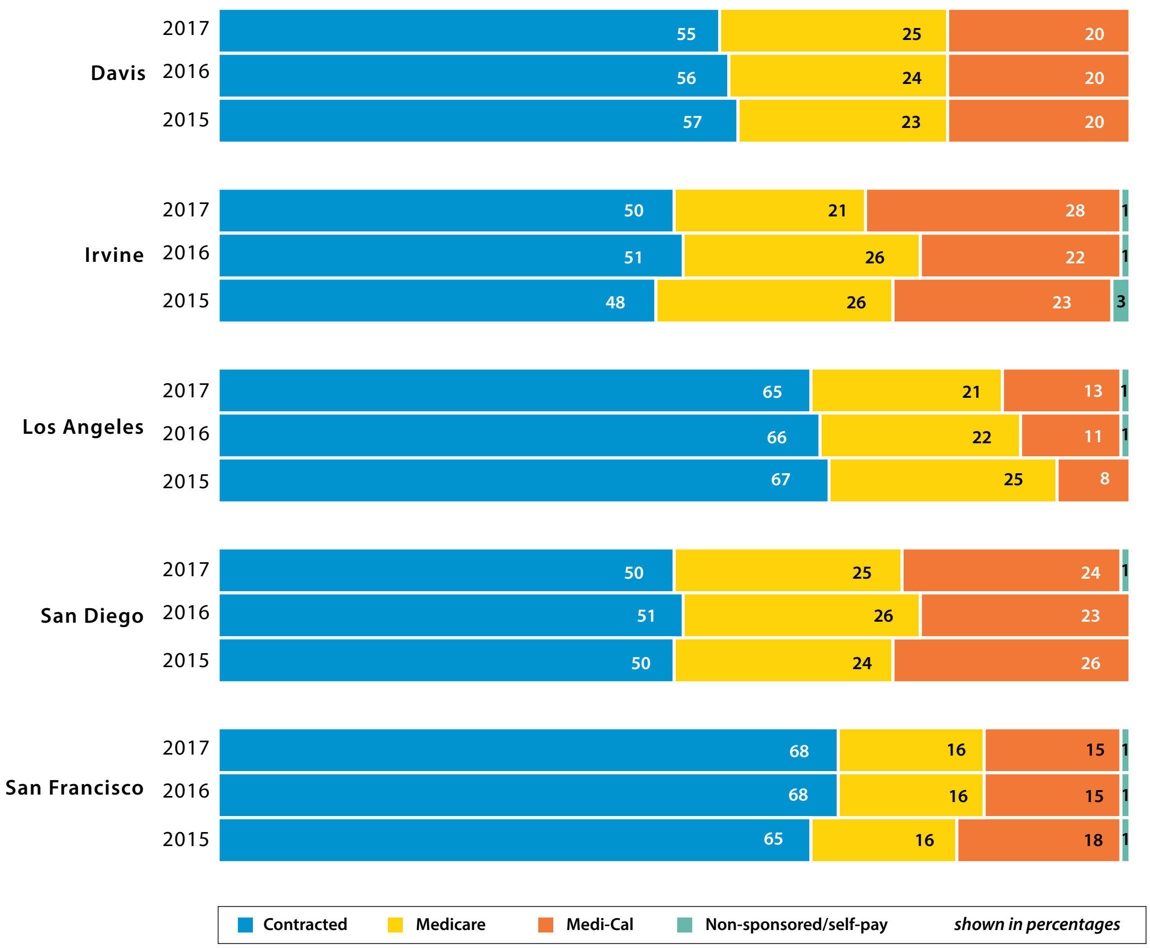
	Total Operating Revenue		**Net Patient Service Revenue**		
Davis	$212.1	11.0%	$216.8	11.5%	Increased third-party settlements, higher volumes and complexity of cases contributed to the increase.
Irvine	106.7	10.6%	104.2	10.6%	The increase was mainly due to higher patient volume and increased complexity of cases.
Los Angeles	138.5	5.9%	121.9	5.4%	The increase is due to an increase in third-party settlements and additional supplemental funding.
San Diego	143.5	9.3%	130.4	8.9%	The increase was mainly due to higher patient volume after the opening of new beds at Jacobs Medical Center in November 2016, as well as increased complexity of cases and contract price increases.
San Francisco	384.4	10.8%	377.2	11.2%	Increase is due to growth of patient volume, an increase of contracted rates and an increase of Medi-Cal supplemental funds approved in the year.

Revenues for 2016 as compared to 2015 are as follows:

Increased (decreased) in millions of dollars

	Total Operating Revenue		Net Patient Service Revenue		
Davis	$211.3	12.3%	$195.3	11.5%	Higher patient volumes, increased complexity of cases, continued growth in the UC Davis Specialty Pharmacy program, as well as several contractual arrangements with other providers contributed to the increase in net patient service revenue.
Irvine	76.5	8.2%	77.6	8.6%	Increase due to the increased patient volume, patient days and outpatient visits.
Los Angeles	110.2	4.9%	99.8	4.6%	The increase is due to an increase in third-party settlements, higher inpatient volume and additional supplemental funding.
San Diego	54.4	3.7%	41.9	2.9%	The increase is due to higher patient volume, increased complexity of cases and contract price increases, offset partially by reduced Disproportionate Share Hospital (DSH) revenue from the Medi-Cal waiver program.
San Francisco	308.3	9.5%	286.8	9.3%	Increase is primarily due to higher patient volumes with the operation for a full year of the Mission Bay Hospital that had been open for only five months in 2015.

The most common payment arrangement for inpatient services is a prospectively determined per-diem rate or case rate. The most common payment arrangement for outpatient care is a prospective payment system that uses ambulatory payment classifications. The following chart illustrates the percentage of net patient service revenue by payor:



Payor mix changed in 2017 as follows:

Davis	Payor mix is consistent when compared to prior year.
Irvine	Payor mix changed primarily with an increase in Medi-Cal due to reserves related to the Medi-Cal waiver program.
Los Angeles	Payor mix changed primarily with an increase in Medi-Cal due to continued Medi-Cal expansion as a result of the Affordable Care Act. In addition, contract revenue (capitated) decreased due to the termination of one of the capitation agreements during the year. All other payors remained relatively consistent with prior year.
San Diego	While overall payor mix was stable, within the Medi-Cal category there was a shift away from traditional Medi-Cal and towards Medi-Cal managed care plans.
San Francisco	Payor mix based on net patient revenue was consistent compared to the prior year.

Payor mix changed in 2016 as follows:

Davis	Payor mix was stable during the year.
Irvine	Payor mix revenue changed with increase in contract revenue and decrease in self pay.
Los Angeles	Payor mix changed primarily with an increase in Medi-Cal and decrease in contracts due to continued Medi-Cal expansion as a result of the Affordable Care Act. All other payors remained relatively consistent with prior year.
San Diego	Overall growth in contracted plan increased and Medi-Cal increased.
San Francisco	Lower revenues from the California Quality Assurance Fee Program reduced the Medi-Cal percentage. Contract mix increased slightly as rate increases for commercial payors was higher than rate increases for government payors.

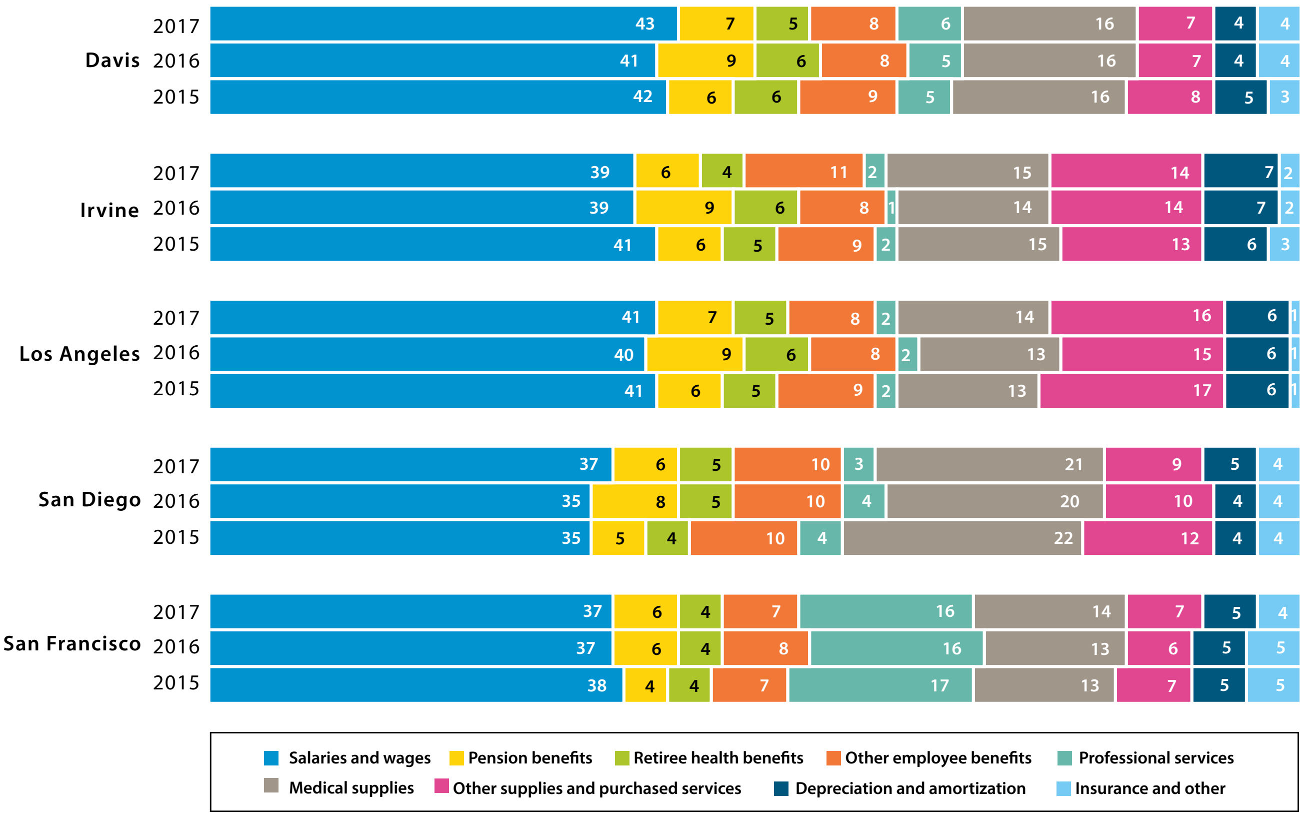
Operating Expenses

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2017						
Salaries and wages	$844,408	$407,671	$972,473	$620,548	$1,496,989	$4,342,089
Pension benefits	138,692	65,965	157,056	102,403	223,821	687,937
Retiree health benefits	104,795	46,113	127,609	79,684	177,865	536,066
Other employee benefits	163,447	118,183	201,544	173,917	272,697	929,788
Professional services	119,988	24,240	40,363	49,322	660,395	894,308
Medical supplies	310,960	155,943	326,994	348,549	543,119	1,685,565
Other supplies and purchased services	141,370	144,902	402,568	147,549	262,839	1,099,228
Depreciation and amortization	78,839	69,271	142,841	76,779	210,913	578,643
Insurance and other	81,163	18,489	13,324	69,835	154,813	337,624
Total	**$1,983,662**	**$1,050,777**	**$2,384,772**	**$1,668,586**	**$4,003,451**	**$11,091,248**
2016						
Salaries and wages	$800,159	$406,619	$924,643	$528,171	$1,389,825	$4,049,417
Pension benefits	185,667	91,575	211,154	119,576	247,971	855,943
Retiree health benefits	124,210	60,645	136,790	80,253	170,434	572,332
Other employee benefits	161,394	87,581	197,504	150,406	288,656	885,541
Professional services	103,469	13,608	44,725	51,058	608,724	821,584
Medical supplies	307,472	142,439	314,613	307,050	505,000	1,576,574
Other supplies and purchased services	141,457	141,628	360,980	154,564	238,361	1,036,990
Depreciation and amortization	79,291	68,706	134,100	58,391	205,146	545,634
Insurance and other	71,799	22,353	12,395	57,732	168,577	332,856
Total	**$1,974,918**	**$1,035,154**	**$2,336,904**	**$1,507,201**	**$3,822,694**	**$10,676,871**
2015						
Salaries and wages	$731,430	$372,568	$864,458	$470,206	$1,220,698	$3,659,360
Pension benefits	107,907	52,646	126,325	67,052	139,806	493,736
Retiree health benefits	99,492	48,859	110,545	61,105	123,340	443,341
Other employee benefits	152,644	83,098	181,688	136,772	238,201	792,403
Professional services	84,558	15,827	40,720	49,613	542,832	733,550
Medical supplies	282,704	129,044	279,446	292,350	438,488	1,422,032
Other supplies and purchased services	143,236	113,223	358,032	156,359	225,318	996,168
Depreciation and amortization	85,078	57,710	130,946	56,647	164,916	495,297
Insurance and other	61,725	29,125	11,660	52,819	159,182	314,511
Total	**$1,748,774**	**$902,100**	**$2,103,820**	**$1,342,923**	**$3,252,781**	**$9,350,398**

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



shown in percentages

Total operating expenses changed in 2017 as follows:

Increased (decreased) in millions of dollars

Davis	$8.7	0.4%	Salary increases were offset by lower pension and retiree health benefits, while supply costs were consistent with volume.
Irvine	15.6	1.5%	Overall expenses are consistent with prior year. Other employee benefits increased due to vacation accrual.
Los Angeles	47.9	2.0%	Increases in salaries, other employee benefits, medical supplies, and other supplies and purchased services due to volume increases and wage rate increases.
San Diego	161.4	10.7%	The increase in salaries, employee benefits and medical supplies reflects higher patient volume, scheduled increases for employees and inflation. In addition, the opening of Jacobs Medical Center in November 2016 resulted in pre-opening and transition expenses such as staff training, as well as higher depreciation expense.
San Francisco	180.8	4.7%	Increase in salaries and benefits, professional fees and medical supplies is primarily due to increased patient volumes and wage rate increases.

Total operating expenses changed in 2016 as follows:

Increased (decreased) in millions of dollars

Davis	$226.1	12.9%	Increases in salaries and benefit costs including pension, along with higher supply costs contributed to the increase in operating expenses.
Irvine	133.1	14.7%	Increases in salaries, employee benefits, pension benefits and medical supplies due to volume increases and wage rate increases.
Los Angeles	233.1	11.1%	Increases in salaries, employee benefits, pension benefits and medical supplies due to volume increases and wage rate increases.
San Diego	164.3	12.2%	Overall expenses reflect higher patient volume, scheduled increases for employees and inflation. Pension expense was much higher in 2016. There were also one-time expenses in the fourth quarter for pre-opening and transition expenses related to the Jacobs Medical Center.
San Francisco	569.9	17.5%	Increase is primarily due to the operation for a full year of the Mission Bay Hospital that had been open for only five months in 2015 and an increase in pension costs.

Salaries and Benefits

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

	2017	2016	2015	
Davis	58.3%	65.7%	63.3%	Salary and benefit expense decreased compared to prior year due to lower pension and retiree health benefits, which was partially offset by higher wages.
Irvine	57.1%	64.0%	59.7%	The decrease was due to lower pension and retiree health benefits in current year, which was offset by increase in vacation accrual.
Los Angeles	58.3%	62.2%	56.9%	Salaries and benefits decreased due to a significant decrease in the pension and retiree health benefit expense in the current year compared to the prior year. This decrease was partially offset by an increase in wage rate increases in salaries.
San Diego	57.8%	56.9%	49.3%	The increase is primarily due to an increase in full-time employees (FTE) necessary for operating the new Jacobs Medical Center, including clinical and support positions at that location.
San Francisco	54.9%	58.8%	52.8%	Decrease due to revenue growth in excess of labor increases and decrease of pension expense.

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

Increased (decreased) in millions of dollars

	2017						2016					
	Salaries and Wages		FTEs		Rate Changes		Salaries and Wages		FTEs		Rate Changes	
Davis	$44.2	5.5%	174	2.2%	$26.6	3.3%	$68.7	9.4%	307	4.0%	$39.1	5.1%
Irvine	1.1	0.3%	(52)	(1.2)%	4.1	1.1%	34.1	9.1%	187	4.3%	14.7	4.2%
Los Angeles	47.8	5.2%	123	1.3%	34.9	3.8%	60.2	7.0%	353	4.0%	24.5	2.8%
San Diego	92.4	17.5%	818	13.9%	19.2	3.6%	58.0	12.3%	365	7.1%	24.7	5.2%
San Francisco	107.2	7.7%	464	4.0%	51.9	3.6%	169.1	13.9%	867	8.0%	71.1	5.4%

Employee benefits changed as follows:

Increased (decreased) in millions of dollars

	2017						2016					
	Pension		Retiree Health		Other Employee Benefits		Pension		Retiree Health		Other Employee Benefits	
Davis	$(47.0)	(25.3%)	$(19.4)	(15.6%)	$2.1	1.3%	$77.8	72.1%	$24.7	24.8%	$8.8	5.7%
Irvine	(25.6)	(28.0%)	(14.5)	(24.0%)	30.6	34.9%	38.9	73.9%	11.8	24.1%	4.5	5.4%
Los Angeles	(54.1)	(25.6%)	(9.2)	(6.7%)	4.0	2.0%	84.8	67.2%	26.2	23.7%	15.8	8.7%
San Diego	(17.2)	(14.4%)	(0.6)	(0.7%)	23.5	15.6%	52.5	78.3%	19.1	31.3%	13.6	10.0%
San Francisco	(24.2)	(9.7%)	7.4	4.4%	(16.0)	(5.5%)	108.2	77.4%	47.1	38.2%	50.5	21.2%

Substantially all full-time employees of the Medical Centers participate in the University of California Retirement Plan (UCRP). The University has a financial responsibility for pension benefits associated with its defined benefit plans. Pension expense is allocated to the Medical Centers based on their proportionate share of covered compensation for the fiscal year.

The Medical Centers are required to contribute at a rate set by The Regents. Employer contribution rates were 14.0 percent in 2017, 2016 and 2015, of covered compensation. Pension expenses were lower in 2017 due to higher than expected investment returns. Pension expenses were higher in 2016 due to lower than expected investment returns.

Pension expense and contributions for the Medical Centers related to UCRP were as follows:

Increased (decreased) in millions of dollars

	2017		2016		2015	
	Medical Center Pension Expense	**Pension Contributions**	**Medical Center Pension Expense**	**Pension Contributions**	**Medical Center Pension Expense**	**Pension Contributions**
Davis	$138,692	$102,403	$185,667	$95,435	$107,907	$88,693
Irvine	63,997	48,710	90,499	46,628	52,646	43,466
Los Angeles	157,056	111,966	211,154	105,103	126,325	98,329
San Diego	102,403	69,647	119,576	60,001	67,052	54,326
San Francisco	203,864	139,730	226,586	124,681	129,462	110,021
Total	**$666,012**	**$472,456**	**$833,482**	**$431,848**	**$483,392**	**$394,835**

The University has a financial responsibility for retiree health benefits. The Medical Centers are required to contribute at a rate assessed each year by the University based upon projected pay-as-you-go financing requirements. Retiree health benefits expense is allocated to the Medical Centers based on their proportionate share of covered compensation for the fiscal year. Retiree health expenses were lower in 2017 due to the increase in the discount rate. Retiree health expenses were higher in 2016 due to the decrease in the discount rate. Other employee benefits increased due to higher health insurance costs.

Professional Services

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

Professional services changed in 2017 as follows:

Increased (decreased) in millions of dollars

Davis	$16.5	16.0%	Increases are due to professional network costs for physician services.
Irvine	10.6	78.1%	Mainly due to increase in consulting fees to optimize operational efficiency.
Los Angeles	(4.4)	(9.8%)	Lower costs related to consulting and management fees due to cessation of information technology and revenue cycle projects. In addition, there was a slight decrease in medical director fees.
San Diego	(1.7)	(3.4%)	There was a reduction of call coverage fees paid to physicians.
San Francisco	51.7	8.5%	Increase due to growth of patient volumes which increases payments for physician services.

Professional services changed in 2016 as follows:

Increased (decreased) in millions of dollars

Davis	$18.9	22.4%	Increased costs related to external labor, consulting and professional network costs for physician services.
Irvine	(2.2)	(14.0%)	Decrease in consulting fees.
Los Angeles	4.0	9.8%	Higher costs related to consulting and management fees for information technology and revenue cycle projects.
San Diego	1.4	2.9%	Professional services for physician fees increased.
San Francisco	65.9	12.1%	Increase due to higher physician service fees.

Medical Supplies

Medical supply costs fluctuate with patient volumes. Medical supplies are also subject to significant inflationary pressures due to escalating pharmaceutical costs and continued innovation in implants, prosthetics and other medical supplies. The Medical Centers have ongoing initiatives to control supply utilization and to negotiate competitive pricing.

Medical supply expenses, including pharmaceuticals, changed in 2017 as follows:

Increased (decreased) in millions of dollars

Davis	$3.5	1.1%	An increase in volume contributed to the higher costs.
Irvine	13.5	9.5%	Medical supplies are higher due to higher surgical volume and pharmaceutical expenses are higher due to increased discharge, case mix intensity and growth in cancer center.
Los Angeles	12.4	3.9%	Increase due to higher pharmaceutical costs as a result of an increase in the usage of expensive medications. Additionally, medical supplies increased as a result of surgical volumes and laboratory supply costs.
San Diego	41.5	13.5%	The increase was due to higher patient volumes, inflation and an increase in usage of higher cost pharmaceuticals.
San Francisco	38.1	7.5%	Increase due to higher patient volumes and growth of surgical cases.

Medical supply expenses, including pharmaceuticals, changed in 2016 as follows:

Increased (decreased) in millions of dollars

Davis	$24.8	8.8%	Overall supply costs increase an average of 3%, as well as a 4% increase in inpatient volume.
Irvine	13.4	10.4%	Higher pharmaceutical expenses due to increase in inpatient and expansion in oncology areas.
Los Angeles	35.2	12.6%	Increase due to higher pharmaceutical costs as a result of an increase in the usage of expensive medications. Additionally, medical supplies increased as a result of surgical volumes and laboratory supply costs.
San Diego	14.7	5.0%	Increase was due to higher patient volume and expansion in oncology services.
San Francisco	66.5	15.2%	Increase due to higher patient volumes and an increase of higher cost pharmaceuticals.

Other Supplies and Purchased Services

Other supplies and purchased services include non-medical supplies, medical purchased services, repairs and maintenance, administrative, treasury and insurance services.

Other supplies and purchased services changed in 2017 as follows:

Increased (decreased) in millions of dollars

Davis	$(0.1)	(0.1%)	Other supplies and purchased services are consistent with prior year.
Irvine	3.3	2.3%	Increases mainly due to increase in non-medical services and increased campus services operations.
Los Angeles	41.6	11.5%	Purchased services increased as a result of more transplant cases. Additionally, non-medical supplies increased as a result of surgical volumes and laboratory supply costs.
San Diego	(7.0)	(4.5%)	The decrease was primarily due to the completion of process improvements that resulted in lower purchased services expense in the revenue cycle department as well as other areas.
San Francisco	24.5	10.3%	Increase due to higher repair and maintenance costs and higher externally purchased medical services due to greater patient volume.

Other supplies and purchased services changed in 2016 as follows:

Increased (decreased) in millions of dollars

Davis	($1.8)	(1.2%)	Other supplies and purchased services remained stable during the year.
Irvine	28.4	25.1%	Increase is due to the combination of higher non-medical supplies, purchased services and facility costs.
Los Angeles	2.9	0.8%	Increase in repair and maintenance costs and collection services costs. Additionally, purchased services increased as a result of more transplant cases.
San Diego	(1.8)	(1.1%)	The decrease was partly due to process improvements that resulted in lower purchased services expense in the revenue cycle area, and partly due to a regrouping of expenses in 2016.
San Francisco	13.0	5.8%	Increase due to externally purchased medical services.

Depreciation and Amortization

Depreciation and amortization expense changed in 2017 as follows:

Increased (decreased) in millions of dollars

Davis	$(0.5)	(0.6%)	Depreciation and amortization are consistent with prior year.
Irvine	0.6	0.8%	Slight increase due to capitalization of software projects involving health system security.
Los Angeles	8.7	6.5%	Increase due to completed projects and new equipment that were capitalized during the year.
San Diego	18.4	31.5%	The increase was due to the opening of Jacobs Medical Center in November 2016.
San Francisco	5.8	2.8%	Increase due to completed projects and new equipment placed in service during the year.

Depreciation and amortization expense changed in 2016 as follows:

Increased (decreased) in millions of dollars

Davis	($5.8)	(6.8%)	Deferred capital maintenance resulted in lower depreciation expense.
Irvine	11.0	19.1%	Increase due to projects completed and additions of equipment versus write off in prior year.
Los Angeles	3.2	2.4%	Increase due to completed projects and new equipment that were capitalized during the year.
San Diego	1.7	3.1%	Increase due to completed projects and new equipment that were capitalized, net of assets that became fully depreciated during the year.
San Francisco	40.2	24.4%	Increase due to the full year of depreciation for the Mission Bay facility that was placed in service February, 2015.

