UNIVERSITY OF CALIFORNIA

Medical Centers Report

17/18

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
17/18 Annual Financial Report

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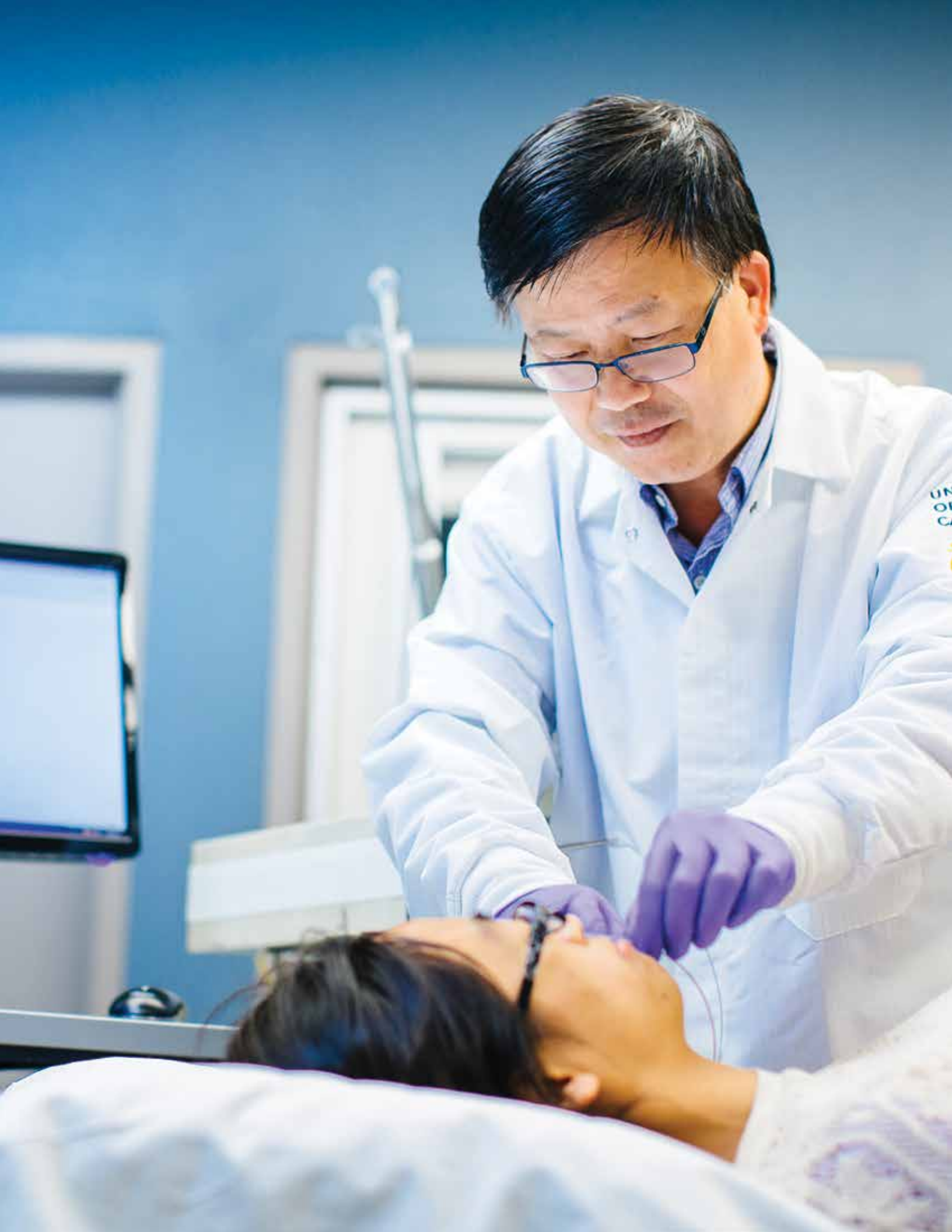


Letter from the Executive Vice President

UC Health is remarkable in its breadth and depth.

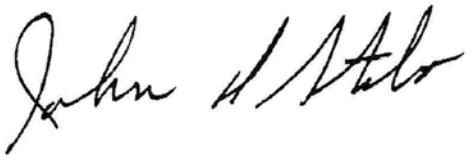
Our six health systems, including five nationally ranked academic medical centers, not only admit almost 175,000 inpatients annually but also handle more than 4.7 million outpatient visits. Our 18 health profession schools have nearly 15,000 students enrolled, generating nearly half of the state's graduates in dentistry, medicine, nursing, optometry, pharmacy, public health and veterinary medicine. By every metric, UC Health continues to grow year-over-year.

Even with this impressive scale, these are worrisome times in health care. Actions at the federal level are gradually reducing the number of Americans with health insurance, scaling back payments to safety net facilities under Medicare's Disproportionate Share Hospital (DSH) program, threatening the 340B Drug Program that makes expensive drugs more affordable, and offering little relief from the growing costs of residency programs or debt forgiveness for students.

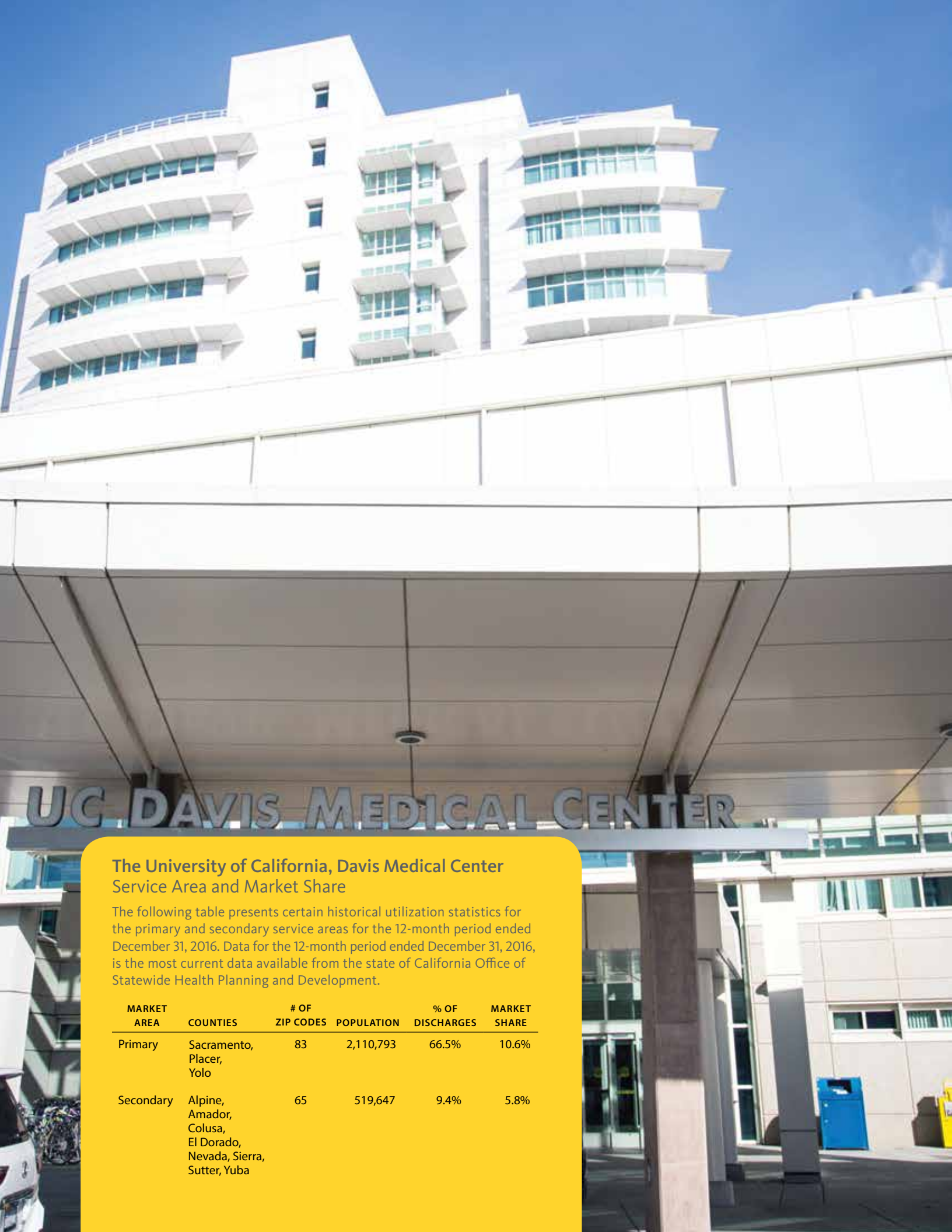
Although we remain concerned about these macroeconomic forces, we salute the notable achievements across the enterprise.

- All UC academic medical centers are among the nation's best hospitals, as recognized by *U.S. News & World Report* in its 2018-2019 rankings. Two of our medical centers are in the top 10 nationally, UCSF (6) and UCLA (7). And in California, each UC academic medical center is in the top 11: UCSF (1), UCLA (2), UC Davis (5), UC San Diego (9) and UC Irvine (11).
- We are a leader in supporting the health of Medi-Cal enrollees. Although comprising less than 6% of the acute care beds in California, we are Medi-Cal's third-largest provider of inpatient services. Systemwide, 36% of inpatient days are attributed to Medi-Cal, and at Davis and Irvine, it is as high as 41% and 45%, respectively.
- The Leveraging Scale for Value initiative (LSfV) continues to wring efficiencies in supply chain, revenue cycle, and information technology producing cumulative savings of more than $729 million.
- UC medical centers, which do not receive direct state funds for clinical care, have worked hard to achieve financial stability. As a result, they can provide financial support to our health profession schools, which in turn train the medical professionals so desperately needed in the state.
- Our efforts to share best clinical practices continues to advance, as UC medical centers enter into affiliations with physician groups, community hospitals, specialty clinics and Federally Qualified Health Centers (FQHCs).
- And we continue to expand our outpatient care capacity, with the opening of the Koman Family Outpatient Pavilion at UC San Diego Health and the new Berkeley Outpatient Center in San Francisco's East Bay, a collaboration between UCSF Health and John Muir Health.

These are the types of accomplishments that will propel UC Health forward, for the benefit of California, the nation 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	66.5%	10.6%
Secondary	Alpine, Amador, Colusa, El Dorado, Nevada, Sierra, Sutter, Yuba	65	519,647	9.4%	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 and the Betty Irene Moore School of Nursing at UC Davis, and it is the clinical core of the UC Davis Health system.

Licensed as a 625-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 an approximately 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 tertiary and quaternary care referral hospital for a 33-county, 65,000-square-mile service area with a population of more than six million. Its services range from heart and vascular surgery to transplant and neurological surgery. It is the only provider of several tertiary/quaternary services between San Francisco and Portland, including Level I adult and pediatric trauma care. It is also home to the region's only nationally ranked comprehensive children's hospital and a National Cancer Institute-designated comprehensive cancer center.

The Davis Medical Center participates in a variety of cooperative outreach activities with regional health care providers. The UC Davis Health Cancer Care Network is comprised of community-based cancer centers in Marysville, Merced, Bakersfield, Truckee/Tahoe and the southeastern Sierra. The Davis Medical Center's nationally recognized clinical telemedicine and rural affiliation programs have affiliations with community hospitals and Federally Qualified Health Centers (FQHCs), Adventist Health, the Veterans Administration, Lawrence Livermore National Laboratory and the adjacent Shriners Hospitals for Children — Northern California. The UC Davis Medical Group, supported by approximately 1,260 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* "Best Hospitals" 2018-2019 survey.
- The Davis Medical Center ranked as one of the nation's best hospitals for 2018-2019 in 11 adult medical specialties, including cancer care; cardiology and heart surgery; diabetes and endocrinology; ear, nose and throat; geriatrics; gynecology; nephrology; neurology and neurosurgery; orthopedics; pulmonology; and urology, according to the annual *U.S. News & World Report* "Best Hospitals" 2018-2019 survey.

- *U.S. News & World Report* also released ratings for common types of care or procedures for 2018-2019, and ranked the Davis Medical Center as high performing in abdominal aortic aneurysm repair, aortic valve surgery, chronic obstructive pulmonary disease, colon cancer surgery, heart bypass surgery, heart failure and lung cancer surgery. UC Davis was also designated as high performing in gastroenterology and gastrointestinal surgery in the medical specialties rankings.
- *U.S. News & World Report* also ranked the Davis Children's Hospital among the nation's top children's hospitals in five specialties in its 2018-2019 rankings, including neonatology, diabetes and endocrinology, and nephrology. Together with its longstanding partner, Shriners Hospitals for Children — Northern California, UC Davis Children's Hospital also ranked in orthopedics and urology.
- UC Davis Children's Hospital was re-verified for two years 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. UC Davis was the first hospital on the West Coast, and only the fourth in the nation at the time, to earn Level I status when originally verified in 2016.
- For the third consecutive year, *Becker's Hospital Review* included UC Davis Medical Center on its list of 100 Great Hospitals in America for 2017. 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 seventh consecutive year, the nation's largest lesbian, gay, bisexual, transgender and queer (LGBTQ) civil rights organization recognized the Davis Medical Center as a Leader in LGBTQ Healthcare Equality in 2017 for creating an inclusive and welcoming environment for LGBTQ patients and employees.
- UC Davis Health also earned its seventh consecutive "Most Wired" designation in 2017, 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.

Regional outreach and strategic initiatives

We are continuing to enhance our ability to provide the right care, at the right time, in the right place to support our ongoing commitments both to our academic mission and our strong operational and financial performance. Responding to our Community Needs Assessment research, we continue to increase affiliations with regional health care providers through seamless transfer and repatriation processes — supported by electronic health record interoperability, virtual delivery of health care expertise and regional partnerships — to ensure access to tertiary and quaternary services at the Davis Medical Center when needed. We are also increasing our partnerships with Federally Qualified Health Centers (FQHCs), recognizing these neighborhood clinics are often a convenient care destination for transportation-challenged populations. By working in partnership with FQHCs, the Davis Medical Center can help increase the quality of care provided as well as further expand access to health care services across its catchment area.

We envision continuing to have a larger footprint providing care at non-UC Davis hospitals through affiliations and contractual agreements, and providing a larger share of care through virtual and telemedicine visits to increase the quality and expertise of care delivered in Northern California's rural markets.

- The UC Davis telehealth program connects 30 specialties to 70 remote hospitals and clinic sites — as well as to the patient's home — enabling patients throughout California to receive direct clinical and specialty care without leaving their communities.
- Distance education offerings also train and update community providers on topics such as pain management and evidence-based mental health treatment.
- To enhance access to care at community hospital affiliates, UC Davis Health physicians deliver on-site expertise through rotation clinics and hospitalist programs. UC Davis already provides adult hospitalist services at Adventist Health Lodi Memorial hospital, for example, and in spring 2018 entered into a professional services agreement to greatly expand pediatric and neonatal care services there.
- A shared project announced in fall 2017 enables Placerville-based Marshall Medical Center to transition to a new, state-of-the-art, electronic health records system that allows health information sharing both within and beyond Marshall's clinical network, including with UC Davis Health.
- With our National Cancer Institute-designated comprehensive cancer center, UC Davis Health has regional Cancer Care Network partners located throughout California to bring advanced cancer care and the latest clinical research to patients in their local communities.

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, 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	Orange	91	1,956,091	67.9%	8.2%
Secondary	Orange, Los Angeles, Riverside, San Bernardino	80	2,053,127	19.5%	2.2%

The University of California, Irvine Medical Center

UC Irvine Medical Center is the primary teaching facility for UCI 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, UC Irvine Neuropsychiatric Center, Chao Family Comprehensive Cancer Center and the H. H. Chao Comprehensive Digestive Disease Center. The UC Irvine Medical Center 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 an exceptional patient experience.

As 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 the primary tertiary and quaternary care referral center for nearly four 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 designated 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 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 Medical Center 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 UCI campus. In addition to these locations, UC Irvine Medical Center 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 Medical Center 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 UCI School of Medicine.