Insurance

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

Income (Loss) from Operations

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

(in millions of dollars)

	2017		2016		2015	
	Income (loss) from Operations	**Operating Margin**	**Income (loss) from Operations**	**Operating Margin**	**Income (loss) from Operations**	**Operating Margin**
Davis	$163.7	7.6%	$(39.6)	(2.0)%	$(24.8)	(1.4)%
Irvine	65.5	5.9%	(25.5)	(2.5)%	31.1	3.3%
Los Angeles	117.8	4.7%	27.1	1.1%	150.0	6.7%
San Diego	19.6	1.2%	37.5	2.4%	147.3	9.9%
San Francisco	(51.7)	(1.3)%	(255.4)	(7.2)%	6.2	0.2%
Total	**314.9**		**$(255.9)**		**$309.8**	

In 2017, operating results improved due to increased volumes, higher supplemental revenues and lower pension and retiree health benefits expenses. In 2016, due to pressures in the health care market, revenue growth related to the higher volumes was outpaced by the growth in expenses at the Medical Centers. Additionally, lower than expected returns on the UCRP plan portfolio resulted in higher pension expenses by over $350.0 million in 2016.

Non-Operating Revenues (Expenses)

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

(in thousands of dollars)

	Davis	**Irvine**	**Los Angeles**	**San Diego**	**San Francisco**	**TOTAL**
Total net non-operating revenues (expenses):						
2017	$9,467	$(17,961)	$(36,579)	$(10,470)	$24,067	$(31,476)
2016	(461)	(20,450)	(24,398)	16	(15,663)	(60,956)
2015	(5,262)	(5,170)	(11,833)	2,789	28,812	9,336

Total net non-operating revenues (expenses) improved (declined) in 2017 as follows:

Change in millions of dollars

Davis	$9.9	2153.6%	Capitalization of interest costs resulted in lower expense, while higher cash balances yielded more interest income. Additionally, joint venture income improved over last year.
Irvine	2.5	12.2%	Changes due to slight increase in interest income offset by decrease in interest expense.
Los Angeles	(12.2)	(49.9%)	Decrease in revenue due to the loss on termination of hedge. The decrease was partially offset by an increase in the net appreciation of fair value for long-term investments.
San Diego	(10.5)	(65537.5%)	Interest expense was greater as less total interest costs were capitalized during the year with the completion of Jacobs Medical Center in November 2016. This was partially offset by higher revenue from Hospital Fee Program grants and higher investment income.
San Francisco	39.7	253.7%	Investment income increased from the prior year.

Total net non-operating revenues (expenses) improved (declined) in 2016 as follows:

Change in millions of dollars

Davis	$4.8	91.2%	Interest expense was lower in 2016 due to a reduction in equipment financing obligations; interest income increased due to higher cash balances; and receipt balances from the California Quality Assurance Fee Program were higher than last year.
Irvine	(15.3)	(295.6%)	Decrease in Hospital Fee Program grants and increase in the overall expenses in the clinical network operations.
Los Angeles	(12.6)	(106.2%)	Decrease in revenue from the California Quality Assurance Fee Program, decrease in net appreciation of fair value for investments and increase in loss on disposal of capital assets.
San Diego	(2.8)	(99.4%)	The decrease is primarily due to lower revenue from Hospital Fee Program grants offset partially by higher interest income that was earned on daily cash balances.
San Francisco	(44.5)	(154.4%)	Investment income was less than the prior year and interest expense increased as less total interest costs were capitalized during the year.

Income (Loss) Before Other Changes in Net Position

Income (loss) before other changes in net position were as follows:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2017	$173,179	$47,589	$81,201	$9,106	($27,630)	$283,445
2016	(40,105)	(45,953)	2,736	37,473	(271,040)	(316,889)
2015	(30,070)	25,894	138,213	150,112	35,029	319,178

Changes in income(loss) before other changes in net position in 2017 were as follows:

Increased (decreased) in millions of dollars

Davis	$213.3	531.8%	The increase is due to higher volume which outpaced expenses, along with one-time third-party settlements.
Irvine	93.5	203.6%	Increase in patient income from operations and Medi-Cal waiver program income.
Los Angeles	78.5	2867.9%	The increase is primarily due to growth in net patient service revenue attributed to increases from contracts and the Medicare and Medi-Cal programs.
San Diego	(28.4)	(75.7%)	This decrease is primarily due to additional costs for opening and operating the new Jacobs Medical Center that have not yet been fully covered by new revenues.
San Francisco	243.4	89.8%	Increase due to higher patient volumes, an increase of Medi-Cal supplemental funds approved in the year, a decrease of pension expense and higher investment income.

Changes in income(loss) before other changes in net position in 2016 were as follows:

Increased (decreased) in millions of dollars

Davis	$(10.0)	(33.4%)	Improved operational performance offset by higher pension expense and retiree health benefit expense.
Irvine	(71.8)	(277.5%)	Increased inpatient revenue was offset by increase in operating expenses with significantly higher pension cost as well as increase in non-operating expenses.
Los Angeles	(135.5)	(98.0%)	The decrease is primarily due to significant growth in the pension expense in fiscal year 2016.
San Diego	(112.6)	(75.0%)	Even with growth in patient volume, several factors led to a reduction in income before other changes: higher pension expense, one-time expenses in the fourth quarter for pre-opening and transition expenses related to the Jacobs Medical Center, and reduced Disproportionate Share Hospital (DSH) revenue from the Medi-Cal waiver program.
San Francisco	(306.1)	(873.8%)	Decrease due to higher pension costs, lower California Quality Assurance program revenues received and lower investment income.

Other Changes in Net Position

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2017	$(29,562)	$(50,705)	$(166,007)	$(88,902)	$(47,588)	$(382,764)
2016	(49,060)	(60,492)	(170,042)	(48,663)	(20,939)	(349,196)
2015	(38,351)	(57,455)	(123,202)	(83,900)	14,701	(288,207)

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

Other changes in net position changed in 2017 as follows:

Increased (decreased) in millions of dollars

Davis	$19.5	39.7%	The change is primarily due to changes in strategic academic support. Additionally, the School of Medicine shared supplemental MediCal revenues with the Medical Center.
Irvine	9.8	16.2%	Change due to increase in pension payable to University offset by decrease in health system support.
Los Angeles	4.0	2.4%	Payments for health system support, representing transfers to the School of Medicine in support of the overall strategic plan.
San Diego	(40.2)	(82.7%)	This was primarily because capital contributions received for Jacobs Medical Center construction were lower than in the prior year, while health system support transfers increased.
San Francisco	(26.6)	(127.3%)	Change is primarily due to an increase of health system support.

Other changes in net position changed in 2016 as follows:

Increased (decreased) in millions of dollars

Davis	$(10.7)	(27.9%)	The change is due to support for School of Medicine as well as strategic initiatives related to UC Health.
Irvine	(3.0)	(5.3%)	Mainly due to increase in health system support to School of Medicine.
Los Angeles	(46.8)	(38.0%)	Payments for health system support, representing transfers to the School of Medicine in support of the overall strategic plan.
San Diego	35.2	42.0%	The change was primarily due to gifts received for construction of Jacobs Medical Center and to Century Bond funds for construction of the Outpatient Pavilion.
San Francisco	(35.6)	(242.4%)	Capital contributions received for the Mission Bay facility were lower than in the prior year and health system support increased.

STATEMENTS OF NET POSITION

The statements of net position for 2016 and 2015 have been restated for an accounting change related to retiree health benefit liabilities that was implemented in 2017. The following tables are abbreviated statements of net position at June 30:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2017						
Current assets:						
Cash	$628,409	$342,862	$1,007,761	$394,822	$626,724	$3,000,578
Patient accounts receivable, net	242,561	122,480	317,226	254,358	554,803	1,491,428
Short-term investments and other current assets	128,055	61,809	146,281	91,587	154,000	581,732
Total current assets	**999,025**	**527,151**	**1,471,268**	**740,767**	**1,335,527**	**5,073,738**
Restricted assets	86,748	69,703	13,781	9,954	90,724	270,910
Capital assets, net	1,030,246	734,509	1,749,540	1,620,948	2,349,538	7,484,781
Investments and other noncurrent assets	18,194		308,331	21,426	181,801	529,752
Total assets	**2,134,213**	**1,331,363**	**3,542,920**	**2,393,095**	**3,957,590**	**13,359,181**
Deferred outflows of resources	**362,917**	**160,399**	**516,101**	**345,110**	**836,506**	**2,221,033**
Liabilities:						
Current liabilities	328,609	270,520	404,441	231,802	592,470	1,827,842
Long-term debt	362,743	338,340	934,794	754,170	928,264	3,318,311
Net retiree health benefits liability	1,227,803	574,394	1,422,069	835,720	1,777,540	5,837,526
Net pension liability	675,141	340,003	741,290	459,781	961,088	3,177,303
Other liabilities	242,313	115,732	400,951	240,242	368,317	1,367,555
Total liabilities	**2,836,609**	**1,638,989**	**3,903,545**	**2,521,715**	**4,627,679**	**15,528,537**
Deferred inflows of resources	**369,066**	**205,017**	**421,778**	**251,166**	**533,051**	**1,780,078**
Net position:						
Net investment in capital assets	640,415	393,404	790,467	860,058	1,396,747	4,081,091
Restricted	86,748	69,703	11,138		90,811	258,400
Unrestricted	(1,435,708)	(815,351)	(1,067,907)	(894,734)	(1,854,192)	(6,067,892)
Total net position	**$(708,545)**	**$(352,244)**	**$(266,302)**	**$(34,676)**	**$(366,634)**	**$(1,728,401)**

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2016						
Current assets:						
Cash	$464,908	$253,332	$903,617	$465,589	$450,701	$2,538,147
Patient accounts receivable, net	236,285	135,199	320,492	199,428	493,161	1,384,565
Short-term investments and other current assets	124,593	89,431	95,381	92,875	176,469	578,749
Total current assets	**825,786**	**477,962**	**1,319,490**	**757,892**	**1,120,331**	**4,501,461**
Restricted assets			14,038	24,015	61,546	99,599
Capital assets, net	1,004,073	718,179	1,813,446	1,471,118	2,381,726	7,388,542
Investments and other noncurrent assets	18,837		285,880	13,058	163,044	480,819
Total assets	**1,848,696**	**1,196,141**	**3,432,854**	**2,266,083**	**3,726,647**	**12,470,421**
Deferred outflows of resources	**630,774**	**303,895**	**774,292**	**422,288**	**1,003,134**	**3,134,383**
Liabilities:						
Current liabilities	374,616	240,452	421,741	234,871	510,171	1,781,851
Long-term debt	268,671	267,344	837,071	684,672	829,519	2,887,277
Net retiree health benefits liability	1,385,392	678,034	1,531,589	873,597	1,810,693	6,279,305
Net pension liability	895,967	456,616	990,520	564,996	1,237,418	4,145,517
Other noncurrent liabilities	212,198	102,884	398,707	158,108	371,515	1,243,412
Total liabilities	**3,136,844**	**1,745,330**	**4,179,628**	**2,516,244**	**4,759,316**	**16,337,362**
Deferred inflows of resources	**194,788**	**103,834**	**209,014**	**127,007**	**261,881**	**896,524**
Net position:						
Net investment in capital assets	701,366	446,355	959,252	749,527	1,475,111	4,331,611
Restricted			11,360		63,785	75,145
Unrestricted	(1,553,528)	(795,483)	(1,152,108)	(704,407)	(1,830,312)	(6,035,838)
Total net position	**$(852,162)**	**$(349,128)**	**$(181,496)**	**$45,120**	**$(291,416)**	**$(1,629,082)**

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2015						
Current assets:						
Cash	$409,254	$282,757	$734,777	$402,045	$452,342	$2,281,175
Patient accounts receivable , net	239,997	125,697	312,585	202,929	453,002	1,334,210
Short-term investments and other current assets	85,532	88,308	81,487	122,828	154,420	532,575
Total current assets	**734,783**	**496,762**	**1,128,849**	**727,802**	**1,059,764**	**4,147,960**
Restricted assets			15,005	73,643	62,150	150,798
Capital assets, net	1,003,080	727,311	1,845,365	1,284,776	2,405,012	7,265,544
Investments and other noncurrent assets	21,540		286,550	8,518	165,694	482,302
Total assets	**1,759,403**	**1,224,073**	**3,275,769**	**2,094,739**	**3,692,620**	**12,046,604**
Deferred outflows of resources	**299,645**	**143,920**	**391,238**	**188,119**	**440,709**	**1,463,631**
Liabilities:						
Current liabilities	351,615	260,713	326,049	179,233	439,843	1,557,453
Long-term debt	294,564	271,824	810,389	693,410	833,600	2,903,787
Net retiree health benefits liability	1,174,370	576,719	1,304,836	721,260	1,455,873	5,233,058
Net pension liability	627,561	308,211	697,260	385,387	828,623	2,847,042
Other noncurrent liabilities	174,007	85,453	329,114	116,187	306,980	1,011,741
Total liabilities	**2,622,117**	**1,502,920**	**3,467,648**	**2,095,477**	**3,864,919**	**13,553,081**
Deferred inflows of resources	**199,928**	**107,756**	**213,549**	**131,071**	**267,847**	**920,151**
Net position:						
Net investment in capital assets	683,085	441,838	1,027,330	648,136	1,511,561	4,311,950
Restricted			12,213		64,263	76,476
Unrestricted	(1,446,082)	(684,521)	(1,053,733)	(591,826)	(1,575,261)	(5,351,423)
Total net position	**$(762,997)**	**$(242,683)**	**$(14,190)**	**$56,310**	**$563**	**$(962,997)**

Cash

Cash changed in 2017 as follows:

Increased (decreased) in millions of dollars

Davis	$163.5	35.2%	Increase in cash is due to the strong operational performance.
Irvine	89.5	35.3%	Increase in cash due to improved operating income and reduced patient accounts receivable.
Los Angeles	104.1	11.5%	Increase in cash is due to higher patient A/R cash collections, cash from third-party settlements and capital financing activities.
San Diego	(70.8)	(15.2%)	The decrease is primarily the result of revenues not yet matching the pre-opening and operating costs of Jacobs Medical Center, which opened in November 2016.
San Francisco	176.0	39.1%	Increase due to an increase of cash from hospital operations.

Cash changed in 2016 as follows:

Increased (decreased) in millions of dollars

Davis	$55.7	13.6%	The increase is primarily due to cash provided by operations.
Irvine	(29.4)	(10.4%)	Decrease due to lower cash from operations, and increase in health system support.
Los Angeles	168.8	23.0%	Increase is due to higher patient accounts receivable cash collections, cash from third-party settlements and capital financing activities.
San Diego	63.5	15.8%	Cash from operations and cash from restricted assets more than offset expenditures for Jacobs Medical Center construction and for other capital assets.
San Francisco	(1.6)	(0.4%)	Slight change in cash due to cash provided by operations offset by capital purchases during the year.

Patient Accounts Receivable

Patient accounts receivable, net of estimated uncollectible accounts, changed in 2017 as follows:

Increased (decreased) in millions of dollars

Davis	$6.3	2.7%	Higher volume was offset by improved collections.
Irvine	(12.7)	(9.4%)	Reduced receivables due to improved billing and collection efforts.
Los Angeles	(3.3)	(1.0%)	The decrease was due to continued revenue cycle improvements during the year.
San Diego	54.9	27.5%	The increase was due to increased patient volumes after the opening of Jacobs Medical Center in November 2016, and to the timing difference of a large adjustment to the Medicare interim payment rate that was not received until early July.
San Francisco	61.6	12.5%	Increase due to higher patient volumes.

Patient accounts receivable, net of estimated uncollectible accounts, changed in 2016 as follows:

Increased (decreased) in millions of dollars

Davis	$(3.7)	(1.5%)	Improved cash collections contributed to the decrease in net patient accounts receivable.
Irvine	9.5	7.6%	Increase due to higher patient volumes.
Los Angeles	7.9	2.5%	Increase due to improved valuation of accounts from rate increases.
San Diego	(3.5)	(1.7%)	The decrease was due to continued revenue cycle process improvements during the year.
San Francisco	40.2	8.9%	Increase due to higher patient volumes connected with the Mission Bay facility being open for a full year.

Capital Assets

Net capital assets changed in 2017 as follows:

Increased (decreased) in millions of dollars

Davis	$26.2	2.6%	Ongoing construction resulted in higher capital expenditures.
Irvine	16.3	2.3%	Increased capital expenditures and equipment purchases.
Los Angeles	(63.9)	(3.5%)	Annual depreciation exceeded capital projects for the year.
San Diego	149.8	10.2%	Net of depreciation, this increase was primarily for construction costs of the Jacobs Medical Center and the Outpatient Pavilion, as well as for equipment for those new buildings.
San Francisco	(32.2)	(1.4%)	Depreciation increased with the opening of the Mission Bay facility in 2015 and has exceeded capital projects for the past two years.

Net capital assets changed in 2016 as follows:

Increased (decreased) in millions of dollars

Davis	$1.0	0.1%	Annual depreciation matched capital expenditures for the year.
Irvine	(9.1)	(1.3%)	Annual depreciation exceeded capital projects for the year.
Los Angeles	(31.9)	(1.7%)	Annual depreciation exceeded capital projects for the year.
San Diego	186.3	14.5%	This increase was primarily for construction costs of the Jacobs Medical Center as well as for equipment that will be used once it is opened.
San Francisco	(23.3)	(1.0%)	Depreciation increased due to the Mission Bay facility being placed in service and has exceeded spending on capital projects for the year.

Long-term Debt

Long-term debt, including the current portion, changed in 2017 as follows:

Increased (decreased) in millions of dollars

Davis	$90.0	30.6%	Increase is due to issuance of new debt exceeding refunding of old debt.
Irvine	69.4	25.6%	Increase due to issuance of new bonds.
Los Angeles	104.8	12.2%	The increase is due to the refinancing of debt with new pooled revenue bonds and other borrowings.
San Diego	72.3	10.3%	The increase, net of debt service payments, is due to a new bond issue in August 2016 that refunded the 2007 A and 2009 E bonds and provided additional funds for Jacobs Medical Center construction, as well as two new equipment financing arrangements.
San Francisco	99.5	11.9%	New debt was issued in the year to fund capital construction and to refinance short term commercial paper.

Long-term debt, including the current portion, changed in 2016 as follows:

Increased (decreased) in millions of dollars

Davis	$(29.3)	(9.1%)	Debt service payments.
Irvine	(13.6)	(4.8%)	Debt service payments.
Los Angeles	36.0	4.4%	Increase due to new capital leases.
San Diego	(8.9)	(1.2%)	The decrease is due to debt service payments, net of one new equipment financing arrangement.
San Francisco	(3.9)	(0.5%)	Debt service payments.

Net Retiree Health Benefits Liability

The University has a financial responsibility for retiree health benefits. The net retiree health benefits liability is allocated to Medical Centers based on their proportionate share of covered compensation for the fiscal year.

(in thousands of dollars)

	2017		2016		2015	
	Proportionate Share	**Net Retiree Health Benefits Liability**	**Proportionate Share**	**Net Retiree Health Benefits Liability**	**Proportionate Share**	**Net Retiree Health Benefits Liability**
Davis	6.6%	$1,227,803	6.6%	$1,385,392	6.5%	$1,174,370
Irvine	3.1%	574,394	3.2%	678,034	3.2%	576,719
Los Angeles	7.6%	1,422,069	7.3%	1,531,589	7.2%	1,304,836
San Diego	4.5%	835,720	4.1%	873,597	4.0%	721,260
San Francisco	9.5%	1,777,540	8.6%	1,810,693	8.1%	1,455,873
Total	**31.3%**	**$5,837,526**	**29.8%**	**$6,279,305**	**29.0%**	**$5,233,058**

The changes in net retiree health benefits liability have been primarily driven by the changes in discount rates used to estimate the net retiree health benefits liability. The discount rate used to estimate the net retiree health benefits liability as of June 30, 2017, 2016 and 2015 was 3.58 percent, 2.85 percent and 3.80 percent, respectively. The discount rate was based on the Bond Buyer 20-Bond General Obligation index since UCRHBT plan assets are not sufficient to make benefit payments.

Net Pension Liability

The University has a financial responsibility for pension benefits associated with its defined benefit plans. The net pension liability related to UCRP is allocated to the Medical Centers based on their proportionate share of covered compensation for the fiscal year.

(in thousands of dollars)

	2017		2016		2015	
	Proportionate Share	**Net Pension Liability**	**Proportionate Share**	**Net Pension Liability**	**Proportionate Share**	**Net Pension Liability**
Davis	6.7%	$675,141	6.6%	$895,967	6.5%	$627,561
Irvine	3.2%	321,946	3.2%	438,524	3.2%	308,211
Los Angeles	7.3%	741,290	7.3%	990,520	7.2%	697,260
San Diego	4.5%	459,781	4.1%	564,996	4.0%	385,387
San Francisco	9.1%	919,943	8.6%	1,171,002	8.1%	777,948
Total	**30.8%**	**$3,118,101**	**29.8%**	**$4,061,009**	**29.0%**	**$2,796,367**

The changes in net pension liability have been primarily driven by the investment performance of the UCRP investment portfolio. UCRP's total investment rate of return was positive 14.5 percent in 2017, negative 2.0 percent in 2016 and positive 4.5 percent in 2015. The discount rate used to estimate the net pension liability was 7.25 percent in 2017, 2016 and 2015.

The Irvine Medical Center's proportionate share of the net pension liability for the Orange County Employee Retirement System was $18.1 million as of June 30, 2017 and 2016.

CHRCO is the sponsor of a single employer defined benefit plan subject to Employee Retirement Income Security Act (ERISA) that covers substantially all full-time employees. The net pension liability for CHRCO is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The net pension liability for CHRCO was $41.1 million, $66.4 million and $50.7 million as of June 30, 2017, 2016 and 2015, respectively.

Net Position

Net position represents the residual interest in the Medical Centers' assets and deferred outflows after all liabilities and deferred inflows are deducted. Net position is reported in the following categories: net investment in capital assets, restricted, nonexpendable; restricted, expendable; and unrestricted.

Under generally accepted accounting principles, net position that is not subject to externally imposed restrictions governing their use must be classified as unrestricted for reporting purposes. Unrestricted net position is negative primarily due to obligations for pension and retiree health benefits exceeding the Medical Centers' reserves.

LIQUIDITY AND CAPITAL RESOURCES

Days Cash on Hand

Days cash on hand measures the average number of days' expenses the Medical Centers maintain in cash and unrestricted investments. The goal, set by the University of California Office of the President, is a minimum of 60 days.

Days cash on hand are as follows:

	2017	2016	2015
Davis	120	90	90
Irvine	128	96	123
Los Angeles	164	150	136
San Diego	91	118	114
San Francisco	77	61	72

Days of Revenue in Accounts Receivable

The days of revenue in accounts receivable measures the average number of days it takes to collect patient accounts receivable. Generally, days of revenue in accounts receivable have increased when Medical Centers implemented new billing systems and have decreased as the Medical Centers have streamlined the billing processes. Days of revenue in accounts receivable are as follows:

	2017	2016	2015
Davis	42	46	52
Irvine	41	50	51
Los Angeles	48	52	53
San Diego	58	50	52
San Francisco	54	54	54

Debt Service Coverage

Debt service coverage ratio measures the amount of funds available to cover the principal and interest on long-term debt. Debt service coverage decreases as new debt is issued and increases with stronger operating results. Debt service coverage ratios are as follows:

	2017	2016	2015
Davis	6.4	1.3	1.4
Irvine	6.5	1.3	3.0
Los Angeles	4.4	3.5	6.0
San Diego	1.9	2.0	4.5
San Francisco	4.0	(0.3)	3.8

LOOKING FORWARD

Payments from Federal and State Health Care Programs

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

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

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

University of California Retirement Plans

In July 2017, the Regents approved increasing the University contribution rate for UCRP to 15 percent (from 14 percent) effective July 1, 2018. The University funds retiree health benefits on a pay-as-you-go basis.

Hospital Facilities Seismic Safety Act

State of California Senate Bill 1953 (SB 1953), the Hospital Facilities Seismic Safety Act, requires hospitals to meet certain standards designed to yield predictable seismic performance, whether at the essential life safety level or post-earthquake continued operations level. Buildings used for acute care patient services must either be retrofitted by 2030 or the acute care services must be relocated and the building must be closed, repurposed or demolished. The Medical Centers are continuing to address these seismic building requirements; however, the cost to comply with the statutory requirements by 2030 cannot be estimated at this time.

Cautionary Note Regarding Forward-Looking Statements

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

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 Centers do 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.

Report of Independent Auditors

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

We have audited the accompanying individual financial statements of the University of California - Davis Medical Center, the University of California - Irvine Medical Center, the University of California - Los Angeles Medical Center, the University of California - San Diego Medical Center, and the University of California - San Francisco Medical Center (collectively referred to as the "University of California Medical Centers"), each of which is a department of the University of California (the "University"), which comprise the individual statements of net position as of June 30, 2017 and 2016, and the related individual statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Individual Financial Statements

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

Auditors' Responsibility

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

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

Opinions

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the individual financial positions of the University of California - Davis Medical Center, the University of California - Irvine Medical Center, the University of California - Los Angeles Medical Center, the University of California - San Diego Medical Center, and the University of California - San Francisco Medical Center as of June 30, 2017 and 2016, and their individual changes in financial position and their individual cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the individual financial statements of the University of California Medical Centers are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the University that is attributable to the transactions of the University of California Medical Centers. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2017 and 2016, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the University of California Medical Centers changed the manner in which they account for postemployment benefit plans other than pension plans as of July 1, 2016. Our opinions are not modified with respect to this matter.