Significant events during the year are highlighted below:

National recognition

For the 18th consecutive year, UC Irvine Medical Center is listed among "America's Best Hospitals" and the only Orange County hospital consistently rated among the nation's best, according to the 2018-2019 *U.S. News & World Report* survey. The annual rankings recognize hospitals that excel in treating the most challenging clinical conditions. The UC Irvine Medical Center program in urology and gynecology was rated among the country's top 50 in 2018. Since 2001, the magazine has listed UC Irvine Medical Center programs in urology, gynecology,

geriatrics, cancer, digestive disorders/gastroenterology & GI surgery, nephrology, orthopedics and ear, nose & throat among the top 50 nationwide.

In 2018, UC Irvine Medical Center received its eighth "A" grade in The Leapfrog Group's *Hospital Safety Grade*, which rates how well hospitals protect patients from errors, injuries and infections. UC Irvine Medical Center 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.

The Joint Commission renewed UC Irvine Medical Center's certification as a Comprehensive Stroke and Cerebrovascular Center. UC Irvine Medical Center was the first Orange County hospital to earn this designation, which is reserved for those institutions capable of receiving and treating the most complex stroke cases, including patients suffering ischemic and hemorrhagic strokes, and transient ischemic attacks.

The American College of Surgeons renewed verification of UC Irvine Medical Center's Level I adult and Level II pediatric trauma designations. UC Irvine Medical Center has been the leader in providing trauma services since Orange County created one of the nation's first inclusive trauma care systems in 1980.

UC Irvine Medical Center Clinical Network

Primary Care

- UC Irvine Medical Center 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. Plans are underway to expand to further locations.

Specialty Care

- UC Irvine Medical Center continues to expand its specialty care services in the coastal region, opening a Newport Beach specialty center that includes urology, executive health, behavioral health and sleep medicine services.

Major hospital and capital projects

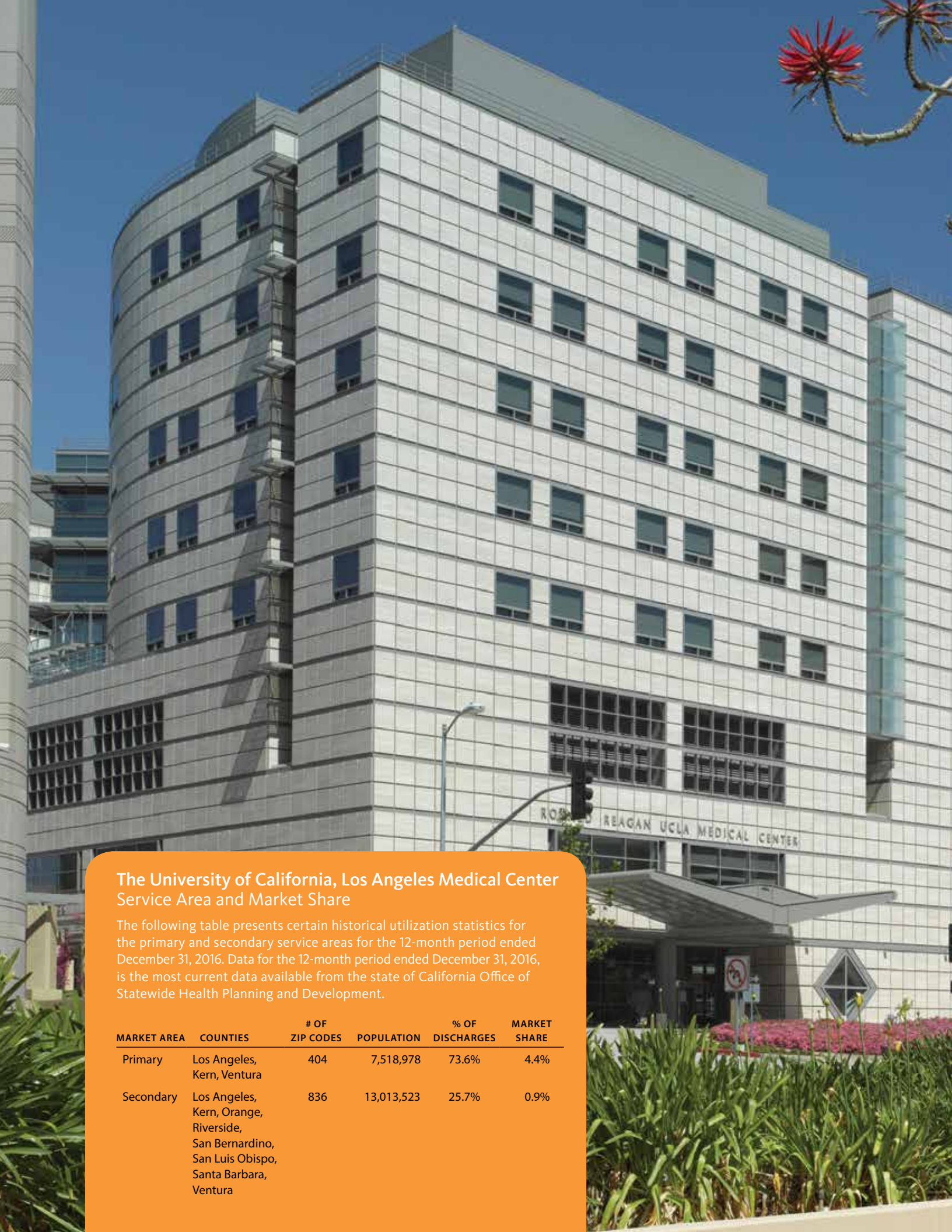
- Began an emergency department expansion that includes additional space for mental health assessments, an ambulance ramp canopy, an emergency department fast track space, expanded triage capabilities as well as staff lounge, lockers and restrooms.
- Upgraded chiller plant and electrical infrastructure systems serving UC Irvine Douglas Hospital, University Hospital Tower and the UC Irvine Medical Center Neuropsychiatric building, including undergrounding of utilities.
- Creation of an electric vehicle charging station to serve visitors and staff.
- Expansion of active security and safety infrastructure across the medical center campus.
- Improved patient access at Gottschalk Medical Plaza on the UC Irvine campus.

Information Services infrastructure

During 2018, Information Services (IS) implemented the following initiatives:

- Transition to a new electronic medical records system (Epic) in affiliation with UC San Diego. This was the first ever academic medical center (AMC) deployment of multiple AMCs on a single Epic instance.
- Transition from a mainframe-based revenue cycle system to a comprehensive, single platform for both clinical and revenue cycle data.
- Deployment of UC Health Data Warehouse across all of the University's health entities for improving population health and research.
- Continue to enhance the privacy and security of UC Irvine Medical Center's IS environment.

These activities position UC Irvine Medical Center to deliver world-class health care to our patient population.



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, 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	Los Angeles, Kern, Ventura	404	7,518,978	73.6%	4.4%
Secondary	Los Angeles, Kern, Orange, Riverside, San Bernardino, San Luis Obispo, Santa Barbara, Ventura	836	13,013,523	25.7%	0.9%

The University of California, Los Angeles Medical Center

The UCLA Medical Center (UCLA) is the hospital system of UCLA Health — an integrated and comprehensive health system, which also includes the UCLA Faculty Practice Group, responsible for the clinical care of UCLA Health patients.