Other Matter

The accompanying management's discussion and analysis on pages 24 through 49, the schedules of the University of California Medical Centers' proportionate share of UCRP's net pension liability, the schedule of changes in the net pension liability for the CHRCO Pension Plan, the schedule of net pension liability for the CHRCO Pension Plan, the schedule of employer contributions for the CHRCO Pension Plan and related notes, the schedule of Irvine's proportionate share of OCERS's net pension liability and the schedule of the Medical Centers' proportionate share of UCRHBT's net retiree health benefits liability on pages 115 through 119 are required by accounting principles generally accepted in the United States of America to supplement the individual financial statements. Such information, although not a part of the individual financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the individual financial statements in the appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the individual financial statements and other knowledge we obtained during our audit of the individual financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
San Francisco, California
October 12, 2017

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF NET POSITION

At June 30, 2017 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
ASSETS						
Current assets						
Cash	$628,409	$342,862	$1,007,761	$394,822	$626,724	$3,000,578
Net patient accounts receivable	242,561	122,480	317,226	254,358	554,803	1,491,428
Other receivables	21,940	306	21,382	16,133	40,391	100,152
Third-party payor settlements, net	34,821	24,720	46,824	31,421	9,273	147,059
Inventory	31,346	19,437	33,727	28,428	50,620	163,558
Prepaid expenses and other assets	39,948	17,346	44,348	15,605	53,716	170,963
Total current assets	**999,025**	**527,151**	**1,471,268**	**740,767**	**1,335,527**	**5,073,738**
Restricted assets						
Deposits held for hospital construction	86,748	69,703	2,643	9,954	5,639	174,687
Donor funds			11,138		85,085	96,223
Capital assets, net	1,030,246	734,509	1,749,540	1,620,948	2,349,538	7,484,781
Investments in joint ventures	18,194		1,392	20,136	9,370	49,092
Investments			278,294		171,102	449,396
Other assets			28,645	1,290	1,329	31,264
Total assets	**2,134,213**	**1,331,363**	**3,542,920**	**2,393,095**	**3,957,590**	**13,359,181**
DEFERRED OUTFLOWS OF RESOURCES	**362,917**	**160,399**	**516,101**	**345,110**	**836,506**	**2,221,033**
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	61,349	46,617	182,055	111,674	210,552	612,247
Accrued salaries and benefits	98,700	61,389	157,557	69,579	199,673	586,898
Third-party payor settlements, net	119,816	121,267	30,262	28,510	116,133	415,988
Current portion of long-term debt and financing obligations	21,834	2,765	26,920	19,511	4,869	75,899
Other current liabilities	26,910	38,482	7,647	2,528	61,243	136,810
Total current liabilities	**328,609**	**270,520**	**404,441**	**231,802**	**592,470**	**1,827,842**
Long-term debt and financing obligations, net of current portion	362,743	338,340	934,794	754,170	928,264	3,318,311
Net retiree health benefits liability	1,227,803	574,394	1,422,069	835,720	1,777,540	5,837,526
Net pension liability	675,141	340,003	741,290	459,781	961,088	3,177,303
Notes payable to campus			75,000	73,664		148,664
Pension payable to University	242,313	115,732	264,013	162,747	329,111	1,113,916
Interest rate swap agreements			61,938		9,423	71,361
Self insurance					18,459	18,459
Other noncurrent liabilities				3,831	11,324	15,155
Total liabilities	**2,836,609**	**1,638,989**	**3,903,545**	**2,521,715**	**4,627,679**	**15,528,537**
DEFERRED INFLOWS OF RESOURCES	**369,066**	**205,017**	**421,778**	**251,166**	**533,051**	**1,780,078**
NET POSITION						
Net investment in capital assets	640,415	393,404	790,467	857,221	1,396,747	4,078,254
Restricted: Nonexpendable endowments and gifts			611		26,204	26,815
Restricted: Expendable capital projects and other	86,748	69,703	10,527		64,607	231,585
Unrestricted	(1,435,708)	(815,351)	(1,067,907)	(891,897)	(1,854,192)	(6,065,055)
Total net position	**$(708,545)**	**$(352,244)**	**$(266,302)**	**$(34,676)**	**$(366,634)**	**$(1,728,401)**

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF NET POSITION

At June 30, 2016 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
ASSETS						
Current assets						
Cash	$464,908	$253,332	$903,617	$465,589	$450,701	$2,538,147
Net patient accounts receivable	236,285	135,199	320,492	199,428	493,161	1,384,565
Other receivables	14,413	309	16,993	14,199	58,533	104,447
Third-party payor settlements, net	43,594	56,581	16,314	38,994	17,655	173,138
Inventory	28,180	18,717	30,381	24,321	49,319	150,918
Prepaid expenses and other assets	38,406	13,824	31,693	15,361	50,962	150,246
Total current assets	**825,786**	**477,962**	**1,319,490**	**757,892**	**1,120,331**	**4,501,461**
Restricted assets						
Deposits held for hospital construction			2,678	24,015	2,201	28,894
Donor funds			11,360		59,345	70,705
Capital assets, net	1,004,073	718,179	1,813,446	1,471,118	2,381,726	7,388,542
Investments in joint ventures	18,837		965	11,488	4,130	35,420
Investments			255,191		153,825	409,016
Other assets			29,724	1,570	5,089	36,383
Total assets	**1,848,696**	**1,196,141**	**3,432,854**	**2,266,083**	**3,726,647**	**12,470,421**
DEFERRED OUTFLOWS OF RESOURCES	**630,774**	**303,895**	**774,292**	**422,288**	**1,003,134**	**3,134,383**
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	68,575	31,736	143,484	110,835	202,035	556,665
Accrued salaries and benefits	104,026	54,794	143,522	62,989	179,799	545,130
Third-party payor settlements, net	149,953	148,116	18,408		77,145	393,622
Current portion of long-term debt and financing obligations	25,893	4,325	19,799	16,735	4,081	70,833
Other current liabilities	26,169	1,481	96,528	44,312	47,111	215,601
Total current liabilities	**374,616**	**240,452**	**421,741**	**234,871**	**510,171**	**1,781,851**
Long-term debt and financing obligations, net of current portion	268,671	267,344	837,071	684,672	829,519	2,887,277
Net retiree health benefits liability	1,385,392	678,034	1,531,589	873,597	1,810,693	6,279,305
Net pension liability	895,967	456,616	990,520	564,996	1,237,418	4,145,517
Notes payable to campus			75,000	23,347		98,347
Pension payable to University	212,198	102,884	234,704	131,820	276,499	958,105
Interest rate swap agreements			89,003		14,188	103,191
Self insurance					18,829	18,829
Other noncurrent liabilities				2,941	61,999	64,940
Total liabilities	**3,136,844**	**1,745,330**	**4,179,628**	**2,516,244**	**4,759,316**	**16,337,362**
DEFERRED INFLOWS OF RESOURCES	**194,788**	**103,834**	**209,014**	**127,007**	**261,881**	**896,524**
NET POSITION						
Net investment in capital assets	701,366	446,355	959,252	749,527	1,475,111	4,331,611
Restricted: Nonexpendable endowments and gifts			621		25,242	25,863
Restricted: Expendable capital projects and other			10,739		38,543	49,282
Unrestricted	(1,553,528)	(795,483)	(1,152,108)	(704,407)	(1,830,312)	(6,035,838)
Total net position	**$(852,162)**	**$(349,128)**	**$(181,496)**	**$45,120**	**$(291,416)**	**$(1,629,082)**

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2017 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
Net patient service revenue	$2,105,499	$1,088,317	$2,388,924	$1,595,867	$3,748,100	$10,926,707
Other operating revenue:						
Clinical teaching support		7,882	13,467			21,349
Grants and contracts					46,195	46,195
Other	41,875	20,128	100,161	92,295	157,459	411,918
Total other operating revenue	**41,875**	**28,010**	**113,628**	**92,295**	**203,654**	**479,462**
Total operating revenue	**2,147,374**	**1,116,327**	**2,502,552**	**1,688,162**	**3,951,754**	**11,406,169**
Operating expenses:						
Salaries and wages	844,408	407,671	972,473	620,548	1,496,989	4,342,089
Pension benefits	138,692	65,965	157,056	102,403	223,821	687,937
Retiree health benefits	104,795	46,113	127,609	79,684	177,865	536,066
Other employee benefits	163,447	118,183	201,544	173,917	272,697	929,788
Professional services	119,988	24,240	40,363	49,322	660,395	894,308
Medical supplies	310,960	155,943	326,994	348,549	543,119	1,685,565
Other supplies and purchased services	141,370	144,902	402,568	147,549	262,839	1,099,228
Depreciation and amortization	78,839	69,271	142,841	76,779	210,913	578,643
Insurance and other	81,163	18,489	13,324	69,835	154,813	337,624
Total operating expenses	**1,983,662**	**1,050,777**	**2,384,772**	**1,668,586**	**4,003,451**	**11,091,248**
Income (loss) from operations	**163,712**	**65,550**	**117,780**	**19,576**	**(51,697)**	**314,921**
Non-operating revenues (expenses):						
Hospital Fee Program grants	2,583	593	2,229	5,379	2,519	13,303
Investment income	7,548	3,621	16,540	5,644	12,884	46,237
Build America Bonds federal interest subsidies		3,322	3,048	2,354	15,041	23,765
Private gifts, net					19,523	19,523
Net appreciation in fair value of investments			18,978		24,541	43,519
Interest expense	(8,881)	(13,405)	(42,129)	(23,595)	(47,595)	(135,605)
Loss on disposal of capital assets	128	(58)	(636)	(252)	(1,696)	(2,514)
Decrease upon hedge termination			(41,249)			(41,249)
Other	8,089	(12,034)	6,640		(1,150)	1,545
Total net non-operating revenues (expenses)	**9,467**	**(17,961)**	**(36,579)**	**(10,470)**	**24,067**	**(31,476)**
Income (loss) before other changes in net position	**173,179**	**47,589**	**81,201**	**9,106**	**(27,630)**	**283,445**
Other changes in net position:						
Donated assets			3,500	30,533	12,934	46,967
Contributions for building programs	983	1,756		(315)	17,781	20,205
Transfers (to) from University, net	(4,349)			(404)	89	(4,664)
Changes in allocation for pension payable to University	1,892	7,266	5,834	(9,130)	6,506	12,368
Health system support	(28,088)	(59,727)	(175,341)	(109,586)	(84,898)	(457,640)
Total other changes in net position	**(29,562)**	**(50,705)**	**(166,007)**	**(88,902)**	**(47,588)**	**(382,764)**
Increase (decrease) in net position	**143,617**	**(3,116)**	**(84,806)**	**(79,796)**	**(75,218)**	**(99,319)**
Net position - beginning of year	(852,162)	(349,128)	(181,496)	45,120	(291,416)	(1,629,082)
Net position - end of year	**$(708,545)**	**$(352,244)**	**$(266,302)**	**$(34,676)**	**$(366,634)**	**$(1,728,401)**

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2016 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
Net patient service revenue	$1,888,702	$984,161	$2,266,980	$1,465,431	$3,370,854	$9,976,128
Other operating revenue:						
Clinical teaching support		7,882	13,467			21,349
Grants and contracts					46,469	46,469
Other	46,572	17,608	83,591	79,227	149,994	376,992
Total other operating revenue	**46,572**	**25,490**	**97,058**	**79,227**	**196,463**	**444,810**
Total operating revenue	**1,935,274**	**1,009,651**	**2,364,038**	**1,544,658**	**3,567,317**	**10,420,938**
Operating expenses:						
Salaries and wages	800,159	406,619	924,643	528,171	1,389,825	4,049,417
Pension benefits	185,667	91,575	211,154	119,576	247,971	855,943
Retiree health benefits	124,210	60,645	136,790	80,253	170,434	572,332
Other employee benefits	161,394	87,581	197,504	150,406	288,656	885,541
Professional services	103,469	13,608	44,725	51,058	608,724	821,584
Medical supplies	307,472	142,439	314,613	307,050	505,000	1,576,574
Other supplies and purchased services	141,457	141,628	360,980	154,564	238,361	1,036,990
Depreciation and amortization	79,291	68,706	134,100	58,391	205,146	545,634
Insurance and other	71,799	22,353	12,395	57,732	168,577	332,856
Total operating expenses	**1,974,918**	**1,035,154**	**2,336,904**	**1,507,201**	**3,822,694**	**10,676,871**
Income (loss) from operations	**(39,644)**	**(25,503)**	**27,134**	**37,457**	**(255,377)**	**(255,933)**
Non-operating revenues (expenses):						
Hospital Fee Program grants	5,567	901	1,594	1,394	5,681	15,137
Investment income	5,257	3,185	14,587	4,628	10,978	38,635
Build America Bonds federal interest subsidies		3,345	3,076	2,367	15,059	23,847
Private gifts, net					10,918	10,918
Net depreciation in fair value of investments			(5,797)		(9,392)	(15,189)
Interest expense	(15,419)	(15,595)	(39,339)	(7,948)	(48,172)	(126,473)
Loss on disposal of capital assets	(74)	(59)	(3,198)	(425)	(1,074)	(4,830)
Other	4,208	(12,227)	4,679		339	(3,001)
Total net non-operating revenues (expenses)	**(461)**	**(20,450)**	**(24,398)**	**16**	**(15,663)**	**(60,956)**
Income (loss) before other changes in net position	**(40,105)**	**(45,953)**	**2,736**	**37,473**	**(271,040)**	**(316,889)**
Other changes in net position:						
Donated assets			16,212	33,120	27,511	76,843
Contributions (distributions) building programs	2,074	822		19,135	19,779	41,810
Transfers (to) from University, net	(8,563)	3,086	(8,950)	(2,735)	8,240	(8,922)
Changes in allocation for pension payable to University	(1,184)	681	(452)	(1,613)	(12,414)	(14,982)
Health system support	(41,387)	(65,081)	(176,852)	(96,570)	(64,055)	(443,945)
Total other changes in net position	**(49,060)**	**(60,492)**	**(170,042)**	**(48,663)**	**(20,939)**	**(349,196)**
Decrease in net position	**(89,165)**	**(106,445)**	**(167,306)**	**(11,190)**	**(291,979)**	**(666,085)**
Net position - beginning of year:						
Beginning of year, as previously reported	332,469	295,287	1,202,976	729,110	1,358,617	3,918,459
Cumulative effect of accounting change	(1,095,466)	(537,970)	(1,217,166)	(672,800)	(1,358,054)	(4,881,456)
Beginning of year, as restated	(762,997)	(242,683)	(14,190)	56,310	563	(962,997)
Net position - end of year	**$(852,162)**	**$(349,128)**	**$(181,496)**	**$45,120**	**$(291,416)**	**$(1,629,082)**

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF CASH FLOWS

For the year ended June 30, 2017 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL (memorandum only)
Cash flows from operating activities:						
Receipts from patients and third-party payors	$2,082,050	$1,074,187	$2,371,606	$1,577,020	$3,733,828	$10,838,691
Payments to employees	(846,604)	(504,716)	(966,540)	(613,960)	(1,480,225)	(4,412,045)
Payments to suppliers	(667,106)	(321,751)	(842,031)	(646,009)	(1,589,811)	(4,066,708)
Payments for benefits	(316,720)	(82,081)	(359,259)	(268,213)	(508,063)	(1,534,336)
Other receipts	37,410	91,433	100,305	117,223	235,242	581,613
Net cash provided by operating activities	**289,030**	**257,072**	**304,081**	**166,061**	**390,971**	**1,407,215**
Cash flows from noncapital financing activities:						
Health system support	(28,088)	(59,727)	(175,341)	(109,586)	(84,898)	(457,640)
Grants from the Hospital Fee Program	3,041	593	2,229	5,379	2,519	13,761
Transfers (to) University, net	(4,349)			(8,154)		(12,503)
Gifts received for other than capital purposes					19,523	19,523
Net cash used by noncapital financing activities	**(29,396)**	**(59,134)**	**(173,112)**	**(112,361)**	**(62,856)**	**(436,859)**
Cash flows from capital and related financing activities:						
Contributions for building program	983	1,756		(315)	17,781	20,205
Proceeds from financing obligations and other borrowings	383,893	134,493	284,789	65,886	92,979	962,040
Build America Bonds federal interest subsidies		3,322	3,048	2,354	15,041	23,765
Proceeds from sale of capital assets	35		16,842	18	208	17,103
Purchases of capital assets	(100,823)	(91,245)	(89,714)	(159,044)	(175,536)	(616,362)
Refinancing or prepayment of outstanding debt	(269,040)	(58,585)	(202,725)	(17,787)	(41,854)	(589,991)
Scheduled principal paid on long-term debt and financing obligations	(28,225)	(5,540)	(14,215)	(18,615)	(4,560)	(71,155)
Interest paid on long-term debt and financing obligations	(12,488)	(14,493)	(46,139)	(38,555)	(53,752)	(165,427)
Gifts and donated funds			3,500	30,533	12,934	46,967
Payment from swap counterparty			82,455			82,455
Payment to swap counterparty			(81,047)			(81,047)
Net cash used by capital and related financing activities	**(25,665)**	**(30,292)**	**(43,206)**	**(135,525)**	**(136,759)**	**(371,447)**
Cash flows from investing activities:						
Investment income received	7,435	3,621	16,540	5,645	12,884	46,125
Distributions from (contributions to) investments in joint ventures, net	4,682		3,708	(8,648)	(5,240)	(5,498)
Purchase of investments			(4,124)		7,264	3,140
Change in restricted assets	(86,748)	(69,703)	257	14,061	(29,178)	(171,311)
Other non-operating receipts (payments)	4,163	(12,034)			(1,063)	(8,934)
Net cash provided (used) by investing activities	**(70,468)**	**(78,116)**	**16,381**	**11,058**	**(15,333)**	**(136,478)**
Net increase (decrease) in cash	**163,501**	**89,530**	**104,144**	**(70,767)**	**176,023**	**462,431**
Cash - beginning of year	464,908	253,332	903,617	465,589	450,701	2,538,147
Cash - end of year	**$628,409**	**$342,862**	**$1,007,761**	**$394,822**	**$626,724**	**$3,000,578**

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS *continued*

For the year ended June 30, 2017 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
Reconciliation of income (loss) from operations to net cash provided by operating activities:						
Income (loss) from operations	$163,712	$65,550	$117,780	$19,576	$(51,697)	$314,921
Adjustments to reconcile income from operations to net cash provided by operating activities:						
Depreciation and amortization expense	78,839	69,271	142,841	76,779	210,913	578,643
Provision for uncollectible accounts	108,876	23,415	25,282	27,229	40,706	225,508
Changes in operating assets and liabilities:						
Patient accounts receivable	(115,152)	(10,696)	(22,016)	(82,159)	(102,348)	(332,371)
Other receivables	(7,985)	31,864	(4,390)	(1,934)	18,142	35,697
Inventory	(3,166)	(720)	(3,346)	(4,107)	(1,301)	(12,640)
Prepaid expenses and other assets	(1,542)	(3,522)	(12,977)	36	1,007	(16,998)
Accounts payable and accrued expenses	(9,056)	20,467	35,562	(3,128)	9,063	52,908
Accrued salaries and benefits	(5,326)	6,595	14,036	6,590	19,874	41,769
Third-party payor settlements	(21,364)	(26,849)	(18,656)	36,083	47,370	16,584
Other liabilities	7,698	37,157	(88,882)	3,305	16,664	(24,058)
Retiree health benefits	77,490	33,335	95,981	61,097	138,332	406,235
Pension benefits	16,006	11,205	22,866	26,694	44,246	121,017
Net cash provided by operating activities	**$289,030**	**$257,072**	**$304,081**	**$166,061**	**$390,971**	**$1,407,215**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION						
Payables for property and equipment	$14,387	$7,545	$9,584	$8,403	$10,969	$50,888
Bond retirements		(46,080)	(2,680)	(13,360)	(1,150)	(63,270)
Amortization of bond premium	3,566	1,088	4,184	1,408	747	10,993
Capital asset transfers from the University	144	1,756				1,900
Change in fair value of interest rate swaps			(27,065)		(4,765)	(31,830)
Swap fair value amortization			(354)			(354)
Refinancing of University and campus payable with long-term debt	(6,951)		(87,000)	(55,521)	(53,715)	(203,187)
Advances from University				38,995		38,995

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF CASH FLOWS

For the year ended June 30, 2016 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
Cash flows from operating activities:						
Receipts from patients and third-party payors	$1,885,528	$977,759	$2,253,238	$1,492,142	$3,346,349	$9,955,016
Payments to employees	(806,639)	(399,510)	(948,025)	(538,038)	(1,375,279)	(4,067,491)
Payments to suppliers	(608,440)	(327,479)	(613,745)	(557,304)	(1,500,839)	(3,607,807)
Payments for benefits	(299,382)	(147,105)	(345,331)	(229,208)	(500,342)	(1,521,368)
Other receipts	36,656	24,598	84,662	136,392	244,934	527,242
Net cash provided by operating activities	**207,723**	**128,263**	**430,799**	**303,984**	**214,823**	**1,285,592**
Cash flows from noncapital financing activities:						
Health system support	(41,387)	(65,081)	(176,852)	(96,570)	(64,055)	(443,945)
Grants from the Hospital Fee Program	3,774	901	1,594	1,394	5,681	13,344
Transfers (to) University, net	(8,563)			(6,711)		(15,274)
Gifts received for other than capital purposes					10,918	10,918
Net cash used by noncapital financing activities	**(46,176)**	**(64,180)**	**(175,258)**	**(101,887)**	**(47,456)**	**(434,957)**
Cash flows from capital and related financing activities:						
Contributions for building program	2,074	822		19,135		22,031
Proceeds from financing obligations and other borrowings			46,482	8,093		54,575
Build America Bonds federal interest subsidies		3,345	3,076	2,368	15,059	23,848
Proceeds from sale of capital assets	144	36		28	1,060	1,268
Purchases of capital assets	(76,930)	(59,425)	(117,497)	(198,625)	(183,235)	(635,712)
Principal paid on long-term debt and financing obligations	(28,563)	(13,494)	(10,038)	(16,373)	(3,915)	(72,383)
Interest paid on long-term debt and financing obligations	(14,786)	(15,750)	(40,519)	(36,063)	(51,824)	(158,942)
Gifts and donated funds			16,212	33,120	47,290	96,622
Net cash used by capital and related financing activities	**(118,061)**	**(84,466)**	**(102,284)**	**(188,317)**	**(175,565)**	**(668,693)**
Cash flows from investing activities:						
Investment income received	5,257	3,185	14,587	4,627	10,978	38,634
Distributions from (contributions to) investments in joint ventures, net	4,900		4,270		(2,269)	6,901
Purchase of investments			(4,238)	(4,491)		(8,729)
Change in restricted assets			964	49,628	604	51,196
Other non-operating receipts (payments)	2,011	(12,227)			(2,756)	(12,972)
Net cash provided (used) by investing activities	**12,168**	**(9,042)**	**15,583**	**49,764**	**6,557**	**75,030**
Net increase (decrease) in cash	**55,654**	**(29,425)**	**168,840**	**63,544**	**(1,641)**	**256,972**
Cash - beginning of year	409,254	282,757	734,777	402,045	452,342	2,281,175
Cash - end of year	**$464,908**	**$253,332**	**$903,617**	**$465,589**	**$450,701**	**$2,538,147**

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF CASH FLOWS *continued*

For the year ended June 30, 2016 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL (memorandum only)
Reconciliation of income (loss) from operations to net cash provided by operating activities:						
Income (loss) from operations	$(39,644)	$(25,503)	$27,134	$37,457	$(255,377)	$(255,933)
Adjustments to reconcile income from operations to net cash provided by operating activities:						
Depreciation and amortization expense	79,291	68,706	134,100	58,391	205,146	545,634
Provision for uncollectible accounts	96,770	27,494	26,323	33,406	54,944	238,937
Changes in operating assets and liabilities:						
Patient accounts receivable	(93,058)	(36,996)	(34,230)	(29,905)	(95,103)	(289,292)
Other receivables	1,193	4,997	(733)	(2,691)	(273)	2,493
Inventory	(2,649)	(2,498)	(957)	(114)	(4,737)	(10,955)
Prepaid expenses and other assets	(3,898)	(3,622)	(7,739)	453	(15,487)	(30,293)
Accounts payable and accrued expenses	10,011	110	28,906	29,214	7,594	75,835
Accrued salaries and benefits	(23,905)	(14,535)	(24,828)	(9,867)	27,227	(45,908)
Third-party payor settlements	(6,886)	3,100	3,960	23,210	15,654	39,038
Other liabilities	12,258	(11)	77,298	43,403	119,673	252,621
Retiree health benefits	98,404	47,535	107,075	64,021	135,137	452,172
Pension benefits	79,836	59,486	94,490	57,006	20,425	311,243
Net cash provided by operating activities	**$207,723**	**$128,263**	**$430,799**	**$303,984**	**$214,823**	**$1,285,592**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION						
Payables for property and equipment	$12,557	$1,959	$6,576	$4,436	$11,515	$37,043
Amortization of bond premium	762	155	401	596	21	1,935
Capital asset transfers from (to) the University	314	822	(8,950)			(7,814)
Change in fair value of interest rate swaps			28,227		3,080	31,307
Swap fair value amortization			424			424
Advances from University	6,951			62,078		69,029

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTER POOLED GROUP

Notes to Financial Statements

Year ended June 30, 2017

1. ORGANIZATION

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

The financial statements of the Medical Centers present the financial position, and the changes in financial position and cash flows, of only that portion of the University that is attributable to the transactions of the Medical Centers.

The Regents are the sole corporate and voting member of Children's Hospital & Research Center Oakland ("CHRCO"), a private, not-for-profit 501(c)(3) corporation. Children's Hospital & Research Center Foundation, a nonprofit public benefit corporation, is organized and operated for the purpose of supporting CHRCO. Since San Francisco provides certain management services for CHRCO, CHRCO combined with its foundation is included with UCSF Medical Center in the financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Medical Centers have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable Statements of the Governmental Accounting Standards Board ("GASB"). The proprietary fund method of accounting is followed and uses the economic resources measurement focus and the accrual basis of accounting.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, was implemented by the Medical Centers as of July 1, 2016. This Statement revises existing standards for measuring and reporting retiree health benefits provided by the Medical Centers to its employees. This Statement requires recognition of a liability equal to the net retiree health benefits liability, which is measured as the total retiree health benefits liability, less the amount of the University of California Retiree Health Benefit Trust (UCRHBT) fiduciary net position. The total retiree health benefits liability is determined based upon discounting projected benefit payments based on claims costs, the benefit terms and legal agreements existing at the UCRHBT's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. The Statement requires that most changes in the net retiree health benefits liability be included in the retiree health benefit expense in the period of change.

To implement Statement No. 75, the Medical Centers recorded their pro rata share of the University's net retiree health benefits liability. The Medical Centers restated the 2016 financial statements for purposes of presenting comparative information for the year ended June 30, 2017. The effects of the changes from the adoption of Statement No. 75 on the Medical Center's financial statements as of and for the year ended June 30, 2016 were as follows:

(in thousands of dollars)	DAVIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2016		
	As Previously Reported	**Effect of Adoption of Statement No. 75**	**As Restated**
Statement of Net Position			
Deferred outflows of resources	$329,360	$301,414	$630,774
Net retiree health benefits liability		1,385,392	1,385,392
Total liabilities	1,751,452	1,385,392	3,136,844
Deferred inflows of resources	84,896	109,892	194,788
Unrestricted net position	(359,658)	(1,193,870)	(1,553,528)
Total net position	341,708	(1,193,870)	(852,162)
Statement of Revenues, Expenses and Changes in Net Position			
Retiree health benefits	20,334	103,876	124,210
Other employee benefits	166,866	(5,472)	161,394
Total operating expenses	1,876,514	98,404	1,974,918
Income (loss) from operations	58,760	(98,404)	(39,644)
Income (loss) before other changes in net position	58,299	(98,404)	(40,105)
Change in net position	9,239	(98,404)	(89,165)

(in thousands of dollars)	**IRVINE AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**		
	As Previously Reported	**Effect of Adoption of Statement No. 75**	**As Restated**
Statement of Net Position			
Deferred outflows of resources	$157,583	$146,312	$303,895
Net retiree health benefits liability		678,034	678,034
Total liabilities	1,067,296	678,034	1,745,330
Deferred inflows of resources	50,051	53,783	103,834
Unrestricted net position	(209,978)	(585,505)	(795,483)
Total net position	236,377	(585,505)	(349,128)
Statement of Revenues, Expenses and Changes in Net Position			
Retiree health benefits	10,433	50,212	60,645
Other employee benefits	90,258	(2,677)	87,581
Total operating expenses	987,619	47,535	1,035,154
Income (loss) from operations	22,032	(47,535)	(25,503)
Income (loss) before other changes in net position	1,582	(47,535)	(45,953)
Change in net position	(58,910)	(47,535)	(106,445)

(in thousands of dollars)	**LOS ANGELES AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**		
	As Previously Reported	**Effect of Adoption of Statement No. 75**	**As Restated**
Statement of Net Position			
Deferred outflows of resources	$445,456	$328,836	$774,292
Net retiree health benefits liability		1,531,589	1,531,589
Total liabilities	2,648,039	1,531,589	4,179,628
Deferred inflows of resources	87,526	121,488	209,014
Unrestricted net position	172,133	(1,324,241)	(1,152,108)
Total net position	1,142,745	(1,324,241)	(181,496)
Statement of Revenues, Expenses and Changes in Net Position			
Retiree health benefits	23,664	113,126	136,790
Other employee benefits	203,555	(6,051)	197,504
Total operating expenses	2,229,829	107,075	2,336,904
Income (loss) from operations	134,209	(107,075)	27,134
Income (loss) before other changes in net position	109,811	(107,075)	2,736
Change in net position	(60,231)	(107,075)	(167,306)

(in thousands of dollars)	SAN DIEGO AS OF AND FOR THE YEAR ENDED JUNE 30, 2016		
	As Previously Reported	**Effect of Adoption of Statement No. 75**	**As Restated**
Statement of Net Position			
Deferred outflows of resources	$216,217	$206,071	$422,288
Net retiree health benefits liability		873,597	873,597
Total liabilities	1,642,647	873,597	2,516,244
Deferred inflows of resources	57,712	69,295	127,007
Unrestricted net position	32,414	(736,821)	(704,407)
Total net position	781,941	(736,821)	45,120
Statement of Revenues, Expenses and Changes in Net Position			
Retiree health benefits	12,780	67,473	80,253
Other employee benefits	153,858	(3,452)	150,406
Total operating expenses	1,443,180	64,021	1,507,201
Income (loss) from operations	101,478	(64,021)	37,457
Income (loss) before other changes in net position	101,494	(64,021)	37,473
Change in net position	52,831	(64,021)	(11,190)

(in thousands of dollars)	SAN FRANCISCO AS OF AND FOR THE YEAR ENDED JUNE 30, 2016		
	As Previously Reported	**Effect of Adoption of Statement No. 75**	**As Restated**
Statement of Net Position			
Deferred outflows of resources	$542,005	$461,129	$1,003,134
Net retiree health benefits liability		1,810,693	1,810,693
Total liabilities	2,948,623	1,810,693	4,759,316
Deferred inflows of resources	118,254	143,627	261,881
Unrestricted net position	(337,121)	(1,493,191)	(1,830,312)
Total net position	1,201,775	(1,493,191)	(291,416)
Statement of Revenues, Expenses and Changes in Net Position			
Retiree health benefits	28,147	142,287	170,434
Other employee benefits	295,806	(7,150)	288,656
Total operating expenses	3,687,557	135,137	3,822,694
Income (loss) from operations	(120,240)	(135,137)	(255,377)
Income (loss) before other changes in net position	(135,903)	(135,137)	(271,040)
Change in net position	(156,842)	(135,137)	(291,979)

(in thousands of dollars)	TOTAL (memorandum only) AS OF AND FOR THE YEAR ENDED JUNE 30, 2016		
	As Previously Reported	Effect of Adoption of Statement No. 75	As Restated
Statement of Net Position			
Deferred outflows of resources	$1,690,621	$1,443,762	$3,134,383
Net retiree health benefits liability		6,279,305	6,279,305
Total liabilities	10,058,057	6,279,305	16,337,362
Deferred inflows of resources	398,439	498,085	896,524
Unrestricted net position	(702,210)	(5,333,628)	(6,035,838)
Total net position	3,704,546	(5,333,628)	(1,629,082)
Statement of Revenues, Expenses and Changes in Net Position			
Retiree health benefits	95,358	476,974	572,332
Other employee benefits	910,343	(24,802)	885,541
Total operating expenses	10,224,699	452,172	10,676,871
Income (loss) from operations	196,239	(452,172)	(255,933)
Income (loss) before other changes in net position	135,283	(452,172)	(316,889)
Change in net position	(213,913)	(452,172)	(666,085)

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for the Medical Centers' fiscal year beginning July 1, 2016. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. Implementation of Statement No. 78 had no impact on the financial statements.

The significant accounting policies of the Medical Centers are as follows (total columns are memorandum only):

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

Substantially, all of the Medical Centers' cash is deposited into the STIP, and all Medical Center deposits into the STIP are considered demand deposits except for certain deposits held for hospital construction. The net asset value for the STIP is held at a constant value of $1 and is not adjusted for unrealized gains and losses associated with the fluctuation in the fair value of the investments included in the STIP (which are predominately held to maturity) and are not recorded by each operating entity but are absorbed by the University, as the manager of the pool. None of these amounts are insured by the Federal Deposit Insurance Corporation. To date, the Medical Centers have not experienced any losses on these accounts.

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

Additional information on cash and investments can be obtained from the University's 2016-2017 annual report.

UCSF Medical Center includes certain investments in highly liquid debt instruments with original maturities of three months or less as cash and cash equivalents.

Investments. Investments are reported at fair value. The Medical Centers' investments consist of investments in the UC Regents Total Return Investment Pool ("TRIP") and General Endowment Pool ("GEP"). UCSF's investments consist of investments in the UCSF Foundation's ("UCSFF's") Endowed Investment Pool ("EIP"), the University's STIP and other investment securities. The basis of determining the fair value of pooled funds or mutual funds is determined as the number of units held in the pool multiplied by the price per unit share, computed on the last day of the month. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Certain securities may be valued on a basis of a price provided by a single source.

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned. Gifts of securities are recorded at estimated fair value at the date of donation.

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

Prepaid Expenses and Other Assets. The Medical Centers' prepaid expenses are primarily prepayments for pharmaceuticals and medical supplies, rent, equipment and maintenance contracts.

Restricted Assets, Deposits Held for Hospital Construction. The University directly finances the construction, renovation and acquisition of facilities and equipment as are authorized by The Regents through the issuance of debt obligations. Bond proceeds are primarily invested in STIP and are released to the Medical Centers when spent on qualifying expenditures for hospital construction.

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

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

Capital Assets. The Medical Centers' capital assets are reported at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets. The range of the estimated useful lives for the Medical Centers' buildings and land improvements is 5 to 40 years and 2 to 20 years for equipment. University guidelines mandate that land purchased with the Medical Centers' funds is recorded as an asset of the Medical Centers. Land utilized by the Medical Centers but purchased with other sources of funds is recorded as an asset of the University. Significant additions, replacements, major repairs and renovations to infrastructure and buildings are generally capitalized by the Medical Centers if the cost exceeds $35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations. Equipment with a cost in excess of $5,000 and a useful life of more than one year is capitalized. Incremental costs, including salaries and employee benefits, directly related to the acquisition, development and installation of major software projects are included in the cost of the capital assets. Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned on tax-exempt borrowings during the temporary investment of project-related borrowings.

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

Interest Rate Swap Agreements. The Medical Centers have entered into interest rate swap agreements to limit the exposure of their variable-rate debt to changes in market interest rates. These derivative financial instruments are agreements that involve the exchange with a counterparty of fixed- and variable-rate interest payments periodically over the life of the agreement without exchange of the underlying notional principal amounts. The difference to be paid or received is recognized over the life of the agreements as an adjustment to interest expense.

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

At the time of pricing certain interest rate swaps, the fixed rate of the swaps was off-market such that the Medical Centers received an up-front payment. As such, the swaps consist of an at-the-market interest rate swap derivative instrument and a borrowing, represented by the up-front payment. The unamortized amount of the borrowing is included in the current and noncurrent portion of debt and amortized as interest expense over the term of the bonds.

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.

Self-Insurance Programs. The University is self-insured or insured through a wholly owned captive insurance company for medical malpractice, workers' compensation, employee health care and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer.

Liabilities are recorded when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred, but not reported. The estimated liabilities are based upon an independent actuarial determination of the present value of the anticipated future payments. While the Medical Centers participate in the self-insurance programs, they are administered by the University of California Office of the President. Accordingly, the self-insurance funding and liabilities are not included in the accompanying financial statements.

CHRCO has a claims-made policy for medical malpractice claims. Under this policy, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed, or replaced with equivalent insurance, claims related to occurrences during their terms but reported subsequent to their termination may be uninsured. CHRCO has a high-deductible, per-occurrence policy for workers' compensation with no limit, and is effectively self-insured due to the high deductible. CHRCO has a self-insured preferred provider organization plan for health claims.

Deferred Outflows of Resources and Deferred Inflows of Resources. Deferred outflows of resources and deferred inflows of resources represent a consumption and acquisition of net position that applies to a future period, respectively. The Medical Centers classify gains on refunding of debt as deferred inflows of resources and losses as deferred outflows of resources and recognize the amortization of gains and losses as a component of interest expense over the remaining life of the old debt, or the new debt, whichever is shorter.

The Medical Centers classify an increase in the fair value of the hedging derivatives as deferred inflows of resources, and a decrease in the fair value of hedging derivatives as deferred outflows of resources.

Changes in net pension liability not included in pension expense, including proportionate shares of collective pension expense from the University of California Retirement Plan, are reported as deferred outflows of resources or deferred inflows of resources related to pensions for the Medical Centers.

Changes in net retiree health benefits liability not included in retiree health benefits expense, including proportionate shares of collective retiree health benefits expense from the University of California, are reported as deferred outflows of resources or deferred inflows of resources related to retiree health benefits for the Medical Centers.

Net Position. Net position is required to be classified for accounting and reporting purposes in the following categories:

Net Investment in Capital Assets — Capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted — The Medical Centers classify net position resulting from transactions with purpose restrictions as restricted net assets until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable — Net position subject to externally imposed restrictions that must be retained in perpetuity.

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

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

Expenses are charged to either restricted or unrestricted net position based upon a variety of factors, including consideration of prior and future revenue sources, the type of expense incurred, budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost. Unrestricted net position is negative due primarily to obligations for pension and retiree health benefits exceeding the Medical Centers' reserves.

Contributions received by CHRCO may be designated by the donor for restricted purposes or may be without restriction as to their use. Contributions restricted by donors as to use or time period are reported as restricted until used in a manner designated or upon expiration of the time period. Under California law, income and gains on permanently restricted net position are maintained in restricted expendable net position until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by the Prudent Management of Institutional Funds Act. Income and gains on permanently restricted net position that are available for expenditure are $7.8 million and $4.7 million as of June 30, 2017 and 2016, respectively.

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

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

The Medical Centers estimate and recognize a provision for uncollectible accounts based on historical experience.

CHRCO receives grants from federal agencies and other third-parties. Government grants are reimbursed based on actual expenses incurred or units of service provided. Revenue from these grants is recognized either when expenses are incurred or when services are provided, depending on the grant award agreements.

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

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

Health system support, donated assets, contributions for building programs, transfers to the University and changes in allocation for pension payable to the University are classified as other changes in net position.

Net Retiree Health Benefits Liability. The University provides retiree health benefits to retired employees of the Medical Centers. The University established the UCRHBT to allow certain University locations and affiliates, including the Medical Centers, to share the risks, rewards and costs of providing for retiree health benefits and to accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. Contributions from the Medical Centers to the UCRHBT are effectively made to a single-employer health plan administered by the University as a cost-sharing plan. The Medical Centers are required to contribute at a rate assessed each year by the University.

Net retiree health benefits liability includes the Medical Centers' share of the University's net retiree health benefits liability for UCRHBT. The Medical Centers' share of net retiree health benefits liability, deferred inflows of resources, deferred outflows of resources and retiree health benefits expense have been determined based upon their proportionate share of UCRP's covered compensation for the fiscal year. The fiduciary net position and changes in net position of UCRHBT have been measured consistent with the accounting policies used by the trust. For purposes of measuring UCRHBT's fiduciary net position, investments are reported at fair value and benefit payments are recognized when due and payable in accordance with the benefit terms.

Net Pension Liability. UCRP provides retirement benefits to retired employees of the Medical Centers. The Medical Centers are required to contribute to UCRP at a rate set by The Regents. Net pension liability includes the Medical Centers' share of the University's net pension liability for UCRP. The Medical Centers' share of net pension liability, deferred inflows of resources, deferred outflows of resources and pension expense have been determined based upon their proportionate share of covered compensation for the fiscal year. The fiduciary net position and changes in the fiduciary net position of UCRP have been measured consistent with the accounting policies used by the Plan. For purposes of measuring UCRP's fiduciary net position, investments are reported at fair value and benefit payments are recognized when due and payable in accordance with the benefit terms.

Net pension liability also includes the net pension liability for the Retirement Plan for Children's Hospital & Research Center Oakland ("CHRCO Plan"). The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The fiduciary net position and changes in net position have been measured consistent with the accounting policies used by the CHRCO Plan. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for pension benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

Pension Payable to University. Additional deposits in UCRP have been made using University resources to make up the gap between the approved contribution rates and the required contributions based on The Regents' funding policy. These deposits, carried as internal loans by the University, are being repaid by the Medical Centers, plus accrued interest, over a thirty-year period through a supplemental pension assessment. The Medical Centers' share of the internal loans has been determined based upon their proportionate share of covered compensation for the fiscal year. Supplemental pension assessments are reported as pension expense by the Medical Centers. Additional deposits in UCRP by the University, and changes in the Medical Centers' share of the internal loans, are reported as other changes in net position.

Charity Care. The Medical Centers provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as net patient service revenue. The Medical Centers also provide services to other indigent patients under publicly sponsored programs, which may reimburse at amounts less than the cost of the services provided to the recipients. Additionally, UC Davis Medical Center, UC Irvine Medical Center and UC San Diego Medical Center serve patients without insurance who have not completed the formal process of applying for charity but are considered indigent and are reported as charity care recipients. The difference between the cost of services provided to these indigent persons and the expected reimbursement is included in the estimated cost of charity care.

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

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

Compensated Absences. The Medical Centers accrue annual leave, including employer related costs, for employees at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked.

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

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.

Reclassifications. Certain reclassifications have been made to the 2016 financial information to conform to the 2017 financial statement presentation, including reclassifying certain operating expenses to improve consistency across all the medical centers. There were no changes in 2016 total operating expenses. For 2017, Irvine operating expenses include $24.1 million of other employee benefits related to prior periods.

New Accounting Pronouncements

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for the Medical Centers' fiscal year beginning July 1, 2017. This Statement addresses when Irrevocable Split-Interest Agreements constitute an asset for accounting and financial reporting purposes when the resources are administered by a third party. The Statement also provides expanded guidance for circumstances in which the government holds the assets. The Medical Centers are evaluating the effects that Statement 81 will have on its financial statements.

In December 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for the Medical Centers' fiscal year beginning July 1, 2018. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The Statement requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred. The deferred outflow of resources associated with an asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. Disclosure requirements include a general description of the asset retirement obligation and associated tangible capital assets, the source of the obligation to retire the assets, the methods and assumptions used to measure the liability and other relevant information. The Medical Centers are evaluating the effect that Statement No. 83 will have on its financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, effective for the Medical Centers' fiscal year beginning July 1, 2019. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. The Medical Centers are evaluating the effect that Statement No. 84 will have on its financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*, effective for the Medical Centers' fiscal year beginning July 1, 2017. The Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application and postemployment benefits. The Medical Centers are evaluating the effect Statement No. 85 will have on its financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, effective for the Medical Centers' fiscal year beginning July 1, 2017. This Statement establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with resources other than the proceeds of the refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. In addition, this Statement revises existing standards for prepaid insurance associated with extinguished debt. The Medical Centers are evaluating the effect Statement No. 86 will have on its financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*, effective for the Medical Centers' fiscal year beginning July 1, 2020. This Statement establishes a single approach to accounting for and reporting leases based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Limited exceptions to the single-approach guidance are provided for short-term leases, defined as lasting a maximum of twelve months at inception, including any options to extend financed purchases, leases of assets that are investments and certain regulated leases. The Medical Centers are evaluating the effect Statement No. 87 will have on its financial statements.

2. INVESTMENTS

The composition of investments, by investment type and fair value level at June 30, is as follows:

(in thousands of dollars)	FAIR VALUE LEVEL	LOS ANGELES		SAN FRANCISCO	
		2017	2016	2017	2016
Fixed- or variable-income securities:					
U.S. government-guaranteed:					
U.S. Treasury bills, notes and bonds	2			$434	$300
U.S. government-guaranteed				**434**	**300**
Other U.S. dollar-denominated:					
U.S. agencies - asset-backed securities	2			29	193
Other U.S. dollar-denominated				**29**	**193**
Commingled funds:					
U.S. equity funds	1			1,059	1,549
Non-U.S. equity funds	1			528	254
U.S. bond funds	1			307	125
Non-U.S. bond funds	1			152	286
Money market funds	1			106	87
Balanced funds	NAV	$278,294	$255,191	212,704	191,374
Commingled funds		**278,294**	**255,191**	**214,856**	**193,675**
Publicly traded real estate investment trusts	1			264	478
Real estate	3			589	
Total investments		**278,294**	**255,191**	**216,172**	**194,646**
Less: Reported as restricted assets in donor funds				(45,070)	(40,821)
Noncurrent portion		**$278,294**	**$255,191**	**$171,102**	**$153,825**

The University-managed commingled funds (UC pooled funds) serve as the core investment vehicle for the Medical Centers. A description of the funds used is as follows:

TRIP. The Total Return Investment Pool (TRIP) allows participants the opportunity to maximize the return on their long-term working capital by taking advantage of the economies of scale of investing in a large pool across a broad range of asset classes. TRIP supplements STIP by investing in an intermediate-term, higher-risk portfolio allocated across equities, fixed-income and liquid alternative strategies, and allows participants to maximize the return on their long-term capital. The objective of TRIP is to generate a rate of return above the policy benchmark, after all costs and fees, consistent with liquidity, cash flow requirements and the risk. UCLA Medical Center's investment in TRIP is classified as commingled balanced funds. TRIP is considered to be an external investment pool from the Medical Center's perspective. The fair value of the UCLA Medical Center's investment in TRIP was $220.2 million and $204.6 million at June 30, 2017 and 2016, respectively.

Investments in TRIP are committed for a three-year lock-up period and would therefore not be available to the UCLA Medical Center until the end of such lock-up period. After the lock-up period expires, one calendar quarter notice to the campus will be required for any redemptions or withdrawals. Withdrawals will occur on the last business day of the month. Investments into TRIP are subject to certain withdrawal guidelines such as limiting the withdrawals to 10 percent of the current value of TRIP in any one quarter.

GEP. The General Endowment Pool (GEP) is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scales. GEP is a balanced portfolio of equities, fixed-income securities and alternative investments. The primary goal is to maximize long-term total return, growth of principal and a growing payout stream to ensure that future funding for endowment-supported activities can be maintained. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements. UCLA Medical Center's investment in GEP is classified as commingled funds. GEP is considered to be an external investment pool from the Medical Center's perspective. The fair value of the UCLA Medical Center's investment in GEP was $58.1 million and $50.6 million at June 30, 2017 and 2016, respectively.

EIP. UCSF invests primarily in the UCSF Foundation's Endowed Investment Pool (EIP) and STIP. STIP is classified as a money market fund. EIP is the UCSF Foundation's primary investment vehicle for endowed gifts. The Foundation's primary investment objective is growth of principal sufficient to preserve purchasing power and provide income to support current and future activities. Investments in EIP include high-quality, readily marketable equity and fixed-income securities; other types of investments, including derivative instruments such as financial futures, may be made at the direction of the UCSF Foundation's Investment Committee. EIP represents investments in a unitized pool. UCSF's investment in EIP is classified as commingled funds. Transactions within each individual endowment in the pool are based on the unit market value at the beginning or end of the month during which the transaction takes place for withdrawals and additions, respectively.

Investments in the EIP by the UCSF Foundation require at least twelve months' prior written notice of intention to terminate as of a date specified in the notice. Withdrawals will occur on the last business day of the month and are subject to certain withdrawal guidelines such as providing a forecasted schedule of cash withdrawals 90 days prior to the start of each fiscal year.

Fair Value. Fair value is defined in the accounting standards as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities reported at fair value are organized into a hierarchy based on the levels of inputs observable in the marketplace that are used to measure fair value. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, liquidity statistics and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Prices based on unadjusted quoted prices in active markets that are accessible for identical assets or liabilities are classified as Level 1. Level 1 investments include equity securities commingled funds (exchange traded funds and mutual funds) and other publicly traded securities.

Level 2 – Quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly are classified as Level 2. Level 2 investments include fixed- or variable-income securities, commingled funds (institutional funds not listed in active markets) and other assets that are valued using market information.

Level 3 – Investments classified as Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstance and may require significant management judgment.

Net Asset Value (NAV) – Investments whose fair value is measured at NAV are excluded from the fair value hierarchy. Investments in non-governmental entities that do not have a readily determinable fair value may be valued at NAV. Investments measured at NAV include commingled balanced funds.

Not Leveled – Cash and cash equivalents are not measured at fair value and, thus, are not subject to the fair value disclosure requirements.