UCLA Health 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 Orthopedic 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 construction of 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 and quaternary care offerings including Level I trauma care, regional neonatal and pediatric intensive care units (ICUs), neurosurgery/neurology, comprehensive cancer care, blood and marrow transplantation and solid 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

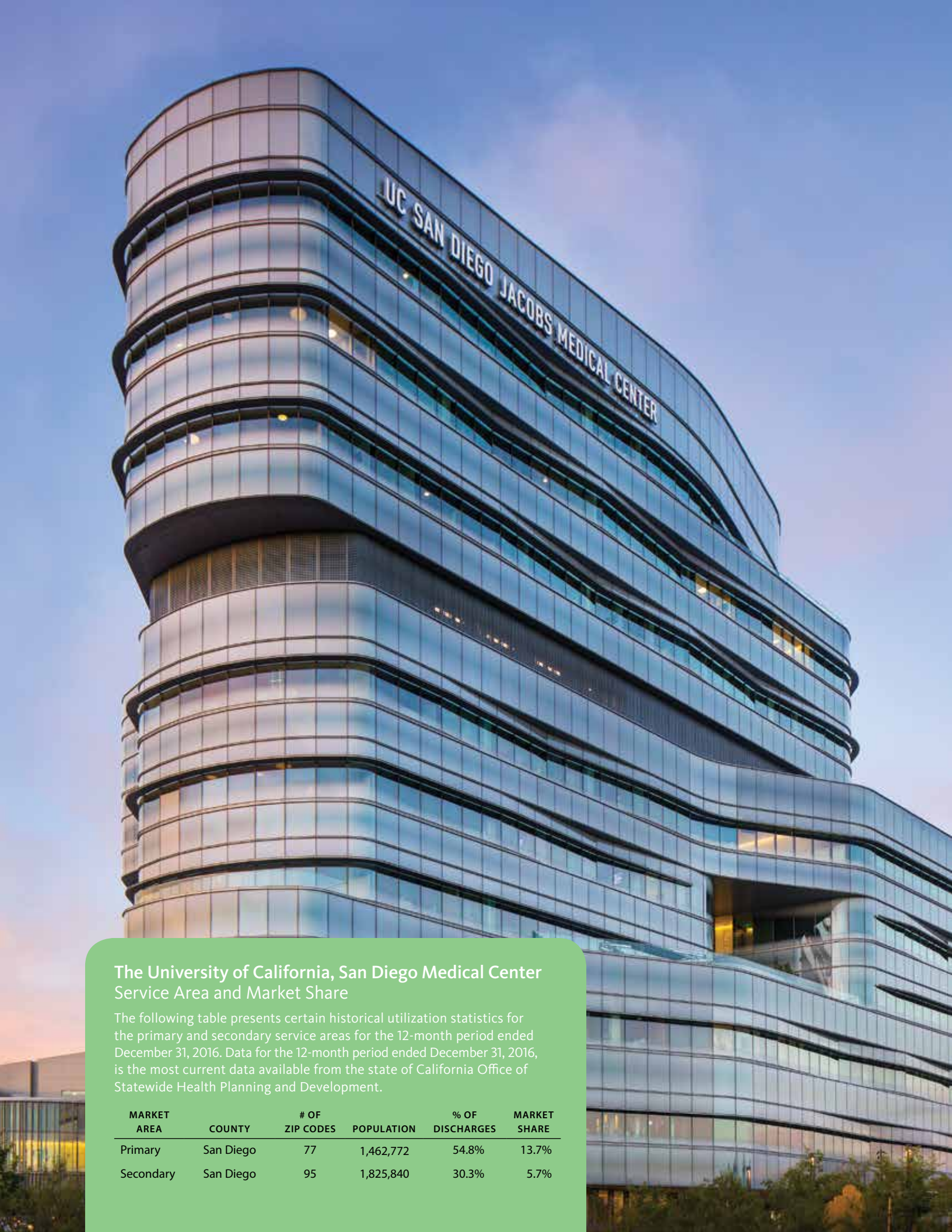
- UCLA Health hospitals in Westwood and Santa Monica once again placed No. 1 in Los Angeles, No. 2 in California and No. 7 in the nation on the Honor Roll in the 2018-2019 *U.S. News & World Report* "Best Hospitals" rankings.
- MCH was recognized in the annual Best Children's Hospital rankings published by *U.S. News & World Report* with eight specialties ranking on the *U.S. News & World Report* list of top programs in the country.

- DGSOM ranks No. 4 among best medical schools for primary care in the *U.S. News & World Report* annual survey of the best graduate schools in the U.S. DGSOM ranks No. 8 in the ranking of the nation's best medical schools for research.
- RRUCLA and SMUCLA each received an "A," the highest score possible, in The Leapfrog Group's data-driven assessment of quality and safety.
- RRUCLA led the nation in the number of solid organ transplants performed in 2017 and remained the overall transplant leader through the first half of 2018, including kidney, pancreas, lung, liver, heart and intestine transplants, according to the Organ Procurement and Transplantation Network. The UCLA Kidney Transplantation Program is the highest volume program in the nation.
- In February 2018, UCLA Health was one of the first hospitals in the country to launch the chimeric antigen receptor (CAR) T-cell therapy program for patients with blood cancers.
- The brain cancer program at UCLA's Jonsson Comprehensive Cancer Center and the UCLA Brain Tumor Center was designated a "Specialized Program of Research Excellence" by the National Cancer Institute in recognition of the program's exemplary achievements in research and patient care.
- RRUCLA and SMUCLA have received the American Heart Association's 2018 "Get with the Guidelines — Heart Failure Gold Plus Quality Achievement Award" and recognized on the "Target: Heart Failure" Honor Roll.
- The Ahmanson/UCLA Adult Congenital Heart Disease Center has received accreditation from the Adult Congenital Heart Association, a nationwide support organization.
- SMUCLA joined RRUCLA as a "Baby-Friendly Hospital," recognizing the hospitals as models for breastfeeding support.
- MCH was recognized with "High Risk Infant Follow-up Super Star Award" by the California Perinatal Quality Care Collaborative (CPQCC).
- UCLA's hospitals were each recognized as "LGBTQ Healthcare Equality Leader" as part of the Human Rights Campaign Foundation's Healthcare Equality Index 2018.
- UCLA Health has been designated an Antimicrobial Stewardship Centers of Excellence by the Infectious Diseases Society of America.
- RRUCLA, RNPH and SMUCLA were awarded an acute care Stage 7 award for highest level of electronic medical record progress at hospitals and health systems by HIMSS Analytics, a global healthcare advisor.
- RRUCLA ranks number one in patient-centered care, according to Vizient's quality and accountability review of 108 academic medical centers. SMUCLA ranked 19th in the patient-centered-care category, rising 41 ranks in one year.
- UCLA Medical Group received the UC Berkeley School of Public Health Right Care Initiative 2018 Award for excellence in diabetes blood sugar control.
- UCLA was the first U.S. hospital to implement the 3 Wishes Project, which honors dying patients and creates cherished memories for loved ones.
- UCLA Health social media ranks in the top 10 "The Best Social Media from America's Top Hospitals" list by *Convince & Convert*.
- UCLA Health ranked in the top 50 in the nation among all industries as America's Best Midsize Employers by *Forbes* and was named one of the "150 Top Places to work in Healthcare" in 2018 by *Becker's Hospital Review*.

UCLA Medical Center continues to work on strategic initiatives

UCLA Health and DGSOM have embarked on a unified strategic plan refresh designed to articulate a clear vision, accelerate systemwide integration and position UCLA for continued success amid funding and competitive pressures. UCLA's strategic activities remain focused on increasing tertiary and quaternary care delivery at the Westwood campus while expanding its primary and secondary care presence, including securing partners, to create a robust health care delivery platform for managing all aspects of high-quality health care delivery with convenient access. 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.

- UCLA Health Training Center, which serves as the official training center of the Los Angeles Lakers, opened in September 2017, in El Segundo.
- UCLA Health secured a patient-transfer agreement with the Southern California Hospital in Culver City for low-acuity emergency department patients who need inpatient admission.
- UCLA Mobile Stroke Unit, the first in California and on the West Coast, launched in October 2017, and is a partnership with the Santa Monica Fire Department and Los Angeles County Emergency Medical Services Agency, as a part of the 911 emergency response system.
- UCLA Health and DGSOM embarked on a new initiative providing consultation services to develop a new, state-of-the-art, hospital in Guangzhou, Guangdong, China. This three-party affiliation among UCLA, R&F Properties and Medpoint Health Partners will bring clinical excellence, superb patient experience, innovative technology and enhanced access to the region.



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, 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	COUNTY	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	San Diego	77	1,462,772	54.8%	13.7%
Secondary	San Diego	95	1,825,840	30.3%	5.7%

The University of California, San Diego Medical Center

UC San Diego Health maintains a two-campus strategy, fulfilling its three-part mission of clinical service, teaching, and research excellence at locations in Hillcrest and La Jolla. Each medical complex supports acute inpatient care, emergency services and a spectrum of outpatient programs. The two locations operate under one license with a capacity of 808 beds.

The UC San Diego Medical Center in Hillcrest (390 beds), established in 1966, serves as a principal clinical teaching site for the UC San Diego School of Medicine and is the focal point for community service missions. It is home to the area's only Regional Burn Center, and one of only two Level I trauma centers in San Diego County. The campus also includes the Owen Clinic, founded in 1982 and among the top HIV care programs nationally, as well as adult inpatient psychiatric care and intensive outpatient psychiatric care for older adults. Long-range plans are underway to modernize the Hillcrest campus, pending approval by the UC Regents.