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk and foreign currency risk, may affect both equity and fixed-income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed-income securities are particularly sensitive to credit risks and changes in interest rates. UCLA Medical Center and UCSF Medical Center have established investment policies to provide the basis for the management of a prudent investment program appropriate to the particular fund type.

Credit Risk

Fixed-income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the security price to decline. These circumstances may arise due to a variety of factors, such as financial weakness or bankruptcy.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond and, ultimately, to pay the principal. Credit quality is evaluated by one of the independent rating agencies, for example Moody's Investor Service (Moody's) or Standard & Poor's (S&P). The lower the rating, the greater the chance, in the rating agency's opinion, that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

Certain fixed-income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are considered to have minimal credit risk. The credit risk profile for investments at June 30, 2017 and 2016 are as follows:

(in thousands of dollars)	SAN FRANCISCO	
	2017	**2016**
Fixed- or variable-income securities:		
U.S. government-guaranteed	$436	$300
Other U.S. dollar-denominated:		
Not rated	29	193
Commingled funds:		
U.S. bond funds: Not rated	307	125
Non-U.S. bond funds: Not rated	152	286
Money market funds: Not rated	106	87

UCLA Medical Center's and UCSF's Medical Center's commingled funds (including GEP, EIP and TRIP) are not rated.

Custodial credit risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. Substantially, all of UCSF's investments are registered in the name of the UCSF Foundation. UCLA Medical Center's investments are registered in the name of the University.

Concentration of credit risk

Concentration of credit risk is the risk of loss associated with a lack of diversification of having too much invested in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments. Securities issued or explicitly guaranteed by the U.S. government, mutual funds, external investment pools and other pooled investments are not subject to concentration of credit risk. Investments in the various investment pools managed by the Office of the Chief Investment Officer of the Regents and the UCSF Foundation are external investment pools and are not subject to concentration of credit risk. There is no concentration of any single individual issuer of investments that comprises more than 5 percent of total investments.

Interest rate risk

Interest rate risk is the risk that the fair value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100-basis-point (1-percentage-point) change in the level of interest rates. It is not a measure of time.

The effective durations for fixed- or variable-income securities at June 30, 2017 and 2016 are as follows:

	SAN FRANCISCO	
	2017	**2016**
U.S. government-guaranteed:		
U.S. Treasury bills, notes and bonds	3.8	3.8

UCSF considers the effective duration for money market funds to be zero, and effective duration information for the EIP is unavailable.

Investments include other asset-backed securities, which generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. At June 30, 2017 and 2016, the fair value of UCSF's other asset backed securities were $29 and $193, respectively with an effective duration of 2.7.

Foreign Currency Risk

The University's strategic asset allocation policy for TRIP and GEP as well as the UCSF Foundation's asset allocation strategy includes allocations to non-U.S. equities and non-dollar-denominated bonds. Exposure from foreign currency risk results from investments in foreign currency-denominated equity, fixed-income and private equity securities. At June 30, 2017 and 2016, UCSF was subject to foreign currency risk as a result of holding various currency denominations in the following investments:

(in thousands of dollars)	SAN FRANCISCO	
	2017	**2016**
Commingled funds:		
Various currency denominations:		
Non-U.S. equity funds	$528	$254
Non U.S. bond funds	152	286
Real estate investment trusts	105	
Total exposure to foreign currency risk	**$785**	**$540**

3. NET PATIENT SERVICE REVENUE

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

Medicare. Medicare patient revenues include traditional reimbursement under Title XVIII of the Social Security Act or Medicare capitated contract revenue.

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

The Medical Centers are reimbursed for cost reimbursable items at a tentative rate with final settlement of such items determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The Medical Centers' classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Centers have received final notices from the Medicare fiscal intermediary through June 30, 2010 for UC Davis Medical Center; through June 30, 2008, for UC Irvine Medical Center; through June 30, 2008, for Ronald Reagan UCLA Medical Center; through June 30, 2013, for the Santa Monica Hospital; through June 30, 2015, for the Resnick Neuropsychiatric Hospital; through June 30, 2011, for UCSD Medical Center; through June 30, 2002 and for the year ended June 30, 2006, for UCSF Medical Center; and through June 30, 2015, for CHRCO. The fiscal intermediary is in the process of conducting their audits of the subsequent cost reports. The results of these audits have yet to be finalized and any amounts due to or from Medicare have not been determined. Estimated receivables and payables related to all open cost reporting periods are included in the statements of net position as third-party payor settlements.

Medi-Cal. The Medicaid program is referred to as Medi-Cal in California. Medi-Cal fee-for-service ("FFS") inpatient hospital payments are made in accordance with the federal Medicaid hospital financing waiver and legislation enacted by the state of California ("The Waiver Program"). The Waiver Program was enacted in two five-year phases, the first covering 2006 through 2010 and the second covering 2011 through 2015. The Waiver Program was extended and is effective from January 1, 2016 to December 31, 2020. The total payments made to the Medical Centers will include a combination of Medi-Cal inpatient FFS payments, Medi-Cal Disproportionate Share Hospital ("DSH") payments and the Safety Net Care Pool ("SNCP"). Effective November 2011, the Medical Centers are also eligible to receive incentive payments designed to encourage delivery system innovation in connection with federal health care reform. The Medical Centers are reimbursed at tentative settlement amounts with final settlement of such items determined after submission of annual filings and audits thereof by the state. Certain payments under the Waiver Program are based on allocation of pooled funds amongst all participating public hospitals in the state and are subject to change based on the audit results of the other participating public hospitals. The Medical Centers have received final settlement through 2007. The state is in the process of conducting their audits of the subsequent years of the

Waiver Program. The results of these audits have yet to be finalized and any amounts due to or from Medi-Cal have not been determined. Estimated receivables and payables related to all Waiver Program reporting periods are included in the statements of net position as third-party payor settlements.

CHRCO has a contractual agreement with the Medi-Cal program, which includes patients that qualify for California Children's Services (CCS). CHRCO is an essential Medi-Cal and California Children's Services provider. Inpatient services are reimbursed by the All Patient Refined Diagnosis Related Group (APR-DRG), at a per-case rate based upon acuity. Outpatient services are paid via fee schedules. In addition, CHRCO is the recipient of Medi-Cal funds under various state of California programs, in particular the Private Hospital Supplemental Fund and DSH. The state of California funds eligible hospitals based upon the total pool of funding available and a formula for distribution. The legislative funding is subject to retroactive reductions and potential future elimination.

Assembly Bill 1383. State of California Assembly Bill 1383 of 2009, as amended by AB 1653 on September 8, 2010, and extended through 2013, established a series of Medicaid supplemental payments funded through a Quality Assurance Fee and a Hospital Fee Program, which are imposed on certain California hospitals. The effective date of the Hospital Fee Program was April 1, 2009 through December 31, 2013, and was predicated, in part, on the enhanced Federal Medicaid Assistance Percentage contained in the American Reinvestment and Recovery Act ("ARRA"). The Hospital Fee Program was extended for three years starting on January 1, 2014 with SB 239. The Hospital Fee Program makes supplemental payments to hospitals for various health care services and supports the state's effort to maintain health care coverage for children. The Hospital Fee Program is funded by a Quality Assurance Fee paid by participating hospitals and matching federal funds. All of the Medical Centers, except CHRCO, are designated as public hospitals, and are exempt from paying the Quality Assurance Fee. CHRCO recognized $54.5 million and $55.9 million of patient service revenue under the Hospital Fee Program for the years ended June 30, 2017 and 2016, respectively. CHRCO paid $14.7 million and $15.6 million in Quality Assurance Fees for the years ended June 30, 2017 and 2016, respectively. The Medical Centers, including CHRCO, receive supplemental payments under the Hospital Fee Program.

Assembly Bill 915. State of California Assembly Bill 915, Public Hospital Outpatient Services Supplemental Reimbursement Program, provides for supplemental reimbursement equal to the federal share of unreimbursed facility costs incurred by public hospital outpatient departments. This supplemental payment covers only Medi-Cal fee-for-service outpatient services. The supplemental payment is based on each eligible hospital's certified public expenditures, which are matched with federal Medicaid funds.

Senate Bill 1732. State of California Senate Bill 1732 provides for supplemental Medi-Cal reimbursement to DSH for costs (i.e., principal and interest) of qualified patient care capital construction. For the years ended June 30, 2017 and 2016, the Medical Centers applied for and received additional revenue related to the reimbursement of costs for certain debt-financed construction projects based on the Medical Centers' Medi-Cal utilization rate.

Other. The Medical Centers have entered into agreements with numerous nongovernment third-party payors to provide patient care to beneficiaries under a variety of payment arrangements. These include arrangements with:

- Commercial insurance companies that reimburse the Medical Centers for reasonable and customary charges. Workers' compensation plans pay negotiated rates and are reported as contract (discounted or per-diem) revenue.
- Managed care contracts such as those with HMOs and PPOs that reimburse the Medical Centers at contracted or per-diem rates, which are usually less than full charges. CHRCO contracts with various Medi-Cal managed care plans in the state. These plans operate as state-licensed HMOs that provide health care services on a prepaid basis to enrolled Medi-Cal members residing in the county. Eligible members select the plan in which they wish to participate.
- Capitated contracts with health plans that reimburse the Medical Centers on a per-member-per-month basis, regardless of whether services are actually rendered. The Medical Centers assume a certain financial risk, as the contract requires patient treatment for all covered services. Expected losses on capitated agreements are accrued when probable and can be reasonably estimated.
- Certain health plans that have established a shared-risk pool where the Medical Centers share in any surplus associated with health care utilization as defined in the related contracts. Additionally, the Medical Centers may assume the risk of certain health care utilization costs, as determined in the related agreements. Differences between the final contract settlement and the amount estimated as receivable or payable relating to the shared-risk arrangements are recorded in the year of final settlement.

- Counties in the state of California that reimburse the Medical Centers for certain indigent patients covered under county contracts.
- CHCRO receives Medi-Cal supplemental payments, which are comprised of both federal and non-federal components. CHRCO received $85.0 million and $2.0 million under these programs for the years ended June 30, 2017 and 2016, respectively. Included in the $85.0 million is $59.7 million approved in 2017 for prior periods.

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

Amounts due from Medicare and Medi-Cal as a percentage of net patient accounts receivable at June 30 are as follows:

(shown as percentage)	MEDICARE		MEDI-CAL	
	2017	2016	2017	2016
Davis	19.8%	19.1%	17.3%	17.5%
Irvine	25.0	24.0	17.4	24.6
Los Angeles	11.1	12.2	5.7	5.4
San Diego	29.5	25.0	13.6	16.5
San Francisco	10.3	11.3	11.1	10.4

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

(in thousands of dollars)	2017	2016
Davis	$65,345	$31,537
Irvine*	45,361	17,665
Los Angeles	36,651	(1,774)
San Diego	34,898	15,533
San Francisco	16,319	32,010
Total	**$198,574**	**$94,971**

** Includes $11.5 million of favorable adjustments to correct a prior period.*

Net patient accounts receivable and net patient service revenues at June 30 are presented net of uncollectible accounts as follows:

(in thousands of dollars)	PATIENT ACCOUNTS RECEIVABLE ALLOWANCE at June 30		PATIENT SERVICE REVENUE ALLOWANCE for the year ending June 30	
	2017	2016	2017	2016
Davis	$61,991	$49,962	$108,876	$96,770
Irvine	33,757	29,662	23,415	27,494
Los Angeles	44,060	50,563	25,282	26,323
San Diego	40,952	56,348	27,229	33,406
San Francisco	55,412	48,532	40,706	54,944
Total	**$236,172**	**$235,067**	**$225,508**	**$238,937**

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2017						
Medicare	$517,226	$231,953	$506,431	$406,581	$590,910	$2,253,101
Medi-Cal	432,762	307,908	303,393	388,363	564,773	1,997,199
Contract (discounted or per-diem)	1,015,785	545,915	1,509,690	798,524	2,508,066	6,377,980
Contract (capitated)	137,163		48,485		36,118	221,766
Non-sponsored/self-pay	2,563	2,541	20,925	2,399	48,233	76,661
Total	**$2,105,499**	**$1,088,317**	**$2,388,924**	**$1,595,867**	**$3,748,100**	**$10,926,707**
2016						
Medicare	$453,938	$252,911	$502,098	$380,480	$532,338	$2,121,765
Medi-Cal	378,360	220,856	248,695	334,471	490,934	1,673,316
Contract (discounted or per-diem)	922,541	497,432	1,428,328	747,212	2,305,887	5,901,400
Contract (capitated)	131,642		73,404		5,673	210,719
Non-sponsored/self-pay	2,221	12,962	14,455	3,268	36,022	68,928
Total	**$1,888,702**	**$984,161**	**$2,266,980**	**$1,465,431**	**$3,370,854**	**$9,976,128**

4. CHARITY CARE

Information related to the Medical Centers' charity care, as defined within the policy footnote, for the years ended June 30 is as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2017						
Charity care at established rates	$19,683	$36,347	$10,007	$49,863	$135,801	$251,701
Estimated cost of charity care	3,904	9,497	4,672	16,950	55,480	90,503
Estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs	185,277	50,898	126,894	155,208	396,685	914,962
2016						
Charity care at established rates	$36,155	$38,105	$13,194	$56,128	$114,119	$257,701
Estimated cost of charity care	7,182	9,717	6,135	19,222	43,274	85,530
Estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs	180,168	119,468	168,890	122,141	345,388	936,055

Included within the table above are the estimated cost of charity care for self-pay patients presumed to qualify for charity care in the amounts of $0.8 million for UC Davis Medical Center, $8.9 million for UC Irvine Medical Center and $1.9 million for UC San Diego Medical Center for the year ended June 30, 2017. Included within the table above are the estimated costs of charity care for self-pay patients presumed to qualify for charity care in the amounts of $0.9 million for UC Davis Medical Center, $1.6 million for UC Irvine Medical Center and $2.1 million for UC San Diego Medical Center for the year ended June 30, 2016. At June 30, 2017, San Francisco includes CHRCO amounts: $96.5 million charity care at established rates, $44.8 million estimated cost of charity care and $23.9 million estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs. At June 30, 2016, San Francisco includes CHRCO amounts: $80.5 million charity care at established rates, $34.0 million estimated cost of charity care and $16.6 million estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs.

5. RESTRICTED ASSETS, DONOR FUNDS

Restricted assets due to donor restrictions are invested and remitted to the Medical Centers in accordance with the donors' 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 due to donor restrictions at June 30 is as follows:

(in thousands of dollars)

	LOS ANGELES	SAN FRANCISCO	TOTAL
2017			
Cash and STIP	$4,177	$40,014	$44,191
General Endowment Pool	6,366	41,602	47,968
Mutual funds	30		30
Charitable remainder trusts	565	3,469	4,034
Total	**$11,138**	**$85,085**	**$96,223**
2016			
Cash and STIP	$3,634	$18,523	$22,157
General Endowment Pool	7,011	37,550	44,561
Mutual funds	30		30
Charitable remainder trusts	685	3,272	3,957
Total	**$11,360**	**$59,345**	**$70,705**

Donor restricted funds for the years ended June 30, are available for the following purposes:

(in thousands of dollars)

	LOS ANGELES	SAN FRANCISCO	TOTAL
2017			
Capital projects	$1,000	$22,413	$23,413
Endowments	611	26,204	26,815
Operations	9,527	36,468	45,995
Total	**$11,138**	**$85,085**	**$96,223**
2016			
Capital projects	$1,089	$3,525	$4,614
Endowments	621	25,242	25,863
Operations	9,650	30,578	40,228
Total	**$11,360**	**$59,345**	**$70,705**

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

6. CAPITAL ASSETS

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

(in thousands of dollars)

DAVIS	2015	ADDITIONS	DISPOSALS	2016	ADDITIONS	DISPOSALS	2017
ORIGINAL COST							
Land	$36,675			$36,675			$36,675
Buildings and improvements	1,320,806	$30,914	$(1,152)	1,350,568	$17,488		1,368,056
Equipment	406,262	39,107	(30,647)	414,722	35,448	$(30,228)	419,942
Construction in progress	26,149	11,133	(966)	36,316	52,127		88,443
Capital assets, at cost	**$1,789,892**	**$81,154**	**$(32,765)**	**$1,838,281**	**$105,063**	**$(30,228)**	**$1,913,116**
	2015	**DEPRECIATION**	**DISPOSALS**	**2016**	**DEPRECIATION**	**DISPOSALS**	
ACCUMULATED DEPRECIATION							
Buildings and improvements	$519,267	$39,546	$(1,101)	$557,712	$40,846		$598,558
Equipment	267,545	39,745	(30,794)	276,496	37,993	$(30,177)	284,312
Accumulated depreciation	786,812	**$79,291**	**$(31,895)**	834,208	**$78,839**	**$(30,177)**	882,870
Capital assets, net	**$1,003,080**			**$1,004,073**			**$1,030,246**

(in thousands of dollars)

IRVINE	2015	ADDITIONS	DISPOSALS	2016	ADDITIONS	DISPOSALS	2017
ORIGINAL COST							
Land	$12,418			$12,418	$441		$12,859
Buildings and improvements	838,990	$16,229		855,219	24,955		880,174
Equipment	324,395	38,466	$(1,564)	361,297	60,822	$(302)	421,817
Construction in progress	14,374	4,974		19,348	(559)		18,789
Capital assets, at cost	**$1,190,177**	**$59,669**	**$(1,564)**	**$1,248,282**	**$85,659**	**$(302)**	**$1,333,639**
	2015	**DEPRECIATION**	**DISPOSALS**	**2016**	**DEPRECIATION**	**DISPOSALS**	
ACCUMULATED DEPRECIATION							
Buildings and improvements	$271,482	$34,474		$305,956	$34,481		$340,437
Equipment	191,384	34,232	$(1,469)	224,147	34,790	$(244)	258,693
Accumulated depreciation	462,866	**$68,706**	**$(1,469)**	530,103	**$69,271**	**$(244)**	599,130
Capital assets, net	**$727,311**			**$718,179**			**$734,509**

(in thousands of dollars)

LOS ANGELES	2015	ADDITIONS	DISPOSALS	2016	ADDITIONS	DISPOSALS	2017
ORIGINAL COST							
Land	$51,924	$10,550		$62,474	$(5,873)	$(9,683)	$46,918
Buildings and improvements	1,935,627	61,913	$(12,477)	1,985,063	29,376	(4,297)	2,010,142
Equipment	650,872	67,152	(25,718)	692,306	60,107	(29,401)	723,012
Construction in progress	50,988	(25,285)	(2,559)	23,144	9,941		33,085
Capital assets, at cost	**$2,689,411**	**$114,330**	**$(40,754)**	**$2,762,987**	**$93,551**	**$(43,381)**	**$2,813,157**
	2015	**DEPRECIATION**	**DISPOSALS**	**2016**	**DEPRECIATION**	**DISPOSALS**	
ACCUMULATED DEPRECIATION							
Buildings and improvements	$444,882	$62,811	$(3,817)	$503,876	$56,567	$(801)	$559,642
Equipment	399,164	71,289	(24,788)	445,665	86,274	(27,964)	503,975
Accumulated depreciation	844,046	**$134,100**	**$(28,605)**	949,541	**$142,841**	**$(28,765)**	1,063,617
Capital assets, net	**$1,845,365**			**$1,813,446**			**$1,749,540**

(in thousands of dollars)

SAN DIEGO	**2015**	**ADDITIONS**	**DISPOSALS**	**2016**	**ADDITIONS**	**DISPOSALS**	**2017**
ORIGINAL COST							
Land	$8,641			$8,641			$8,641
Buildings and improvements	806,320	$19,418		825,738	$844,584		1,670,322
Equipment	294,432	64,383	$(12,631)	346,184	97,926	$(9,820)	434,290
Construction in progress	673,835	161,357		835,192	(715,649)		119,543
Capital assets, at cost	**$1,783,228**	**$245,158**	**$(12,631)**	**$2,015,755**	**$226,861**	**$(9,820)**	**$2,232,796**

	2015	**DEPRECIATION**	**DISPOSALS**	**2016**	**DEPRECIATION**	**DISPOSALS**	**2017**
ACCUMULATED DEPRECIATION							
Buildings and improvements	$313,921	$29,487		$343,408	$42,935		$386,343
Equipment	184,531	28,904	$(12,206)	201,229	33,844	$(9,568)	225,505
Accumulated depreciation	498,452	**$58,391**	**$(12,206)**	544,637	**$76,779**	**$(9,568)**	611,848
Capital assets, net	**$1,284,776**			**$1,471,118**			**$1,620,948**

(in thousands of dollars)

SAN FRANCISCO	**2015**	**ADDITIONS**	**DISPOSALS**	**2016**	**ADDITIONS**	**DISPOSALS**	**2017**
ORIGINAL COST							
Land	$135,422	$7,846		$143,268			$143,268
Buildings and improvements	2,499,510	43,445	$(3,471)	2,539,484	$100,300		2,639,784
Equipment	1,006,318	65,389	(22,066)	1,049,641	45,009	$(28,841)	1,065,809
Construction in progress	116,615	67,314	(218)	183,711	35,331	(1,013)	218,029
Capital assets, at cost	**$ 3,757,865**	**$183,994**	**$(25,755)**	**$3,916,104**	**$180,640**	**$(29,854)**	**$4,066,890**

	2015	**DEPRECIATION**	**DISPOSALS**	**2016**	**DEPRECIATION**	**DISPOSALS**	**2017**
ACCUMULATED DEPRECIATION							
Buildings and improvements	$838,717	$92,245	$(2,746)	$928,216	$89,565		$1,017,781
Equipment	514,136	112,901	(20,875)	606,162	121,348	$(27,939)	699,571
Accumulated depreciation	1,352,853	**$205,146**	**$(23,621)**	1,534,378	**$210,913**	**$(27,939)**	1,717,352
Capital assets, net	**$2,405,012**			**$2,381,726**			**$2,349,538**

(in thousands of dollars)

TOTAL	**2015**	**ADDITIONS**	**DISPOSALS**	**2016**	**ADDITIONS**	**DISPOSALS**	**2017**
ORIGINAL COST							
Land	$245,080	$18,396		$263,476	$(5,432)	$(9,683)	$248,361
Buildings and improvements	7,401,253	171,919	$ (17,100)	7,556,072	1,016,703	(4,297)	8,568,478
Equipment	2,682,279	274,497	(92,626)	2,864,150	299,312	(98,592)	3,064,870
Construction in progress	881,961	219,493	(3,743)	1,097,711	(618,809)	(1,013)	477,889
Capital assets, at cost	**$11,210,573**	**$684,305**	**$(113,469)**	**$11,781,409**	**$691,774**	**$(113,585)**	**$12,359,598**

	2015	**DEPRECIATION**	**DISPOSALS**	**2016**	**DEPRECIATION**	**DISPOSALS**	**2017**
ACCUMULATED DEPRECIATION							
Buildings and improvements	$2,388,269	$258,563	$(7,664)	$2,639,168	$264,394	$(801)	$2,902,761
Equipment	1,556,760	287,071	(90,132)	1,753,699	314,249	(95,892)	1,972,056
Accumulated depreciation	3,945,029	**$545,634**	**$(97,796)**	4,392,867	**$578,643**	**$(96,693)**	4,874,817
Capital assets, net	**$7,265,544**			**$7,388,542**			**$7,484,781**

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	TOTAL
2017					
Equipment under financing obligations	$59,370	$19,700	$107,905	$61,352	$248,327
Accumulated amortization	(36,152)	(19,070)	(35,000)	(18,524)	(108,746)
Total	**$23,218**	**$630**	**$72,905**	**42,828**	**$139,581**
2016					
Equipment under financing obligations	$59,370	$31,054	$108,589	$44,000	$243,013
Accumulated amortization	(33,344)	(27,684)	(25,519)	(23,000)	(109,547)
Total	**$26,026**	**$3,370**	**$83,070**	**$21,000**	**$133,466**

The Medical Centers made seismic improvements in order to be in compliance with Senate Bill 1953, the Hospital Facilities Seismic Safety Act. Certain facilities and equipment were constructed or acquired to make seismic improvements using financing obligations of the University. These facilities and equipment were contributed at cost by the University to the Medical Centers to support the operations of the Medical Centers. Principal and interest payments required for these obligations are not reflected in the financial statements of the Medical Centers.

7. PAYABLES TO UNIVERSITY AND CAMPUS

The UCLA Medical Center has an internal line of credit in the amount of $75.0 million from the UCLA campus Chancellor reported as a note payable to the campus. The line of credit is due in June 2024 and bears interest at the STIP rate of an annual average of 1.2 percent for the years ended June 30, 2017 and 2016. As of June 30, 2017 and 2016, $75.0 million was outstanding. Interest expense of $5.2 million and $0 has been recorded on the line of credit for the years ended June 30, 2017 and 2016, respectively.

The UCSD Medical Center has an internal loan of up to $95.0 million from the UCSD campus funded from the campus' allocation of proceeds from a series of General Revenue Bonds of The Regents. The loan is to fund a portion of the costs for an outpatient pavilion. The loan is due in May 2047 and bears interest at a rate of 5.0 percent. As of June 30, 2017 and 2016, balances of $73.7 million and $23.3 million, respectively, were outstanding and are reported as a note payable to the campus on the statements of net position. Interest payments of $2.5 million and $0.4 million were made on the loan for the years ended June 30, 2017 and 2016, respectively.

Advances from the University, financed through the University's bank lines, were made to the Medical Centers to finance capital projects. The following payables are reported as other current liabilities in the statements of net position as of June 30:

(in thousands of dollars)

	2017	2016
Davis		$6,951
Los Angeles		87,000
San Diego		44,199
San Francisco	$19,684	73,015*
Total	**$19,684**	**$211,165**

**$51,515 is classified as other noncurrent liabilities*

8. INTEREST RATE SWAP AGREEMENTS

As a means to lower the UCLA and UCSF Medical Centers' borrowing costs, when compared against fixed-rate bonds at the time of issuance, the UCLA and UCSF Medical Centers entered into interest rate swap agreements in connection with their variable-rate Medical Center Pooled Revenue Bonds. Under the swap agreements, the Medical Centers pay the swap counterparty a fixed interest rate payment and receive a variable-rate interest payment to effectively change the variable-rate bonds to synthetic fixed-rate bonds. For three of the hedging derivatives, the notional amount of the swap matches the principal amount of the variable-rate Medical Center Pooled Revenue Bonds, and the swap agreement contains scheduled reductions to outstanding notional amounts that match scheduled reductions in the variable-rate bonds. One of the UCLA Medical Center interest rate swaps is a partial hedge, whereby the notional amount of the swap of $25.8 million is less than the amount of bonds outstanding of $31.3 million.

The UCLA Medical Center determined that certain of its interest rate swap agreements were hedging derivatives that hedge future cash flows for its variable-rate Medical Center Pooled Revenue Bonds. At the time of pricing the interest rate swaps, the fixed rate on each of the swaps was off-market such that the UCLA Medical Center received an up-front payment. As such, the swaps consist of an at-the-market interest rate swap derivative instrument and a borrowing, represented by the up-front payment. The unamortized amount of the borrowing was $40.0 million at June 30, 2016.

In September 2016, the UCLA Medical Center replaced the counterparty for its interest rate swap agreements and recognized a decrease in net position upon hedge termination of $41.2 million on the statement of revenues, expenses and changes in net position. The new counterparty's credit rating is Aa2/AA- and is considered as a new hedge derivative upon the date of the transaction. At the time of pricing the new interest rate swaps, the fixed rate on each of the swaps was off-market such that the UCLA Medical Center received an up-front payment. As such, the swaps consist of an at-the-market interest rate swap derivative instrument and a borrowing, represented by the up-front payment. The unamortized amount of the borrowing was $79.0 million at June 30, 2017.

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

(in thousands of dollars)

	NOTIONAL AMOUNT		FAIR VALUE – POSITIVE (NEGATIVE)			CHANGES IN FAIR VALUE		
	2017	2016	CLASSIFICATION	2017	2016	CLASSIFICATION	2017	2016
Los Angeles	$124,775	$124,775	Other noncurrent liabilities	$(40,420)	$(57,604)	Deferred outflows	$17,184	$(17,392)
	24,250	24,250	Other noncurrent liabilities	(10,252)	(14,901)	Deferred outflows	4,649	(5,092)
	25,750	25,750	Other noncurrent liabilities	(11,266)	(16,498)	Deferred outflows	5,232	(5,743)
San Francisco	67,540	70,880	Other noncurrent liabilities	(9,423)	(14,188)	Deferred outflows	4,765	(3,080)

Because interest rates have changed since the execution of the swaps, financial institutions have estimated the fair value of the swaps using quoted market prices when available or a forecast of expected discounted future net cash flows. The swaps are classified as level 2 on the fair value hierarchy. The fair value of the interest rate swap is the estimated amount the Medical Centers would have either (paid) or received if the swap agreement was terminated on June 30, 2017 or 2016.

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

(in thousands of dollars)

TERMS	NOTIONAL AMOUNT 2017	NOTIONAL AMOUNT 2016	EFFECTIVE DATE	MATURITY DATE	CASH PAID OR RECEIVED	COUNTERPARTY CREDIT RATING
LOS ANGELES						
Pay fixed 4.550 percent; receive 67 percent of 3-Month LIBOR* + 0.61 percent	$31,610	$31,610	2008	2030	None	Aa2/AA-
Pay fixed 4.625 percent; receive 67 percent of 3-Month LIBOR* + 0.67 percent	38,670	38,670	2008	2037	None	Aa2/AA-
Pay fixed 4.6935 percent; receive 67 percent of 3-Month LIBOR* + 0.74 percent	54,495	54,495	2008	2043	None	Aa2/AA-
Pay fixed 4.741 percent; receive 67 percent of 3-Month LIBOR* + 0.79 percent	24,250	24,250	2013	2045	None	Aa2/AA-
Pay fixed 4.741 percent; receive 67 percent of 3-Month LIBOR* + 0.79 percent	25,750	25,750	2013	2047	None	Aa2/AA-
SAN FRANCISCO						
Pay fixed 3.5897 percent; receive 58 percent of 1-Month LIBOR* + 0.48 percent	67,540	70,880	2007	2032	None	A1/A+

** London Interbank Offered Rate (LIBOR)*

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

There are no collateral requirements related to the swaps held by the UCSF Medical Center. Depending on the fair value and the counterparty credit rating for the UCLA Medical Center swaps, the University may be entitled to receive collateral to the extent the positive fair value exceeds $30.0 million. At June 30, 2017 and 2016, there was no collateral required.

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

Basis Risk. There is no basis or tax risk related to two of the swaps classified as hedging derivatives with a total notional amount of $149.0 million since the variable rate the UCLA Medical Center pays to the bond holders matches the variable-rate payments received from the swap counterparty.

In connection with one of the UCLA Medical Center swaps and the UCSF Medical Center swap, there is a risk that the basis for the variable payment received will not match the variable payment on the bonds that expose the UCLA Medical Center and the UCSF Medical Center to basis risk whenever the interest rates on the bonds are reset. The interest rate on the bonds is a tax-exempt interest rate, while the basis of the variable receipt on the interest rate swap is taxable. Tax-exempt interest rates can change without a corresponding change in the LIBOR rate due to factors affecting the tax-exempt market, which do not have a similar effect on the taxable market. For example, the swaps expose the UCSF Medical Center to risk if reductions in the federal personal income tax rate cause the relationship between the variable interest rate on the bonds to be greater than 58.0 percent of the 30-day LIBOR, plus 0.48 percent. The swaps expose the UCLA Medical Center to risk if reductions in the federal personal income tax rate cause the relationship between the variable interest rate on the bonds to be greater than 67.0 percent of the three-month LIBOR, plus 0.79 percent.

Termination Risk. There is termination risk for losses on the interest rate swaps classified as hedging derivatives in the event of non-performance by the counterparty in an adverse market resulting in cancellation of the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. For the interest rate swap held by the UCSF Medical Center, the termination threshold is reached when the credit quality rating for either the underlying Medical Center Pooled Revenue Bonds or swap counterparty falls below Baa2 or BBB. For the swaps held by the UCLA Medical Center, the termination threshold is reached when the credit quality rating for the underlying Medical Center Pooled Revenue Bonds falls below Baa3/BBB-, or the interest rate swap counterparty's rating falls below Baa2 or BBB. Upon termination, the Medical Centers may also owe a termination payment if there is a realized loss based on the fair value of each interest rate swap.

9. LONG-TERM DEBT AND FINANCING OBLIGATIONS

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2017						
University of California Medical Center Pooled Revenue Bonds:						
2007 Series B*					$67,540	$67,540
2007 Series C-2*			$149,025			149,025
2009 Series F Build America Bonds		$155,855	143,320	$110,355	19,620	429,150
2010 Series G & I			9,490	14,100		23,590
2010 Series H Build America Bonds					700,000	700,000
2013 Series J	$15,415	4,360	81,535	497,935	525	599,770
2013 Series K*			31,300			31,300
2016 Series L	260,690	121,050	267,185	88,695	107,780	845,400
2016 Series M	61,465	36,605	47,970		19,345	165,385
Financing obligations	621	630	103,112	44,466		148,829
Other borrowings			79,048			79,048
Total outstanding debt and financing obligations	**338,191**	**318,500**	**911,985**	**755,551**	**914,810**	**3,239,037**
Unamortized bond premium	46,386	22,605	49,729	18,130	18,323	155,173
Total debt and financing obligations	**384,577**	**341,105**	**961,714**	**773,681**	**933,133**	**3,394,210**
Less: Current portion	(21,834)	(2,765)	(26,920)	(19,511)	(4,869)	(75,899)
Noncurrent portion of debt and financing obligations	**$362,743**	**$338,340**	**$934,794**	**$754,170**	**$928,264**	**$3,318,311**

** Variable-rate bonds*

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2016						
University of California Medical Center Pooled Revenue Bonds:						
2007 Series A	$60,109	$58,190	$231,200	$17,787	$40,704	$407,990
2007 Series B*					70,880	70,880
2007 Series C-1			5,650			5,650
2007 Series C-2*			149,025			149,025
2008 Series D	205,060					205,060
2009 Series E		46,080	2,680	13,360	1,250	63,370
2009 Series F Build America Bonds		155,855	143,320	110,355	19,620	429,150
2010 Series G & I			11,200	18,390		29,590
2010 Series H Build America Bonds					700,000	700,000
2013 Series J	16,885	5,060	83,380	498,775	525	604,625
2013 Series K*			31,300			31,300
University of California Hospital Revenue Bonds 2004 (University of California, Los Angeles Medical Center, Series A and B)			42,560			42,560
Financing obligations	7,101	3,370	111,317	39,393		161,181
Other borrowings			39,979			39,979
Total outstanding debt and financing obligations	**289,155**	**268,555**	**851,611**	**698,060**	**832,979**	**2,940,360**
Unamortized bond premium	5,409	3,114	5,259	3,347	621	17,750
Total debt and financing obligations	**294,564**	**271,669**	**856,870**	**701,407**	**833,600**	**2,958,110**
Less: Current portion	(25,893)	(4,325)	(19,799)	(16,735)	(4,081)	(70,833)
Noncurrent portion of debt and financing obligations	**$268,671**	**$267,344**	**$837,071**	**$684,672**	**$829,519**	**$2,887,277**

** Variable-rate bonds*

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

	INTEREST RATE	INTEREST PAYMENT FREQUENCY	PRINCIPAL PAYMENT TERMS
University of California Medical Center Pooled Revenue Bonds:			
2007 Series B*	0.63 percent	Monthly	Through 2032
2007 Series C-2*	1.4 percent to 1.6 percent	Quarterly	Through 2045
2009 Series F "Build America Bonds"	4.3 percent, after 35 percent federal subsidy	Semi-annually	Through 2049
2010 Series G & I	3.0 percent to 5.8 percent	Semi-annually	Through 2025
2010 Series H "Build America Bonds"	4.2 percent, after 35 percent federal subsidy	Semi-annually	Through 2048
2013 Series J	4.0 percent to 5.3 percent	Semi-annually	Through 2048
2013 Series K*	0.88 percent	Monthly	Beginning 2045 through 2047
2016 Series L	2.5 percent to 5.0 percent	Semi-annually	Through 2047
2016 Series M	0.9 percent to 3.5 percent	Semi-annually	Through 2047
Financing obligations (primarily for computer and medical equipment, collateralized by underlying equipment)	Fixed interest rates of 1.1 percent to 6.0 percent	Monthly, Quarterly	Through 2042

**Variable-rate bonds*

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

(in thousands of dollars)

	2017		2016	
	INTEREST EXPENSE	INTEREST CAPITALIZED	INTEREST EXPENSE	INTEREST CAPITALIZED
Davis	$8,881	$2,266	$15,419	$411
Irvine	13,405	1,070	15,595	
Los Angeles	42,129	830	39,339	784
San Diego	23,595	13,551	7,948	27,519
San Francisco	47,595	6,107	48,172	3,605
Total	**$135,605**	**$23,824**	**$126,473**	**$32,319**

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

(in thousands of dollars)

DAVIS	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2017			
Long-term debt and financing obligations at June 30, 2016	$287,463	$7,101	$294,564
New obligations	390,844		390,844
Principal payments and bond retirements	(290,785)	(6,480)	(297,265)
Amortization of bond premium	(3,566)		(3,566)
Long-term debt and financing obligations at June 30, 2017	**383,956**	**621**	**384,577**
Less: Current portion	(21,213)	(621)	(21,834)
Noncurrent portion of long-term debt and financing obligations at June 30, 2017	**$362,743**		**$362,743**
Year ended June 30, 2016			
Long-term debt and financing obligations at June 30, 2015	$306,440	$17,449	$323,889
Principal payments and bond retirements	(18,215)	(10,348)	(28,563)
Amortization of bond premium	(762)		(762)
Long-term debt and financing obligations at June 30, 2016	**287,463**	**7,101**	**294,564**
Less: Current portion	(19,413)	(6,480)	(25,893)
Noncurrent portion of long-term debt and financing obligations as June 30, 2016	**$268,050**	**$621**	**$268,671**

(in thousands of dollars)

IRVINE	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2017			
Long-term debt and financing obligations at June 30, 2016	$268,299	$3,370	$271,669
New obligations	183,013		183,013
Principal payments and bond retirements	(109,749)	(2,740)	(112,489)
Amortization of bond premium	(1,088)		(1,088)
Long-term debt and financing obligations at June 30, 2017	**340,475**	**630**	**341,105**
Less: Current portion	(2,426)	(339)	(2,765)
Noncurrent portion of long-term debt and financing obligations at June 30, 2017	**$338,049**	**$291**	**$338,340**
Year ended June 30, 2016			
Long-term debt and financing obligations at June 30, 2015	$276,684	$8,634	$285,318
Principal payments and bond retirements	(8,230)	(5,264)	(13,494)
Amortization of bond premium	(155)		(155)
Long-term debt and financing obligations at June 30, 2016	**268,299**	**3,370**	**271,669**
Less: Current portion	(1,585)	(2,740)	(4,325)
Noncurrent portion of long-term debt and financing obligations as June 30, 2016	**$266,714**	**$630**	**$267,344**

(in thousands of dollars)

LOS ANGELES	REVENUE BONDS	FINANCING OBLIGATIONS	OTHER BORROWINGS	TOTAL
Year ended June 30, 2017				
Long-term debt and financing obligations at June 30, 2016	$705,574	$111,317	$39,979	$856,870
New obligations	374,469		82,455	456,924
Principal payments and bond retirements	(296,305)	(8,205)	(43,386)	(347,896)
Amortization of bond premium	(4,184)			(4,184)
Long-term debt and financing obligations at June 30, 2017	**779,554**	**103,112**	**79,048**	**961,714**
Less: Current portion	(14,555)	(8,561)	(3,804)	(26,920)
Noncurrent portion of long-term debt and financing obligations at June 30, 2017	**$764,999**	**$94,551**	**$75,244**	**$934,794**
Year ended June 30, 2016				
Long-term debt and financing obligations at June 30, 2015	$715,575	$64,169	$41,083	$820,827
New obligations		46,482		46,482
Principal payments and bond retirements	(9,600)	666	(1,104)	(10,038)
Amortization of bond premium	(401)			(401)
Long-term debt and financing obligations at June 30, 2016	**705,574**	**111,317**	**39,979**	**856,870**
Less: Current portion	(10,451)	(8,205)	(1,143)	(19,799)
Noncurrent portion of long-term debt and financing obligations as June 30, 2016	**$695,123**	**$103,112**	**$38,836**	**$837,071**

(in thousands of dollars)

SAN DIEGO	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2017			
Long-term debt and financing obligations at June 30, 2016	$662,014	$39,393	$701,407
New obligations	106,974	16,471	123,445
Principal payments and bond retirements	(38,365)	(11,398)	(49,763)
Amortization of bond premium	(1,408)		(1,408)
Long-term debt and financing obligations at June 30, 2017	**729,215**	**44,466**	**773,681**
Less: Current portion	(8,149)	(11,362)	(19,511)
Noncurrent portion of long-term debt and financing obligations at June 30, 2017	**$721,066**	**$33,104**	**$754,170**
Year ended June 30, 2016			
Long-term debt and financing obligations at June 30, 2015	$667,795	$42,488	$710,283
New obligations		8,093	8,093
Principal payments and bond retirements	(5,185)	(11,188)	(16,373)
Amortization of bond premium	(596)		(596)
Long-term debt and financing obligations at June 30, 2016	**662,014**	**39,393**	**701,407**
Less: Current portion	(5,996)	(10,739)	(16,735)
Noncurrent portion of long-term debt and financing obligations as June 30, 2016	**$656,018**	**$28,654**	**$684,672**

(in thousands of dollars)

SAN FRANCISCO	REVENUE BONDS	TOTAL
Year ended June 30, 2017		
Long-term debt and financing obligations at June 30, 2016	$833,600	$833,600
New obligations	146,694	146,694
Principal payments and bond retirements	(46,414)	(46,414)
Amortization of bond premium	(747)	(747)
Long-term debt and financing obligations at June 30, 2017	**933,133**	**933,133**
Less: Current portion	(4,869)	(4,869)
Noncurrent portion of long-term debt and financing obligations at June 30, 2017	**$928,264**	**$928,264**
Year ended June 30, 2016		
Long-term debt and financing obligations at June 30, 2015	$837,536	$837,536
Principal payments and bond retirements	(3,915)	(3,915)
Amortization of bond premium	(21)	(21)
Long-term debt and financing obligations at June 30, 2016	**833,600**	**833,600**
Less: Current portion	(4,081)	(4,081)
Noncurrent portion of long-term debt and financing obligations as June 30, 2016	**$829,519**	**$829,519**

(in thousands of dollars)

TOTAL	**REVENUE BONDS**	**FINANCING OBLIGATIONS**	**OTHER BORROWINGS**	**TOTAL**
Year ended June 30, 2017				
Long-term debt and financing obligations at June 30, 2016	$ 2,756,950	$ 161,181	$ 39,979	$ 2,958,110
New obligations	1,201,994	16,471	82,455	1,300,920
Principal payments and bond retirements	(781,618)	(28,823)	(43,386)	(853,827)
Amortization of bond premium	(10,993)			(10,993)
Long-term debt and financing obligations at June 30, 2017	**3,166,333**	**148,829**	**79,048**	**3,394,210**
Less: Current portion	(49,986)	(20,883)	(3,804)	(74,673)
Noncurrent portion of long-term debt and financing obligations at June 30, 2017	**$3,116,347**	**$127,946**	**$75,244**	**$3,319,537**
Year ended June 30, 2016				
Long-term debt and financing obligations at June 30, 2015	$2,804,030	$132,740	$41,083	$2,977,853
New obligations		54,575		54,575
Principal payments and bond retirements	(45,145)	(26,134)	(1,104)	(72,383)
Amortization of bond premium	(1,935)			(1,935)
Long-term debt and financing obligations at June 30, 2016	**2,756,950**	**161,181**	**39,979**	**2,958,110**
Less: Current portion	(41,526)	(28,164)	(1,143)	(70,833)
Noncurrent portion of long-term debt and financing obligations as June 30, 2016	**$2,715,424**	**$133,017**	**$38,836**	**$2,887,277**

In August 2016, Medical Center Pooled Revenue Bonds totaling $1.0 billion, including $872.8 million of tax-exempt bonds and $173.4 million taxable bonds, were issued to finance and refinance certain facilities and projects of the Medical Centers. Proceeds, including a net bond premium of $155.8 million, were used to pay for project construction, issuance costs and refund $724.5 million of outstanding Medical Center Pooled Revenue Bonds and all of the outstanding Hospital Revenue Bonds. The bonds mature at various dates through 2047.

The Medical Center Pooled Revenue Bonds were distributed across the Medical Centers as follows:

(in thousands of dollars)

	TAX-EXEMPT	**TAXABLE**	**TOTAL**
Davis	$ 276,665	$ 65,765	$ 342,430
Irvine	122,525	37,230	159,755
Los Angeles	275,075	50,740	325,815
San Diego	89,910		89,910
San Francisco	108,620	19,625	128,245
Total	**$ 872,795**	**$ 173,360**	**$ 1,046,155**

Simultaneously, a bank standby bond purchase agreement for certain of the University's variable-rate demand bonds was terminated. The University will provide its own liquidity in connection with mandatory and optional tenders and remarketing of these bonds and does not plan to provide any third-party liquidity facility to support this obligation. The interest rates on the variable-rate demand bonds reset daily and an interest rate swap is being used to limit exposure to changes in market interest rates. In the event of a failed remarketing, the variable-rate demand bonds can be put back to The Regents for tender. The tax-exempt and taxable bonds have a stated weighted average interest rate of 4.5 percent and 3.0 percent, respectively. The refunding of the outstanding Medical Center Pooled Revenue Bonds and Hospital Revenue Bonds resulted in a loss of $8.0 million, recorded as a deferred outflow of resources that will be amortized as interest expense over the term of the refunded bonds. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. The refinancing and refunding of previously outstanding Revenue Bonds resulted in cash flow savings of $193.5 million and an economic gain of $151.2 million.

The Medical Centers' Pooled Revenue Bonds are issued to finance the University's Medical Centers and are collateralized by a joint and several pledges of certain operating and non-operating revenues, as defined in the indentures, of all five of the University's Medical Centers. The Medical Center Pooled Revenue Bond Indenture requires the Medical Centers to set rates, charges and fees each year sufficient for the Medical Centers' total operating and non-operating revenues to pay for the annual principal and interest on the bonds and sets forth requirements for certain other financial covenants. Pledged revenues for the Medical Centers for the year ended June 30, 2017 was $11.4 billion.

The Medical Center Pooled Revenue Bonds 2007 Series B and 2013 Series K totaling $67.5 million and $31.3 million, respectively, are variable-rate demand obligations subject to daily and weekly remarketing, respectively. The University had entered into a standby bond purchase agreement if a failed remarketing was to occur and the purchase of any of the 2007 Series B bonds was required. The standby bond purchase agreement terminated in August 2016 as described above. The University has not entered into a standby bond purchase agreement for the 2013 Series K bonds. The UCSF and UCLA Medical Centers have access to the hospital working capital program from the University described below for any amounts that would be obligated for repayment to the University.

The Medical Centers' revenues are not pledged for any other purpose than under the indentures for the Medical Center Pooled Revenue Bonds. The pledge of the Medical Centers' revenues under the Medical Center Pooled Revenue Bonds is on parity with interest rate swap agreements.

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

Future Debt Service and Interest Rate Swaps

Future debt service payments for the Medical Centers' fixed- and variable-rate debt and net receipts or payments on associated hedging derivative interest rate swaps for each of the five fiscal years subsequent to June 30, 2017, and thereafter, are shown below. Although not a prediction by the Medical Centers of the future interest rate cost of the variable-rate bonds or the impact of the interest rate swaps, these amounts assume that current interest rates on variable-rate bonds and the current reference rates of the interest rate swaps will remain the same. As these rates vary, variable-rate bond interest payments and net interest rate swap payments will vary.

As of June 30, 2017, CHRCO had no amounts outstanding under its revolving credit facility for $25.0 million. The interest rate on the credit facility is 2.3 percent as of June 30, 2017 and the facility expires on August 31, 2018.