The La Jolla campus (418 beds), located on the eastern portion of the main university campus, has been the center of substantial growth in the last decade. The expansion includes:

- The Koman Family Outpatient Pavilion opened in 2018, a four-story building that features eight operating rooms for surgeries that once required hospital stays, as well as specialty services in orthopedics and sports medicine, breast oncology and imaging, and other specialty services.
- The Jacobs Medical Center (245 beds) opened in 2016, a 10-story building with advanced surgery, oncology, and high-risk obstetrics & gynecology. It is adjacent to the seven-story Altman Clinical and Translational Research Institute, which also opened in 2016 and is a regional hub for translational medicine and clinical trials.
- The La Jolla campus also includes Moores Cancer Center, the primary site for outpatient oncology care with nearly 350 medical and radiation oncologists, surgeons and researchers, Shiley Eye Institute, a multi-specialty vision center with the region's only facility dedicated to children, and Sulpizio Cardiovascular Center, the inpatient facility for the newly created Cardiovascular Institute.

UC San Diego Health maintains strong reputation for patient care

UC San Diego Health was ranked among the nation's best in six adult medical and surgical specialties by *U.S. News & World Report* for 2018-2019. Specialties listed in the top 50 nationally include:

- **Cancer** — Anchored by Moores Cancer Center, the only National Cancer Institute-designated Comprehensive Cancer Center in the region.
- **Cardiology and Heart Surgery** — The region's first cardiovascular center, opened in 2011.

- **Geriatrics** — A pioneer in this field, UC San Diego Health now has a specialized Senior Emergency Care Unit within the La Jolla emergency department, which was accredited in 2018 by the American College of Emergency Physicians as a Level 1 designation, the highest possible. It is the first geriatric emergency department to be accredited by the state of California.
- **Neurology and Neurosurgery** — In 2018, UC San Diego Health added a second comprehensive stroke center as designated by the Joint Commission, making it the only healthcare provider in the region with two comprehensive centers.
- **Orthopedics** — UC San Diego Health is the Official Health Care Provider of the San Diego Padres, with a medical team led by orthopedic surgeons and sports medicine specialists.
- **Pulmonology** — For the past 10 years, it has been ranked in the top 20 for this medical specialty, largely for its role in pioneering the pulmonary thromboendarterectomy (PTE), an operation for removing blood clots from the pulmonary arteries to treat chronic pulmonary hypertension.

Other noteworthy accolades include:

Top Docs — More than 100 UC San Diego Health physicians in 45 medical specialties were voted "Top Docs" in 2017 by local physicians participating in the San Diego County Medical Society's annual survey.

Nursing excellence — With more than 1,880 RNs, 42 percent of whom hold certification in a nursing specialty, the American Nurses Credentialing Center recognizes UC San Diego Health as a Magnet hospital, considered among the highest recognitions for nursing excellence.

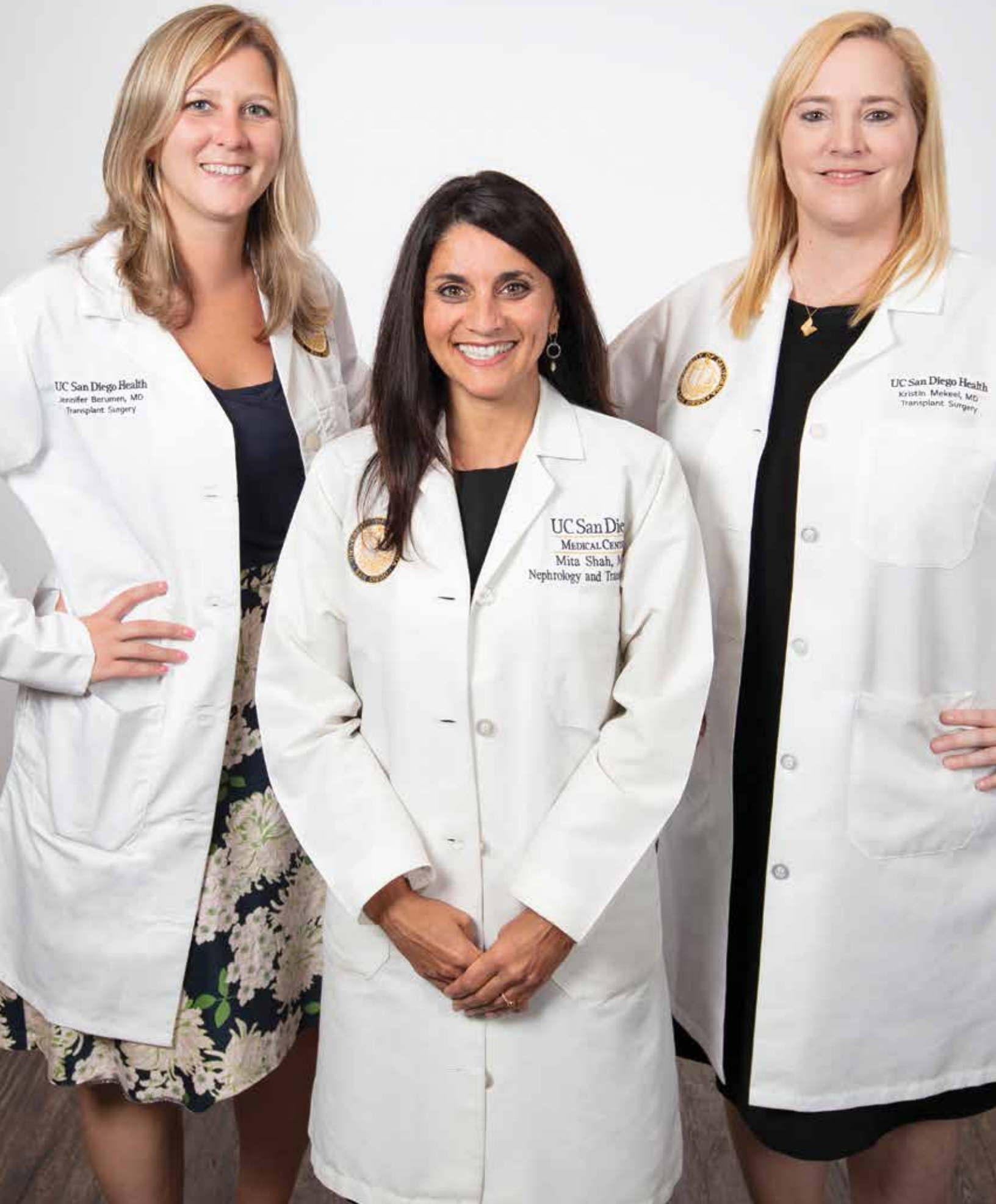
New center of excellence — In 2018, it was named a Lewy Body Dementia Association Research Center of Excellence, joining a network of 24 pre-eminent U.S. academic medical research centers studying and treating this common form of dementia.

Optimizing care in California — For the third year straight, it qualified in 2018 for more than 90 percent of the federal incentive payments available through its participation in the California Public Hospital Redesign and Incentives in Medi-Cal (PRIME) program, which is focused on optimizing the way care is delivered through California's safety net hospitals to improve population health and lower the costs of health care.

Healthcare equality — For the second straight year, it earned a perfect score on the 2018 Healthcare Equality Index (HEI) from the nation's largest LGBTQ civil rights organization.