(in thousands of dollars)

DAVIS	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2018	$31,599	$624	$32,223	$18,436	$13,787
2019	31,210		31,210	17,900	13,310
2020	30,818		30,818	18,125	12,693
2021	30,392		30,392	18,325	12,067
2022	29,989		29,989	18,710	11,279
2023– 2027	138,539		138,539	94,070	44,469
2028– 2032	60,148		60,148	29,245	30,903
2033– 2037	60,123		60,123	35,455	24,668
2038 – 2042	60,111		60,111	44,305	15,806
2043 – 2047	49,198		49,198	43,620	5,578
Total future debt service	**522,127**	**624**	**522,751**	**$338,191**	**$184,560**
Less: Interest component of future payments	(184,557)	(3)	(184,560)		
Principal portion of future payments	337,570	621	338,191		
Adjusted by:					
Unamortized bond premium	46,386		46,386		
Total debt	**$383,956**	**$621**	**$384,577**		

(in thousands of dollars)

IRVINE	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2018	$18,211	$354	$18,565	$1,539	$17,026
2019	18,218	295	18,513	1,531	16,982
2020	21,397		21,397	4,465	16,932
2021	21,410		21,410	4,620	16,790
2022	21,382		21,382	4,790	16,592
2023– 2027	108,893		108,893	29,355	79,538
2028– 2032	115,670		115,670	43,925	71,745
2033– 2037	113,938		113,938	54,385	59,553
2038 – 2042	111,038		111,038	67,975	43,063
2043 – 2047	105,741		105,741	83,400	22,341
2048 – 2049	24,753		24,753	22,515	2,238
Total future debt service	**680,651**	**649**	**681,300**	**$318,500**	**$362,800**
Less: Interest component of future payments	(362,781)	(19)	(362,800)		
Principal portion of future payments	317,870	630	318,500		
Adjusted by:					
Unamortized bond premium	22,605		22,605		
Total debt	**$340,475**	**$630**	**$341,105**		

(in thousands of dollars)

LOS ANGELES	**REVENUE BONDS**	**FINANCING OBLIGATIONS**	**TOTAL PAYMENTS**	**PRINCIPAL**	**INTEREST**
Year ending June 30					
2018	$46,819	$13,434	$60,253	$20,231	$40,022
2019	47,633	13,573	61,206	21,778	39,428
2020	50,173	13,717	63,890	25,176	38,714
2021	48,836	13,867	62,703	24,805	37,898
2022	48,496	4,052	52,548	15,498	37,050
2023– 2027	236,733	22,825	259,558	85,904	173,654
2028– 2032	231,111	27,770	258,881	108,543	150,338
2033– 2037	228,674	33,786	262,460	143,323	119,137
2038 – 2042	227,303	37,772	265,075	187,554	77,521
2043 – 2047	211,983		211,983	180,535	31,448
2048 – 2049	21,367		21,367	19,590	1,777
Total future debt service	**1,399,128**	**180,796**	**1,579,924**	**$832,937**	**$746,987**
Less: Interest component of future payments	(669,303)	(77,684)	(746,987)		
Principal portion of future payments	729,825	103,112	832,937		
Adjusted by:					
Unamortized bond premium	49,729		49,729		
Other borrowings	79,048		79,048		
Total debt	**$858,602**	**$103,112**	**$961,714**		

(in thousands of dollars)

SAN DIEGO	**REVENUE BONDS**	**FINANCING OBLIGATIONS**	**TOTAL PAYMENTS**	**PRINCIPAL**	**INTEREST**
Year ending June 30					
2018	$43,738	$11,973	$55,711	$17,992	$37,719
2019	43,742	11,973	55,715	18,475	37,240
2020	43,733	11,553	55,286	18,540	36,746
2021	41,294	7,705	48,999	12,701	36,298
2022	41,284	2,701	43,985	8,023	35,962
2023– 2027	243,532		243,532	70,980	172,552
2028– 2032	251,460		251,460	101,785	149,675
2033– 2037	248,467		248,467	128,990	119,477
2038 – 2042	244,821		244,821	163,785	81,036
2043 – 2047	216,061		216,061	180,870	35,191
2048 – 2049	35,264		35,264	33,410	1,854
Total future debt service	**1,453,396**	**45,905**	**1,499,301**	**$755,551**	**$743,750**
Less: Interest component of future payments	(742,311)	(1,439)	(743,750)		
Principal portion of future payments	711,085	44,466	755,551		
Adjusted by:					
Unamortized bond premium	18,130		18,130		
Total debt	**$729,215**	**$44,466**	**$773,681**		

(in thousands of dollars)

SAN FRANCISCO	REVENUE BONDS	PRINCIPAL	INTEREST
Year ending June 30			
2018	$57,934	$4,210	$53,724
2019	57,951	4,355	53,596
2020	58,327	4,865	53,462
2021	72,359	19,050	53,309
2022	72,119	19,695	52,424
2023– 2027	355,958	109,345	246,613
2028– 2032	346,350	132,455	213,895
2033– 2037	329,043	156,575	172,468
2038 – 2042	313,410	192,675	120,735
2043 – 2047	285,257	228,110	57,147
2048 – 2049	46,397	43,475	2,922
Total future debt service	**1,995,105**	**$914,810**	**$1,080,295**
Less: Interest component of future payments	(1,080,295)		
Principal portion of future payments	914,810		
Adjusted by:			
Unamortized bond premium	18,323		
Total debt	**$933,133**		

(in thousands of dollars)

TOTAL	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Total *Year ending June 30*					
2018	$198,301	$26,385	$224,686	$62,408	$162,278
2019	198,754	25,841	224,595	64,039	160,556
2020	204,448	25,270	229,718	71,171	158,547
2021	214,291	21,572	235,863	79,501	156,362
2022	213,270	6,753	220,023	66,716	153,307
2023– 2027	1,083,655	22,825	1,106,480	389,654	716,826
2028– 2032	1,004,739	27,770	1,032,509	415,953	616,556
2033– 2037	980,245	33,786	1,014,031	518,728	495,303
2038 – 2042	956,683	37,772	994,455	656,294	338,161
2043 – 2047	868,240		868,240	716,535	151,705
2048 – 2049	127,781		127,781	118,990	8,791
Total future debt service	**6,050,407**	**227,974**	**6,278,381**	**$3,159,989**	**$3,118,392**
Less: Interest component of future payments	(3,039,247)	(79,145)	(3,118,392)		
Principal portion of future payments	3,011,160	148,829	3,159,989		
Adjusted by:					
Unamortized bond premium	155,173		155,173		
Other borrowings	79,048		79,048		
Total debt	**$3,245,381**	**$148,829**	**$3,394,210**		

Additional information on the revenue bonds can be obtained from the 2016–2017 annual report of the University of California.

As rates vary, variable-rate bond interest payments and net swap payments will vary. Although not a prediction by the Medical Centers of the future interest cost of the variable-rate bonds or the impact of the interest rate swaps, using rates as of June 30, 2017, debt service requirements of the variable-rate debt and net swap payments are as follows:

(in thousands of dollars)

LOS ANGELES	VARIABLE-RATE BOND		INTEREST RATE SWAP, NET	TOTAL
	PRINCIPAL	INTEREST		
Year ending June 30				
2018		$2,502	$5,521	$8,023
2019		2,502	5,521	8,023
2020		2,509	5,521	8,030
2021		2,502	5,521	8,023
2022		2,502	5,521	8,023
2023– 2027	$18,415	11,992	26,496	56,903
2028– 2032	23,025	10,489	23,319	56,833
2033– 2037	28,840	8,597	19,332	56,769
2038 – 2042	48,755	6,049	13,943	68,747
2043 – 2047	61,290	1,918	4,506	67,714
Total future debt service	**$180,325**	**$51,562**	**$115,201**	**$347,088**

(in thousands of dollars)

SAN FRANCISCO	VARIABLE-RATE BOND		INTEREST RATE SWAP, NET	TOTAL
	PRINCIPAL	INTEREST		
Year ending June 30				
2018	$3,465	$422	$1,707	$5,594
2019	3,590	400	1,619	5,609
2020	3,725	378	1,532	5,635
2021	3,860	355	1,432	5,647
2022	3,995	331	1,334	5,660
2023– 2027	22,280	1,260	5,072	28,612
2028– 2032	26,625	509	2,026	29,160
Total future debt service	**$67,540**	**$3,655**	**$14,722**	**$85,917**

(in thousands of dollars)

TOTAL	VARIABLE-RATE BOND		INTEREST RATE SWAP, NET	TOTAL
	PRINCIPAL	INTEREST		
Year ending June 30				
2018	$3,465	$2,924	$7,228	$13,617
2019	3,590	2,902	7,140	13,632
2020	3,725	2,887	7,053	13,665
2021	3,860	2,857	6,953	13,670
2022	3,995	2,833	6,855	13,683
2023– 2027	40,695	13,252	31,568	85,515
2028– 2032	49,650	10,998	25,345	85,993
2033– 2037	28,840	8,597	19,332	56,769
2038 – 2042	48,755	6,049	13,943	68,747
2043 – 2047	61,290	1,918	4,506	67,714
Total future debt service	**$247,865**	**$55,217**	**$129,923**	**$433,005**

10. OPERATING LEASES

The Medical Centers lease certain buildings and equipment under agreements recorded as operating leases. The terms of the operating leases extend through the year 2042. Operating lease expense for the years ended June 30 were as follows:

(in thousands of dollars)

	2017	2016
Davis	$21,349	$17,145
Irvine	4,769	3,746
Los Angeles	14,427	13,819
San Diego	16,116	13,162
San Francisco	46,597	44,265
Total	**$103,258**	**$92,137**

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
Year ending June 30						
2018	$21,681	$4,342	$11,321	$15,946	$35,981	$89,271
2019	18,757	3,118	10,060	13,928	29,612	75,475
2020	17,022	2,070	8,482	13,119	24,100	64,793
2021	14,065	1,798	5,795	12,509	23,019	57,186
2022	13,099	1,535	4,321	8,767	8,208	35,930
2023 – 2042	46,899	3,596	12,003	16,236	13,312	92,046
Total	**$131,523**	**$16,459**	**$51,982**	**$80,505**	**$134,232**	**$414,701**

11. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The composition of deferred outflows of resources at June 30 is summarized as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2017						
Deferred outflows of resources						
Net pension liability	$83,087	$35,110	$88,338	$93,406	$225,389	$525,330
Net retiree health benefits liability	270,698	125,289	365,825	251,704	600,977	1,614,493
Debt refunding	9,132				717	9,849
Interest rate swap agreements			61,938		9,423	71,361
Total	**$362,917**	**$160,399**	**$516,101**	**$345,110**	**$836,506**	**$2,221,033**
Deferred inflows of resources						
Net pension liability	$54,811	$35,282	$56,364	$37,264	$78,091	$261,812
Net retiree health benefits liability	314,255	169,735	363,978	213,902	454,960	1,516,830
Debt refunding			1,436			1,436
Total	**$369,066**	**$205,017**	**$421,778**	**$251,166**	**$533,051**	**$1,780,078**

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2016						
Deferred outflows of resources						
Net pension liability	$317,997	$157,583	$356,453	$216,217	$527,011	$1,575,261
Net retiree health benefits liability	301,414	146,312	328,836	206,071	461,129	1,443,762
Debt refunding	11,363				806	12,169
Interest rate swap agreements			89,003		14,188	103,191
Total	**$630,774**	**$303,895**	**$774,292**	**$422,288**	**$1,003,134**	**$3,134,383**
Deferred inflows of resources						
Net pension liability	$84,896	$50,051	$87,526	$57,712	$118,254	$398,439
Net retiree health benefits liability	109,892	53,783	121,488	69,295	143,627	498,085
Total	**$194,788**	**$103,834**	**$209,014**	**$127,007**	**$261,881**	**$896,524**

12. RETIREE HEALTH PLANS

The University administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision, to eligible retirees (and their eligible family members) of the University of California and its affiliates through UCRHBT. The Regents has the authority to establish and amend the plan. Additional information on the retiree health plans can be obtained from the 2016-2017 annual reports of the University of California.

The contribution requirements of the eligible retirees and the participating University locations, such as the Medical Centers, are established and may be amended by the University. Membership in 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 who are employed by the University after July 1, 2013, and retire at the age of 56 or older, become eligible for a percentage of the University's contribution based on age and years of service. Retirees are eligible for the maximum University contribution at age 65 with 20 or more years of service. Retirees employed by the University prior to 1990 and not rehired after that date are eligible for the University's maximum 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 University after 1989 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum University contribution, increasing to 100 percent after 20 years of service.

Contributions

Campus and Medical Center contributions toward retiree health benefits, at rates determined by the University, are made to UCRHBT. The University receives retiree health contributions from retirees that are deducted from their UCRP benefit payments. The University also remits these retiree contributions to UCRHBT. The University acts as a third-party administrator on behalf of UCRHBT and pays health care insurers and administrators amounts currently due under the University's retiree health benefit plans for retirees who previously worked at a campus or Medical Center. UCRHBT reimburses the University for these amounts.

Participating University locations, such as the Medical Centers, are required to contribute at a rate assessed each year by the University. The contribution requirements are based upon projected pay-as-you-go financing requirements. The assessment rates were $2.93 and $2.98 per $100 of UCRP covered payroll effective July 1, 2016 and 2015, respectively.

The Medical Centers' contributions for the years ended June 30 were as follows:

(in thousands of dollars)

	2017	2016
Davis	$21,562	$20,334
Irvine	10,089	10,433
Los Angeles	24,975	23,664
San Diego	14,677	12,780
San Francisco	31,217	28,147
Total	**$102,520**	**$95,358**

Net Retiree Health Benefits Liability

The Medical Centers' proportionate share of the net retiree health benefits liability as of June 30 is as follows:

(in thousands of dollars)

	2017		2016	
	Proportion of the net retiree health benefits liability	Proportionate share of net retiree health benefits liability	Proportion of the net retiree health benefits liability	Proportionate share of net retiree health benefits liability
Davis	6.6%	$1,227,803	6.6%	$1,385,392
Irvine	3.1%	574,394	3.2%	678,034
Los Angeles	7.6%	1,422,069	7.3%	1,531,589
San Diego	4.5%	835,720	4.1%	873,597
San Francisco	9.5%	1,777,540	8.6%	1,810,693
Total	**31.3%**	**$5,837,526**	**29.8%**	**$6,279,305**

The Medical Centers' net retiree health benefits liability was measured as of June 30, 2017 and 2016 and calculated using the plan net position valued as of the measurement date and total retiree health benefits liability based upon rolling forward the results of the actuarial valuations as of July 1, 2016 and 2015, respectively. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future. Significant actuarial methods and assumptions used to calculate the Medical Centers' net retiree health benefits liability were:

(shown as percentage)

	2017	2016
Discount rate	3.58%	2.85%
Inflation	3.0	3.0
Investment rate of return	3.0	3.0
Health care cost trend rates	Initially ranges from 5.0 to 9.5 decreasing to an ultimate rate of 5.0 for 2032 and later years	Initially ranges from 6.3 to 9.0 decreasing to an ultimate rate of 5.0 for 2031 and later years

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions are based upon the results of an experience study conducted for the period of July 1, 2010 through June 30, 2014. For pre-retirement mortality rates, the RP-2014 White Collar Employee Mortality Tables (separate table for males and females) projected with the two-dimensional MP-2014 projection scale to 2029 were used. For post-retirement, healthy mortality rates are based on the RP-2014 White Collar Healthy Annuitant Mortality Table projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP-2014 projection scale to 2029 and with ages then set back one year for males and set forward five years for females.

Sensitivity of Net Retiree Health Benefits Liability to the Health Care Cost Trend Rate

The following presents the June 30, 2017 net retiree health benefits liability of the Medical Center calculated using the June 30, 2017 health care cost trend rate assumption with initial trend ranging from 5.0 percent to 9.5 percent grading down to an ultimate trend of 5.0 percent over 15 years, as well as what the net retiree health benefits liability would be if it were calculated using a health care cost trend rate different than the current assumption:

(in thousands of dollars)

	1% Decrease (4.0% to 8.5%) Decreasing to (4.0%)	Current trend (5.0% to 9.5%) Decreasing to (5.0%)	1% Increase (6.0% to 10.5%) Decreasing to (6.0%)
Davis	$1,043,474	$1,227,803	$1,482,643
Irvine	488,161	574,394	693,615
Los Angeles	1,208,575	1,422,069	1,717,232
San Diego	710,254	835,720	1,009,181
San Francisco	1,510,679	1,777,540	2,146,483
Total	**$4,961,143**	**$5,837,526**	**$7,049,154**

Discount Rate

The discount rate used to estimate the net retiree health benefits liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The discount rate was based on the Bond Buyer 20-Bond General Obligation index since UCHRBT plan assets are not sufficient to make benefit payments.

Sensitivity of Net Retiree Health Benefits Liability to the Discount Rate Assumption

The following presents the June 30, 2017 net retiree health benefits liability of the Medical Center calculated using the June 30, 2017 discount rate assumption of 3.58 percent, as well as what the net retiree health benefits liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)

	1% Decrease (2.58%)	Current Discount (3.58%)	1% Increase (4.58%)
Davis	$1,471,092	$1,227,803	$1,047,844
Irvine	688,210	574,394	490,205
Los Angeles	1,703,852	1,422,069	1,213,637
San Diego	1,001,318	835,720	713,229
San Francisco	2,129,759	1,777,540	1,517,007
Total	**$6,994,231**	**$5,837,526**	**$4,981,922**

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources for retiree health benefits were related to the following sources as of the years ended June 30:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2017						
Deferred outflows of resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$8,740	$2,739	$62,419	$73,399	$221,729	$369,026
Changes of assumptions or other inputs	256,150	119,833	296,679	174,352	370,839	1,217,853
Net difference between projected and actual earnings on plan investments	220	103	255	150	319	1,047
Difference between expected and actual experience	5,588	2,614	6,472	3,803	8,090	26,567
Total	**$270,698**	**$125,289**	**$365,825**	**$251,704**	**$600,977**	**$1,614,493**
Deferred inflows of resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions		$22,719				$22,719
Changes of assumptions or other inputs	$217,515	101,759	$251,931	$148,055	$314,905	1,034,165
Difference between expected and actual experience	96,740	45,257	112,047	65,847	140,055	459,946
Total	**$314,255**	**$169,735**	**$363,978**	**$213,902**	**$454,960**	**$1,516,830**

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2016						
Deferred outflows of resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$8,823	$3,114	$5,369	$21,570	$78,716	$117,592
Changes of assumptions or other inputs	292,435	143,122	323,295	184,403	382,209	1,325,464
Net difference between projected and actual earnings on plan investments	156	76	172	98	204	706
Total	**$301,414**	**$146,312**	**$328,836**	**$206,071**	**$461,129**	**$1,443,762**
Deferred inflows of resources						
Difference between expected and actual experience	$109,892	$53,783	$121,488	$69,295	$143,627	$498,085
Total	**$109,892**	**$53,783**	**$121,488**	**$69,295**	**$143,627**	**$498,085**

The net amount of deferred outflows of resources and deferred inflows of resources related to retiree health benefits that will be recognized in retiree health benefit expense during the years ending June 30 is as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2018	$(981)	$(3,373)	$5,095	$7,685	$24,727	$33,153
2019	(981)	(3,373)	5,095	7,685	24,727	33,153
2020	(1,003)	(3,384)	5,069	7,670	24,695	33,047
2021	(1,025)	(3,394)	5,044	7,655	24,663	32,943
2022	(1,053)	(3,407)	5,012	7,637	24,623	32,812
Thereafter	(38,514)	(27,515)	(23,468)	(530)	22,582	(67,445)
Total	**$(43,557)**	**$(44,446)**	**$1,847**	**$37,802**	**$146,017**	**$97,663**

13. RETIREMENT PLANS

Substantially all full-time employees of the Medical Centers participate in the University of California Retirement System ("UCRS") that is administered by the University. The UCRS consists of The University of California Retirement Plan ("UCRP"), a single-employer defined benefit pension plan, and the University of California Retirement Savings Program ("UCRSP") that includes four defined contribution pension plans with several investment portfolios generally funded with employee non-elective and elective contributions. The Regents has the authority to establish and amend the benefit plans. Additional information on the retirement plans can be obtained from the 2016-2017 annual reports of the University of California Retirement System.

UCRP provides lifetime retirement income, disability protection, death benefits, and post-retirement and pre-retirement survivor benefits to eligible employees of the University and its affiliates. Membership is required in UCRP for all employees appointed to work at least 50 percent time for one year or more or for an indefinite period or for a definite period of a year or more. An employee may also become eligible by completing 1,000 hours within a 12-month period. Generally, five years of service are required for entitlement to plan benefits. The amount of pension benefit is determined under the basic formula of covered compensation times age factor times years of service credit. The maximum monthly benefit cannot exceed 100 percent of the employee's highest average plan compensation over a 36-month period, subject to certain limits imposed under the Internal Revenue Code. Annual cost-of-living adjustments (COLAs) are made to monthly benefits according to a specified formula based on the Consumer Price Index. Ad hoc COLAs may be granted subject to funding availability.

Contributions

Contributions to the UCRP may be made by the Medical Centers and the employees. The rates for contributions as a percentage of payroll are determined annually pursuant to The Regents' funding policy and based upon recommendations of the consulting actuary. The Regents determine the portion of the total contribution to be made by the Medical Centers and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements. Effective July 1, 2015, employee member contributions range from 7.0 percent to 9.0 percent. The University pays a uniform contribution rate of 14.0 percent of covered payroll on behalf of all UCRP members.

Employee contributions to UCRP are accounted for separately and currently accrue interest at 6.0 percent annually. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may also elect monthly retirement income or a lump sum equal to the present value of their accrued benefits.

Contributions were as follows during the years ended June 30:

(in thousands of dollars)

	2017			2016		
	Medical Center	**Employee**	**Total**	**Medical Center**	**Employee**	**Total**
Davis	$102,403	$58,672	$161,075	$95,435	$54,888	$150,323
Irvine	48,710	27,566	76,276	46,628	26,419	73,047
Los Angeles	111,966	63,142	175,108	105,103	59,559	164,662
San Diego	69,647	39,636	109,283	60,001	34,203	94,204
San Francisco	139,730	80,894	220,624	124,681	72,328	197,009
Total	**$472,456**	**$269,910**	**$742,366**	**$431,848**	**$247,397**	**$679,245**

Additional deposits were made by the University to UCRP of $481.0 million and $563.5 million for the fiscal years ended June 30, 2017 and 2016, respectively. The Medical Centers reported pension expense and an increase in the pension payable to the University for its portion of these additional deposits based upon their proportionate share of covered compensation for the year ended June 30 is as follows:

(in thousands of dollars)

	2017	2016
Davis	$32,007	$37,008
Irvine	15,263	18,113
Los Angeles	35,143	40,914
San Diego	21,797	23,337
San Francisco	43,612	48,369
Total	**$147,822**	**$167,741**

Net Pension Liability

The Medical Centers' proportionate share of the net pension liability for UCRP as of June 30 is as follows:

(in thousands of dollars)

	2017		2016	
	Proportion of the net pension liability	Proportionate share of net pension liability	Proportion of the net pension liability	Proportionate share of net pension liability
Davis	6.7%	$675,141	6.6%	$895,967
Irvine	3.2	321,946	3.2	438,524
Los Angeles	7.3	741,290	7.3	990,520
San Diego	4.5	459,781	4.1	564,996
San Francisco	9.1	919,943	8.6	1,171,002
Total	**30.8%**	**$3,118,101**	**29.8%**	**$4,061,009**

The Medical Centers' net pension liability was measured as of June 30, 2017 and 2016 and calculated using the plan net position valued as of the measurement date and total pension liability determined based upon rolling forward the total pension liability from the results of the actuarial valuations as of July 1, 2016 and 2015, respectively. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of certain events occurring far into the future. The Medical Centers' net pension liability was calculated using the following methods and assumptions:

(shown as percentage)	2017	2016
Inflation	3.0%	3.0%
Investment rate of return	7.25	7.25
Projected salary increases	3.8-6.2	3.8-6.2
Cost-of-living adjustments	2.0	2.0

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in 2017 and 2016 were based upon the results of an experience study conducted for the period July 1, 2010 through June 30, 2014. For pre-retirement mortality rates, the RP-2014 White Collar Employee Mortality Tables (separate table for males and females) projected with the two-dimensional MP-2014 projection scale to 2029 were used. For post-retirement, healthy mortality rates are based on the RP-2014 White Collar Healthy Annuitant Mortality Table projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females.

The long-term expected investment rate of return assumption for UCRP was determined in 2015 based on a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

(shown as percentage)

	Target Allocation	Long-term Expected Real Rate of Return
Asset class		
U.S. Equity	28.5%	6.1%
Developed International Equity	18.5	7.0
Emerging Market Equity	8.0	8.6
Core Fixed Income	12.5	0.8
High Yield Bonds	2.5	3.0
Emerging Market Debt	2.5	3.9
TIPS	4.5	0.4
Real Estate	5.5	4.8
Private Equity	8.0	11.2
Absolute Return	6.5	4.2
Real Assets	3.0	4.4
Total	**100.0%**	**5.6%**

Discount Rate

The discount rate used to estimate the net pension liability as of June 30, 2017 and 2016 was 7.25 percent. To calculate the discount rate, cash flows into and out of UCRP were projected in order to determine whether UCRP has sufficient cash in future periods for projected benefit payments for current members. For this purpose, Medical Center contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected Medical Center and member contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are not included. UCRP was projected to have assets sufficient to make projected benefit payments for current members for all future years.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the June 30, 2017 net pension liability of the Medical Center calculated using the June 30, 2017 discount rate assumption of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)

	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
Davis	$1,220,725	$675,141	$219,544
Irvine	582,113	321,946	104,691
Los Angeles	1,340,331	741,290	241,054
San Diego	831,332	459,781	149,512
San Francisco	1,663,354	919,943	299,149
Total	**$5,637,855**	**$3,118,101**	**$1,013,950**

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of the years ending June 30:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2017						
Deferred Outflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$18,863	$3,407	$17,823	$49,669	$110,206	$199,968
Changes of assumptions or other inputs	52,287	24,933	57,408	35,607	71,243	241,478
Difference between expected and actual experience	11,937	5,693	13,107	8,130	16,266	55,133
Total	**$83,087**	**$34,033**	**$88,338**	**$93,406**	**$197,715**	**$496,579**
Deferred Inflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$6,509	$11,103	$3,329	$4,369	$9,905	$35,215
Changes of assumptions or other inputs	25,208	12,020	27,677	17,167	34,347	116,419
Net difference between projected and actual earnings on pension plan investments	13,043	6,219	14,321	8,882	17,772	60,237
Difference between expected and actual experience	10,051	4,794	11,037	6,846	13,697	46,425
Total	**$54,811**	**$34,136**	**$56,364**	**$37,264**	**$75,721**	**$258,296**
2016						
Deferred Outflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$ 20,867	$ 10,107	$ 27,967	$ 28,847	$ 93,910	$ 181,698
Changes of assumptions or other inputs	117,557	57,537	129,962	74,131	153,643	532,830
Net difference between projected and actual earnings on pension plan investments	170,818	83,606	188,845	107,718	223,254	774,241
Difference between expected and actual experience	8,755	4,285	9,679	5,521	11,443	39,683
Total	**$ 317,997**	**$ 155,535**	**$ 356,453**	**$ 216,217**	**$ 482,250**	**$ 1,528,452**
Deferred Inflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$ 9,521	$ 11,653	$ 4,197	$ 10,181	$ 16,712	$ 52,264
Changes of assumptions or other inputs	57,612	28,197	63,691	36,330	75,296	261,126
Difference between expected and actual experience	17,763	8,694	19,638	11,201	23,216	80,512
Total	**$ 84,896**	**$ 48,544**	**$ 87,526**	**$ 57,712**	**$ 115,224**	**$ 393,902**

Net deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the years ending June 30 as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2018	$(18,243)	$(13,756)	$(16,212)	$(7,257)	$(3,991)	$(59,459)
2019	58,071	24,399	64,814	51,258	105,139	303,681
2020	26,444	10,074	27,578	27,530	56,933	148,559
2021	(39,610)	(20,684)	(45,286)	(19,863)	(42,175)	(167,618)
2022	1,614	(136)	1,080	4,474	6,088	13,120
Total	**$28,276**	**$(103)**	**$31,974**	**$56,142**	**$121,994**	**$238,283**

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

Orange County Employees Retirement System

Orange County Employees Retirement System (OCERS) administers a cost-sharing multi-employer defined benefit pension plan for the County of Orange, City of San Juan Capistrano and thirteen special districts. Certain employees of the University of California, Irvine Medical Center and Campus were eligible to continue to participate in OCERS at the time the hospital was acquired.

OCERS provides retirement, disability and death benefits. Plan retirement benefits are tiered based upon date of OCERS membership. Participation in the Plan for Irvine is closed to new members. Irvine Medical Center's share of net pension liability, deferred inflows of resources, deferred outflows of resources and pension expense have been determined based upon its specific actuarial accrued liability and a share of assets allocated in accordance with a formula set forth in OCERS' policy. The fiduciary net position and changes in net position have been measured consistent with the accounting policies used by the OCERS Plan.

Additional information on OCERS can be obtained from the 2016-2017 annual reports of the Orange County Employee Retirement System.

Membership in the OCERS Plan consisted of the following at December 31, 2016: 16,369 retired members and beneficiaries, 5,370 inactive members, 21,746 active members.

Contributions

Contribution rates for OCERS are set by the Board of Trustees.

Net Pension Liability

The Irvine Medical Center's proportionate share of the net pension liability was $18.1 million as of June 30, 2017 and 2016. Irvine's net pension liability for OCERS was measured as of June 30, 2017 and 2016, and the total pension liability was determined by an actuarial valuation as of December 31, 2016 and 2015 rolled forward to June 30, 2017 and 2016, respectively. The actuarial assumptions used in 2017 and 2016 were based on the results of an experience study for the period from January 1, 2011 through December 31, 2013. The net pension liability for the Plan was calculated based upon the following assumptions as of June 30, 2017 and 2016: 3.0 percent inflation, 7.25 percent investment rate of return, 4.25-13.5 percent projected salary increases and 3.0 percent cost-of-living adjustments.

The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption for each major asset class for the OCERS Plan are as follows:

(shown as percentage)	Target Allocation	Long-term Expected Real Rate of Return
Asset Class		
Large Cap U.S. Equity	14.9%	5.9%
Small/Mid Cap U.S. Equity	2.7	6.5
Developed International Equity	10.9	6.9
Emerging International Equity	6.5	8.3
Core Bonds	10.0	0.7
Global Bonds	2.0	0.3
Emerging Market Debt	3.0	4.0
Real Estate	10.0	5.0
Diversified Credit (U.S. Credit)	8.0	5.0
Diversified Credit (Non-U.S. Credit)	2.0	6.8
Hedge Funds	7.0	4.1
GTAA	7.0	4.2
Real Return	10.0	5.9
Private Equity	6.0	9.6
Total	**100.0%**	

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent for June 30, 2017 and 2016. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rate. For this purpose, only employer contributions will be made at rates equal to the actuarially determined contribution rates.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the current-period net pension liability calculated using the June 30, 2017 discount rate assumption of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension liability	$26,065	$18,057	$11,466

Deferred Outflows of Resources and Deferred Inflows of Resources

As of June 30, deferred outflows of resource and deferred inflows of resources were as follows:

(in thousands of dollars)	2017	2016
Deferred Outflows of Resources		
Difference between expected and actual experience	$491	$499
Net difference between projected and actual earnings on pension plan investments	586	1,549
Total	**$1,077**	**$2,048**
Deferred Inflows of Resources		
Difference between expected and actual experience	$443	$582
Changes in assumptions	703	925
Total	**$1,146**	**$1,507**

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions that will be recognized in pension expense during the next five years and thereafter is as follows:

(in thousands of dollars)	
Year Ending June 30	
2018	$(105)
2019	(106)
2020	232
2021	(113)
2022	23
Total	**$(69)**

Children's Hospital and Research Center Oakland Pension Plan

CHRCO administers the CHRCO Pension Plan as the Sponsor and plan assets are held by U.S. Bank (the Trustee). The CHRCO Pension Plan is a noncontributory defined benefit plan subject to the single employer defined benefit under ERISA rules that covers active and retired employees. The CHRCO Pension Plan was amended effective January 1, 2012 to exclude unrepresented employees hired or rehired on or after January 1, 2012. The CHRCO Pension Plan provides retirement, disability and death benefits to plan participants. Benefits are based on a participant's length of service, age at retirement and average compensation as defined by the CHRCO Pension Plan.

The net pension liability for the Plan was calculated based upon the following assumptions as of June 30, 2017 and 2016: 3.0 percent inflation, 7.0 percent investment rate of return, 5.0 percent projected salary increases through 2017, 4.0 percent afterward and no cost-of-living adjustments. CHRCO recognized pension expense of $20.0 million and $21.4 million for the years ended June 30, 2017 and 2016, respectively.

Mortality rates were based on the RP-2016 mortality with fully generational projected mortality improvements using modified scale MP-2016. TheMP-2016 projection scale was modified for this valuation to utilize the Social Security Administration's intermediate cost projection scale and a 15-year convergence period.

Additional information on the CHRCO Pension Plan can be found in the annual reports, which can be obtained by contacting CHRCO.

Condensed financial information for the CHRCO Pension Plan as of and for the years ended June 30, 2017 and 2016 are as follows:

(in thousands of dollars)	CHILDREN'S HOSPITAL & RESEARCH CENTER OAKLAND PENSION PLAN	
	2017	**2016**
CONDENSED STATEMENT OF PLAN FIDUCIARY NET POSITION		
Investments at fair value	$409,008	$353,446
Total assets	**409,008**	**353,446**
Net position held in trust	**$409,008**	**$353,446**
CONDENSED STATEMENT OF CHANGES IN PLAN'S FIDUCIARY NET POSITION		
Contributions	$28,800	$24,000
Investment and other income, net	41,256	214
Total additions	**70,056**	**24,214**
Benefit payment and participant withdrawals	11,767	9,509
Plan expense	2,727	1,816
Total deductions	**14,494**	**11,325**
Increase in net position held in trust	**55,562**	**12,889**
Net position held in trust		
Beginning of year	353,446	340,557
End of year	**$409,008**	**$353,446**
CHANGES IN TOTAL PENSION LIABILITY		
Service cost	$9,910	$10,410
Interest	29,672	27,782
Difference between expected and actual experience	33	(3,690)
Changes of benefit terms	2,442	24
Changes of assumptions or other inputs		3,613
Benefits paid, including refunds of employee contributions	(11,767)	(9,509)
Net change in total pension liability	**30,290**	**28,630**
Total pension liability		
Beginning of year	419,862	391,232
End of year	**450,152**	**419,862**
Net pension liability, end of year	**$41,144**	**$66,416**

Membership in the CHRCO Plan consisted of the following at June 30, 2017:

Retirees and beneficiaries receiving benefits	883
Inactive members entitled to, but not yet receiving benefits	1,095
Active members	1,926
Total membership	**3,904**

Contributions

Employer contributions for the CHRCO Plan are determined under IRC Section 430. Employees are not required or permitted to contribute to the Plan.

Net Pension Liability

The net pension liability for CHRCO was measured as of June 30, 2017, and the total pension liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an experience review conducted during 2015. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption for each major asset class for the CHRCO Plan are as follows:

(shown as percentage)	TOTAL ALLOCATION	LONG TERM EXPECTED REAL RATE OF RETURN
Asset class		
U.S. Equity	51.3%	5.2%
Developed International Equity	10.6	5.7
Emerging Market Equity	2.0	9.2
Core Fixed Income	36.1	0.8
Total	**100.0%**	

Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent for June 30, 2017 and 2016. The projection of cash flows used to determine the discount rate assumes that CHRCO will make contributions to the Plan under IRC Section 430's minimum requirements for a period of eight years, and that all future assumptions are met. Based on these assumptions, the CHRCO Plan's fiduciary net position is projected to be available to make all projected future benefit payments for current active and inactive employees.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the current-period net pension liability calculated using the June 30, 2017 discount rate assumption of 7.0 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	1% DECREASE (6.0%)	CURRENT ASSUMPTION (7.0%)	1% INCREASE (8.0%)
Net pension liability	$105,079	$41,144	$(11,643)

Deferred Outflows of Resources and Deferred Inflows of Resources

As of June 30, deferred outflows of resources and deferred inflows of resources were as follows:

(in thousands of dollars)	2017	2016
DEFERRED OUTFLOWS OF RESOURCES		
Difference between expected and actual experience	$4,356	$3,528
Changes of benefit terms	195	254
Changes of assumptions	21,768	27,877
Net difference between projected and actual earnings on pension plan investments	1,355	13,103
Total	**$27,674**	**$44,762**
DEFERRED INFLOWS OF RESOURCES		
Difference between expected and actual experience	$2,370	$3,030
Total	**$2,370**	**$3,030**

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions that will be recognized in pension expense during the next five years is as follows:

(in thousands of dollars)	
Year Ending June 30	
2018	$5,459
2019	10,772
2020	8,411
2021	329
2022	333
Total	**$25,304**

14. SELF-INSURANCE

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

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

(in thousands of dollars)	**2017**	**2016**
Davis	$8,384	$7,600
Irvine	6,454	6,246
Los Angeles	22,675	19,906
San Diego	10,309	8,763
San Francisco	20,246	17,249
Total	**$68,068**	**$59,764**

CHRCO's liabilities for medical malpractice, workers' compensation and health care claims changed as follows:

(in thousands of dollars)

	MEDICAL MALPRACTICE	WORKERS' COMPENSATION	EMPLOYEE HEALTH CARE	TOTAL
Year Ended June 30, 2017				
Balance at June 30, 2016	$4,425	$12,540	$1,864	$18,829
Claims incurred and changes in estimates	730	2,469	7,965	11,164
Claim payments	(592)	(2,788)	(8,154)	(11,534)
Liabilities at June 30, 2017	**$4,563**	**$12,221**	**$1,675**	**$18,459**
Discount rate	**Undiscounted**	**5.0%**	**Undiscounted**	
Year Ended June 30, 2016				
Liabilities assumed at January 1, 2016	$ 4,427	$ 11,197	$ 2,522	$18,146
Claims incurred and changes in estimates	730	4,283	8,547	13,560
Claim payments	(732)	(2,940)	(9,205)	(12,877)
Liabilities at June 30, 2016	**$ 4,425**	**$ 12,540**	**$ 1,864**	**$ 18,829**
Discount rate	**Undiscounted**	**5.0%**	**Undiscounted**	
Year Ended June 30, 2015				
Liabilities assumed at January 1, 2015	$ 4,619	$ 9,341	$ 2,131	$16,091
Claims incurred and changes in estimates	562	5,337	9,359	15,258
Claim payments	(754)	(3,481)	(8,968)	(13,203)
Liabilities at June 30, 2015	**$ 4,427**	**$ 11,197**	**$ 2,522**	**$ 18,146**
Discount rate	**Undiscounted**	**5.0%**	**Undiscounted**	

CHRCO has two irrevocable letters of credit with a bank totaling $10.8 million as of June 30, 2017, which is security for the workers' compensation large dollar insurance deductible. No amounts were drawn on the letter of credit as of June 30, 2017.

15. TRANSACTIONS WITH OTHER UNIVERSITY ENTITIES

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2017						
Salaries and employee benefits	$8,384	$6,454	$22,675	$10,309	$16,877	$64,699
Professional services	76,550	5,225	1,602	45,986	540,858	670,221
Other supplies and purchased services	9,602	41,182	79,102	9,602	38,208	177,696
Insurance and other	9,602	5,598	6,208	9,014	9,143	39,565
Interest income (expense), net	(7,548)	(3,621)	(16,540)	(5,599)	(11,737)	(45,045)
Total	**$96,590**	**$54,838**	**$93,047**	**$69,312**	**$593,349**	**$907,136**
2016						
Salaries and employee benefits	$7,600	$6,246	$19,906	$8,763	$22,597	$65,112
Professional services	65,260	5,245	1,398	48,160	495,590	615,653
Other supplies and purchased services	10,947	37,646	82,528	14,066	41,459	186,646
Insurance and other	9,925	5,878	1,375	8,205	8,224	33,607
Interest income (expense), net	(5,257)	(3,185)	(14,554)	(4,585)	(10,103)	(37,684)
Total	**$88,475**	**$51,830**	**$90,653**	**$74,609**	**$557,767**	**$863,334**

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

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2017						
Reported as operating expenses	$96,590	$54,838	$93,047	$69,312	$593,349	$907,136
Reported as health system support	28,088	59,727	175,341	109,586	84,898	457,640
Total payments to the University	**$124,678**	**$114,565**	**$268,388**	**$178,898**	**$678,247**	**$1,364,776**
2016						
Reported as operating expenses	$88,475	$51,830	$90,653	$74,609	$557,767	$863,334
Reported as health system support	41,387	65,081	176,852	96,570	64,055	443,945
Total payments to the University	**$129,862**	**$116,911**	**$267,505**	**$171,179**	**$621,822**	**$1,307,279**

16. COMPONENT UNIT INFORMATION

Condensed financial statement information related to CHRCO, for the years ended June 30, are as follows:

(in thousands of dollars)

	2017	2016
CONDENSED STATEMENT OF NET POSITION		
Current assets	$249,445	$195,918
Capital assets, net	295,766	275,951
Other assets	253,335	211,710
Total assets	**798,546**	**683,579**
Total deferred outflows of resources	**27,674**	**44,762**
Current liabilities	104,878	98,477
Long-term debt	103,592	
Other noncurrent liabilities	70,927	147,244
Total liabilities	**279,397**	**245,721**
Total deferred inflows of resources	**2,370**	**3,030**
Net investment in capital assets	191,683	222,236
Restricted	81,017	55,036
Unrestricted	271,753	202,318
Total net position	**$544,453**	**$479,590**

(in thousands of dollars)

	2017	2016
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		
Operating revenues		
Net patient service revenue	$530,515	$417,128
Grants and contracts	46,195	46,469
Other operating revenue	20,854	19,468
Operating expenses	(558,460)	(524,445)
Depreciation expense	(33,842)	(34,274)
Operating income (loss)	**5,262**	**(75,654)**
Non-operating revenues, net	42,151	2,899
Income (loss) before other changes in net position	**47,413**	**(72,755)**
Other, including donated assets	17,450	20,808
Increase (decrease) in net position	**64,863**	**(51,947)**
Net position - beginning of year	479,590	531,537
Net position - end of year	**$544,453**	**$479,590**
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	$37,041	$(13,671)
Noncapital financing activities	19,523	10,918
Capital and related financing activities	5,336	(19,092)
Investing activities	(14,452)	(289)
Net increase (decrease) in cash and cash equivalents	**47,448**	**(22,134)**
Cash and cash equivalents – beginning of year	71,414	93,548
Cash and cash equivalents – end of year	**$118,862**	**$71,414**

17. COMMITMENTS AND CONTINGENCIES

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

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

The Medical Centers have entered into various construction contracts. The remaining costs of the Medical Center projects, excluding interest, as of June 30, 2017 are estimated to be approximately:

(in thousands of dollars)	
Davis	$76,713
Los Angeles	7,074
San Diego	52,257
San Francisco	68,328
Total	**$204,372**

REQUIRED SUPPLEMENTARY INFORMATION
UCRP

The schedule of the Medical Centers' proportionate share of UCRP's net pension liability is presented below:

(in thousands of dollars)

AS OF JUNE 30	Proportion of the net pension liability	Proportionate share of net pension liability	Covered payroll	Proportionate share of the net pension liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
DAVIS					
2017	6.7%	$675,141	$732,307	92.2%	84.0%
2016	6.6	895,967	682,784	131.2	77.2
2015	6.5	627,561	635,120	98.8	82.9
2014	6.6	468,810	603,824	77.6	86.3
2013	6.5	690,989	563,695	122.6	78.3
2012	6.3	880,516	522,988	168.4	71.3
IRVINE					
2017	3.2%	$321,946	$349,207	92.2%	84.0%
2016	3.2	438,524	334,184	131.2	77.2
2015	3.2	308,211	311,924	98.8	82.9
2014	3.3	235,813	303,726	77.6	86.3
2013	3.3	345,341	281,722	122.6	78.3
2012	3.3	466,849	277,288	168.4	71.3
LOS ANGELES					
2017	7.3%	$741,290	$804,058	92.2%	84.0%
2016	7.3	990,520	754,840	131.2	77.2
2015	7.2	697,260	705,659	98.8	82.9
2014	7.3	513,936	661,946	77.6	86.3
2013	7.0	739,451	603,229	122.6	78.3
2012	6.6	928,298	551,368	168.4	71.3
SAN DIEGO					
2017	4.5%	$459,781	$498,712	92.2%	84.0%
2016	4.1	564,996	430,563	131.2	77.2
2015	4.0	385,387	390,029	98.8	82.9
2014	3.9	271,458	349,636	77.6	86.3
2013	3.8	405,012	330,401	122.6	78.3
2012	4.2	587,011	348,659	168.4	71.3
SAN FRANCISCO					
2017	9.1%	$919,943	$997,838	92.2%	84.0%
2016	8.6	1,171,002	892,379	131.2	77.2
2015	8.1	777,948	787,319	98.8	82.9
2014	7.4	523,452	674,202	77.6	86.3
2013	7.8	822,056	670,617	122.6	78.3
2012	7.5	1,044,811	620,572	168.4	71.3
TOTAL					
2017	30.8%	$3,118,101	$3,382,122	92.2%	84.0%
2016	29.8	4,061,009	3,094,750	131.2	77.2
2015	29.0	2,796,367	2,830,051	98.8	82.9
2014	28.5	2,013,469	2,593,334	77.6	86.3
2013	28.4	3,002,849	2,449,664	122.6	78.3
2012	27.9	3,907,485	2,320,875	168.4	71.3

REQUIRED SUPPLEMENTARY INFORMATION
CHRCO PENSION PLAN

The schedule of changes in the net pension liability for the CHRCO Pension Plan for the years ended June 30 is as follows:

(in thousands of dollars)	2017	2016	2015	2014
TOTAL PENSION LIABILITY				
As of June 30				
Service cost	$9,910	$10,410	$9,448	$9,274
Interest on the total pension liability	29,672	27,782	24,683	22,453
Changes of benefit terms	33	24	40	142
Difference between expected and actual experience	2,442	(3,690)	762	2,487
Changes of assumptions or other inputs		3,613	33,105	
Benefits paid, including refunds of employee contributions	(11,767)	(9,509)	(8,082)	(6,994)
Net change in total pension liability	**30,290**	**28,630**	**59,956**	**27,362**
Total pension liability - beginning of year	419,862	391,232	331,276	303,914
Total pension liability - end of year	**450,152**	**419,862**	**391,232**	**331,276**
PLAN NET POSITION				
Contributions - employer	28,800	24,000	18,000	14,500
Net investment income	41,256	214	11,797	48,704
Benefits paid, including refunds of employee contributions	(11,767)	(9,509)	(8,082)	(6,994)
Administrative expense	(2,727)	(1,816)	(1,222)	(718)
Net change in plan net position	**55,562**	**12,889**	**20,493**	**55,492**
Total plan net position - beginning of year	353,446	340,557	320,064	264,572
Total plan net position - end of year	**409,008**	**353,446**	**340,557**	**320,064**
Net pension liability - end of year	**$41,144**	**$66,416**	**$50,675**	**$11,212**

The schedule of net pension liability for the CHRCO Pension Plan as of June 30 is:

(in thousands of dollars)	2017	2016	2015	2014
Total pension liability	$450,152	$419,862	$391,232	$331,276
Plan net position	409,008	353,446	340,557	320,064
Net pension liability	**$41,144**	**$ 66,416**	**$50,675**	**$11,212**
Ratio of plan net position to total pension liability	90.9%	84.2%	87.0%	96.6%
Covered payroll	$184,083	$165,672	$177,986	$175,189
Net pension liability as a percentage of covered payroll	22.4%	40.1%	28.5%	6.4%

The schedule of employer contributions for the CHRCO Pension Plan for the years ended June 30 is:

(in thousands of dollars)	**2017**	**2016**	**2015**	**2014**
Actuarially calculated employer contributions	$5,642	$7,823	$12,200	$21,300
Contributions in relation to the actuarially calculated employer contribution	28,800	24,000	18,000	14,500
Annual contribution (excess) deficiency	**$(23,158)**	**$(16,177)**	**$(5,800)**	**$6,800**
Covered payroll	$184,083	$165,672	$177,986	$175,189
Actual contributions as a percentage of covered payroll	15.6%	14.5%	10.1%	8.3%

Notes to schedule

Methods and assumptions used to determine contribution rates:
Valuation date:
Actuarially calculated contributions are calculated as of January 1 of the end of the fiscal year in which contributions are reported.

Actuarially determined contribution	The Plan is subject to funding requirements under ERISA. The contribution shown is the IRC Section 430 minimum contribution prior to offset by credit balances prorated for the number of months in the fiscal year. For the period January 1, 2014 to June 30, 2014, the amount shown does not reflect changes in the Highway and Transportation Funding Act of 2014 (HATFA). The contribution for July 1, 2014 to June 30, 2016 includes HATFA.
Contributions in relation to the actuarially determined contribution	The amount shown is equal to the contributions contributed to the Plan during the fiscal year shown.
Actuarial cost method	Unit Credit Actuarial Cost Method.
Amortization method	Level dollar, closed amortization.
Remaining amortization period	7 years for changes in unfunded liabilities that occur each valuation date.
Asset valuation method	The actuarial value of assets is equal to the two-year average of Plan asset values as of the valuation date. The two-year average is the average of the two prior year's adjusted market value of assets and the current year's market value of assets. For this purpose, the prior years' market value of assets is adjusted to reflect benefit payments, administrative expenses, contributions and expected returns for the prior years. The resulting actuarial value of assets is adjusted to be within 10% of the market value of assets at the valuation date, as required by IRC Section 430.
Inflation	3.0%.
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation.
Projected salary increases	5.0%, including inflation through 2017, 4.0% afterward.
Cost-of-living adjustments	N/A.
Mortality	RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with generational adjustments for mortality improvements based on Scale AA.

REQUIRED SUPPLEMENTARY INFORMATION
OCERS

The schedule of Irvine's proportionate share of OCERS's net pension liability is presented below:

(in thousands of dollars)

AS OF JUNE 30	Proportion of the net pension liability	Proportionate share of net pension liability	Covered payroll	Proportionate share of the net pension liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2017	0.3%	$18,057	$ 44	41038.6%	34.5%
2016	0.3	18,092	285	6347.5%	34.8

REQUIRED SUPPLEMENTARY INFORMATION
RETIREE HEALTH BENEFITS

The schedule of the Medical Centers' proportionate share of UCRHBT's net retiree health benefits liability is presented below:

(in thousands of dollars)

	Proportion of the net retiree health benefits liability	Proportionate share of net retiree health benefits liability	Covered payroll	Proportionate share of the net retiree health benefits liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total retiree health benefits liability
DAVIS					
2017	6.6%	$1,227,803	$735,904	166.8%	0.6%
2016	6.6	1,385,392	682,784	202.9	0.3
2015	6.5	1,174,370	635,120	184.9	0.3
IRVINE					
2017	3.1%	$574,394	$344,334	166.8%	0.6%
2016	3.2	678,034	334,184	202.9	0.3
2015	3.2	576,719	311,924	184.9	0.3
LOS ANGELES					
2017	7.6%	$1,422,069	$852,389	166.8%	0.6%
2016	7.3	1,531,589	754,840	202.9	0.3
2015	7.2	1,304,836	705,659	184.9	0.3
SAN DIEGO					
2017	4.5%	$835,720	$500,922	166.8%	0.6%
2016	4.1	873,597	430,563	202.9	0.3
2015	4.0	721,260	390,029	184.9	0.3
SAN FRANCISCO					
2017	9.5%	$1,777,540	$1,065,427	166.8%	0.6%
2016	8.6	1,810,693	892,379	202.9	0.3
2015	8.1	1,455,873	787,319	184.9	0.3
TOTAL					
2017	31.3%	$5,837,526	$3,498,976	166.8%	0.6%
2016	29.8	6,279,305	3,094,750	202.9	0.3
2015	29.0	5,233,058	2,830,051	184.9	0.3

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