Strategic growth to meet the region's demand for value-based care close to home

To meet current demand and expected growth in the future, UC San Diego Health is focusing on community care locations for primary care and ambulatory services. These locations feature convenient, close to home clinics offering same-day appointments, walk-in hours and online appointment scheduling. In the past two years, two Express Care clinics, one Urgent Care clinic and 19 urgent care sites with affiliated providers have opened.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Mita Shah,
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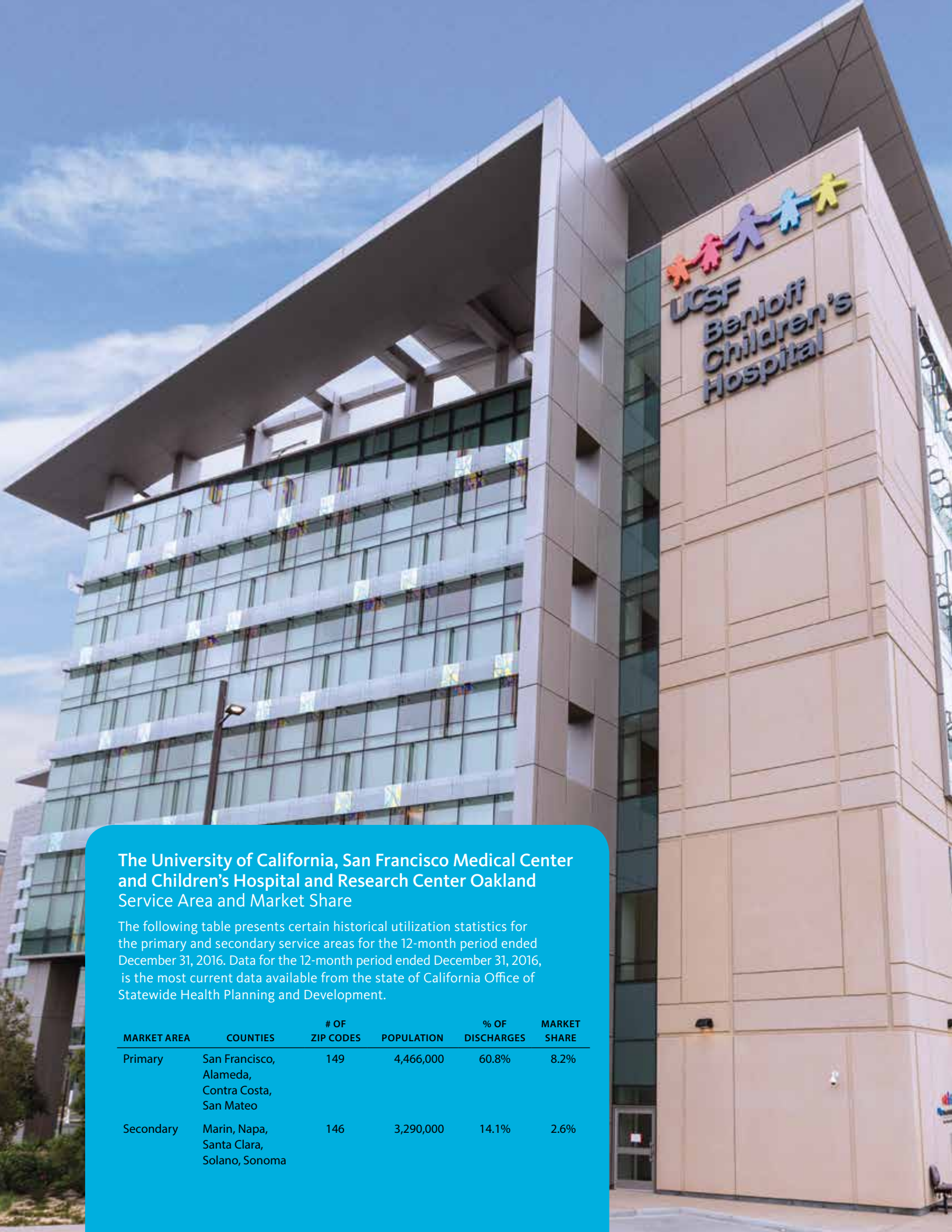
Kristin Mekeel, MD
Transplant Surgery



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, 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	San Francisco, Alameda, Contra Costa, San Mateo	149	4,466,000	60.8%	8.2%
Secondary	Marin, Napa, Santa Clara, Solano, Sonoma	146	3,290,000	14.1%	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 106-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 American College of Surgeons (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 top ranked hospital in California and a destination for patients with complex conditions from around the world.
- *U.S. News & World Report* ranked UCSF Medical Center the sixth best hospital in the country in its 2018-2019 survey and awarded Honor Roll status for exceptional performance in 15 medical specialties, including twelve in the top 10.
- UCSF Benioff Children's Hospitals are the top ranked hospitals in Northern California and nationally recognized by *U.S. News & World Report* in all ranked 10 specialties.
- The UCSF School of Medicine was ranked second and fifth in the nation by *U.S. News & World Report* in its survey for 2018-2019 best medical schools for its primary care training and research training, respectively — the only medical school in the country ranked in the top five in both categories.

- UCSF Medical Center 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 became the only institution in the country to receive a perfect score on the national LGBTQ Healthcare Equality Index (HEI) for nine 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, transgender and queer (LGBTQ) 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.
- During the year, construction was completed on the UCSF Benioff Children's Hospital Oakland Outpatient Center which was opened in May 2018. The new six-story building adds 89,000 square feet of exam rooms and clinical workspace and features the latest technology in a space designed specifically for children.
- UCSF Health continued to implement its Health System Strategic Plan to foster strategic alignments with other providers to provide more access to clinical care.
- 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 6,000 physicians, dozens of care centers and 18 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, Canopy Health grew to more than 24,000 members.
- In August 2017, 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 are providing consulting services at Dignity Health hospitals in the San Francisco Bay Area. The primary goal of the affiliation is to enhance medical, surgical and specialty care programs at the Bay Area Dignity Health hospitals and clinically integrate UCSF Health and Dignity Health Medical foundation physicians.
- In June 2018, the Berkeley Outpatient Center opened as a jointly operated and staffed facility with John Muir Health. The 90,000-square-foot center offers adult specialty and primary care, urgent care, and lab and imaging services.
- In July 2018, UCSF Health opened a new primary care practice in San Francisco. Located at China Basin, this office will serve the growing Mission Bay and surrounding community.
- In September 2018, UCSF Health signed a Master Alliance Agreement to expand clinical collaborations in Marin County, with the goal of improving patient care and strengthening physician practices for the local community.
- In September 2018, UCSF Health and Sonoma Valley Hospital signed a collaboration agreement to combine expertise and resources to share best practices and collectively enhance the quality of local services. This includes coordination of out-of-area transport of sick patients and transfer of patients back to Sonoma Valley for less-intensive care.

UCSF Health: Commitment to the Community

- 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 $852 million in uncompensated or under-compensated care in 2018.
- 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.


UCSF Medical Center
Human Performance Center
Lode
EXCALIBUR

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, 2018, with selected comparative information for the years ended June 30, 2017 and 2016. 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 (2016, 2017, 2018 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 Faculty Clinical Practices.

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, to the Vice Chancellor, Human Health Sciences; for the UC Irvine Medical Center and the UCSF Medical Center, to the applicable Medical Center Director; and for the UCLA Medical Center and the UCSD Medical Center, to the Vice Chancellor, Health 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						
2018	625	417	784	808	1,276	3,910
2017	627	417	784	808	1,276	3,912
2016	621	411	795	563	1,276	3,666
Admissions						
2018	34,763	22,086	40,438	31,715	45,837	174,839
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
Average daily census						
2018	535	344	729	552	760	2,920
2017	536	338	741	504	755	2,874
2016	502	338	744	476	719	2,779
Discharges						
2018	34,811	21,982	40,526	31,683	45,800	174,802
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
Average length of stay						
2018	5.6	5.7	6.6	6.4	6.1	6.1
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
Patient days						
2018	195,370	125,476	266,020	201,431	277,281	1,065,578
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
Case mix index[1]						
2018	1.91	1.83	2.03	2.03	2.06	
2017	1.87	1.83	2.00	1.96	1.97	
2016	1.80	1.81	1.99	1.91	1.96	
Outpatient visits						
2018	967,695	773,807	775,952	345,276	1,838,829	4,701,559
2017	1,007,187	786,917	776,341	311,659	1,704,965	4,587,069
2016	995,688	751,629	806,359	305,286	1,531,435	4,390,397

[1] *Case mix index is calculated at the patient level and is not determinable systemwide.*

Licensed Beds

Licensed beds changed as follows:

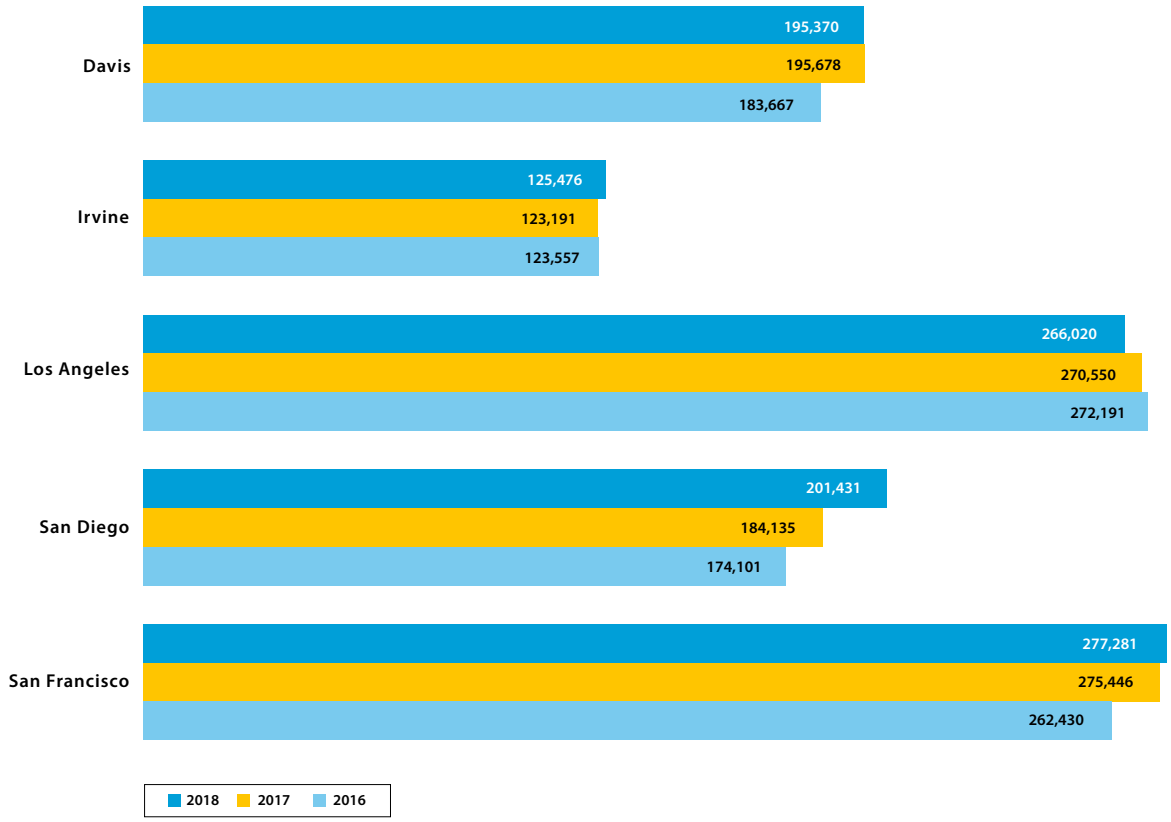
Increased (decreased)

	2018	2017	
Davis	(2)	6	Decrease in FY18 was a result of ongoing renovation in hospital. Increase in FY17 was due to space changes due to seismic compliance requirements.
Irvine		6	Licensed beds increased by six general acute care beds in 2017, with no change in 2018.
Los Angeles		(11)	Licensed beds decreased in FY17 due to the closure of the Ronald Reagan rehabilitation center.
San Diego		245	Jacobs Medical Center opened in November 2016 adding 245 new beds, with no change in 2018.

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 2018 as follows:

Increased (decreased)

	ADMISSIONS		PATIENT DAYS		
Davis	199	0.6%	(308)	(0.2%)	Admissions and patient days remained relatively stable.
Irvine	913	4.3	2,285	1.9	Admissions and patient days increased primarily due to higher volume in Emergency Department admissions.
Los Angeles	(528)	(1.3)	(4,530)	(1.7)	Admissions and patient days decreased due to lower Contract patient days.
San Diego	2,451	8.4	17,296	9.4	Increase primarily due to the first full year of operations at Jacobs Medical Center since its opening in November 2016.
San Francisco	357	0.8	1,835	0.7	Adult admissions and patient days increased but were offset by declines in children's volumes.

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 were higher due to an increase in the acuity of patients.
Irvine	396	1.9	(366)	(0.3)	Slight admissions increased and patient days decreased 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.

Outpatient Visits

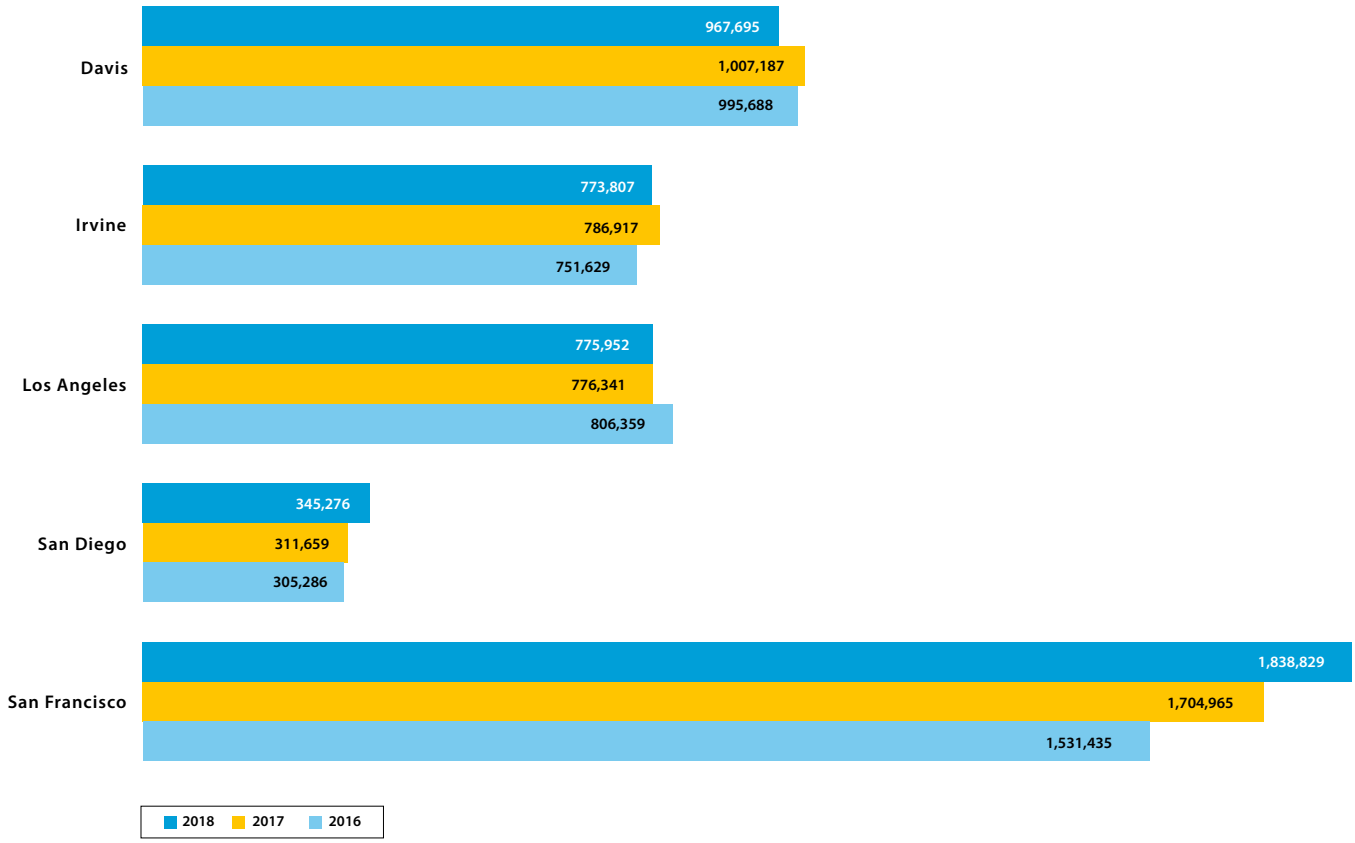
Outpatient services provided by the Medical Centers include clinic visits, primary care network, home health and hospice and emergency visits. The following presents outpatient services volume for the Medical Centers:

(shown in fiscal year)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2018						
Hospital clinics	449,590	662,285	693,053	267,049	1,736,684	3,808,661
Primary care network	434,804	58,842				493,646
Home health and hospice	24,148					24,148
Emergency visits	59,153	52,680	82,899	78,227	102,145	375,104
Total Medical Center outpatient visits	**967,695**	**773,807**	**775,952**	**345,276**	**1,838,829**	**4,701,559**
School of Medicine and other non-hospital clinic visits[1]	**22,525**	**20,681**	**1,867,904**	**567,792**		**2,478,902**
2017						
Hospital clinics	460,417	677,593	695,529	234,056	1,600,025	3,667,620
Primary care network	466,313	57,490				523,803
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 Medical Center outpatient visits	**1,007,187**	**786,917**	**776,341**	**311,659**	**1,704,965**	**4,587,069**
School of Medicine and other non-hospital clinic visits[1]	**19,091**	**74,760**	**1,742,158**	**515,501**		**2,351,510**
2016						
Hospital clinics	455,050	656,274	727,264	228,290	1,407,805	3,474,683
Primary care network	456,511	46,219				502,730
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 Medical Center outpatient visits	**995,688**	**751,629**	**806,359**	**305,286**	**1,531,435**	**4,390,397**
School of Medicine and other non-hospital clinic visits[1]	**13,529**	**123,779**	**1,629,438**	**472,166**		**2,238,912**

[1] *Related revenues not reported by the Medical Centers. All San Francisco clinic visits are reported as revenues by the Medical Center.*

The volume of total outpatient visits for the Medical Centers are as follows:



Total outpatient visits changed in 2018 as follows:

Increased (decreased)			
Davis	(39,492)	(3.9%)	Vacancies in positions and termination of contracts contributed to the decrease.
Irvine	(13,110)	(1.7)	Decrease due to planned reduction in ambulatory schedules during the EPIC conversion.
Los Angeles	(389)	(0.1)	Decrease due to a reduction in hospital clinic visits.
San Diego	33,617	10.8	Increase due to the first full year of operation at Jacobs Medical Center and clinic expansions at other locations.
San Francisco	133,864	7.9	Outpatient visits increased due to growth of outpatient programs, including the expansion of physical therapy services at the UCSF Mount Zion facility and clinical outreach to grow other targeted areas.

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	6,373	2.1	Clinic visits increased 2.5% 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.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

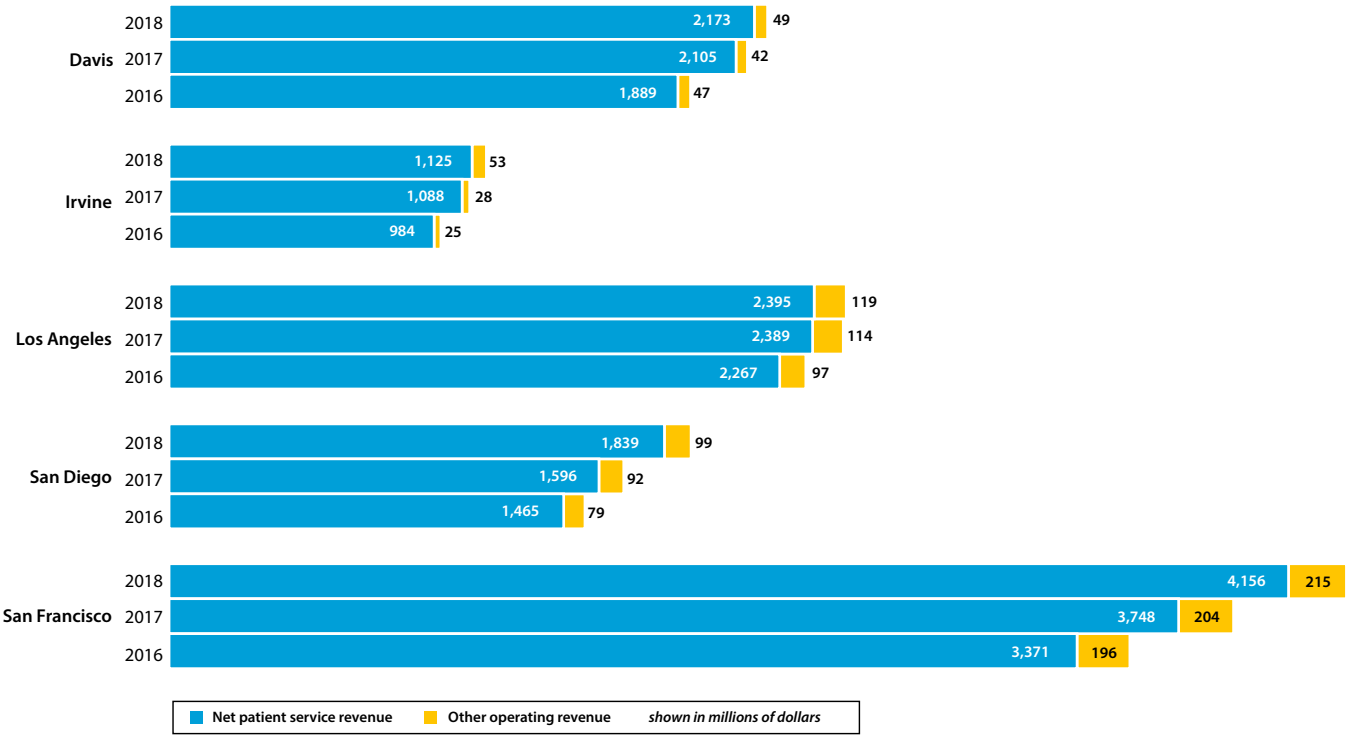
(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2018						
Net patient service revenue	$2,172,804	$1,124,757	$2,395,252	$1,838,912	$4,155,733	$11,687,458
Other operating revenue	48,957	52,747	118,813	99,317	214,673	534,507
Total operating revenue	2,221,761	1,177,504	2,514,065	1,938,229	4,370,406	12,221,965
Total operating expenses	2,045,569	1,042,663	2,394,047	1,813,765	4,242,116	11,538,160
Income from operations	176,192	134,841	120,018	124,464	128,290	683,805
Net non-operating revenues (expenses)	15,612	(12,761)	9,872	(24,959)	46,189	33,953
Income before other changes in net position	191,804	122,080	129,890	99,505	174,479	717,758
Other changes in net position	(46,757)	(30,886)	(201,812)	(155,601)	18,460	(416,596)
Increase (decrease) in net position	145,047	91,194	(71,922)	(56,096)	192,939	301,162
Net position - beginning of year	(708,545)	(352,244)	(266,302)	(34,676)	(367,706)	(1,729,473)
Net position - end of year	**($563,498)**	**($261,050)**	**($338,224)**	**($90,772)**	**($174,767)**	**($1,428,311)**
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
Net non-operating revenues (expenses)	9,467	(17,961)	(36,579)	(10,470)	24,134	(31,409)
Income (loss) before other changes in net position	173,179	47,589	81,201	9,106	(27,563)	283,512
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)	(75,151)	(99,252)
Net position - beginning of year	(852,162)	(349,128)	(181,496)	45,120	(292,555)	(1,630,221)
Net position - end of year	**($708,545)**	**($352,244)**	**($266,302)**	**($34,676)**	**($367,706)**	**($1,729,473)**
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)
Net non-operating revenues (expenses)	(461)	(20,450)	(24,398)	16	(14,756)	(60,049)
Income (loss) before other changes in net position	(40,105)	(45,953)	2,736	37,473	(270,133)	(315,982)
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)	(291,072)	(665,178)
Net position:						
Beginning of year, as previously reported	(762,997)	(242,683)	(14,190)	56,310	563	(962,997)
Cumulative effect of accounting change					(2,046)	(2,046)
Beginning of year, as restated	(762,997)	(242,683)	(14,190)	56,310	(1,483)	(965,043)
Net position – end of year	**($852,162)**	**($349,128)**	**($181,496)**	**$45,120**	**($292,555)**	**($1,630,221)**

Revenues

Patient service revenue depends on inpatient occupancy levels, the volume of outpatient visits, the complexity of care provided and the 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 2018 as compared to 2017 are as follows:

Increased (decreased) in millions of dollars

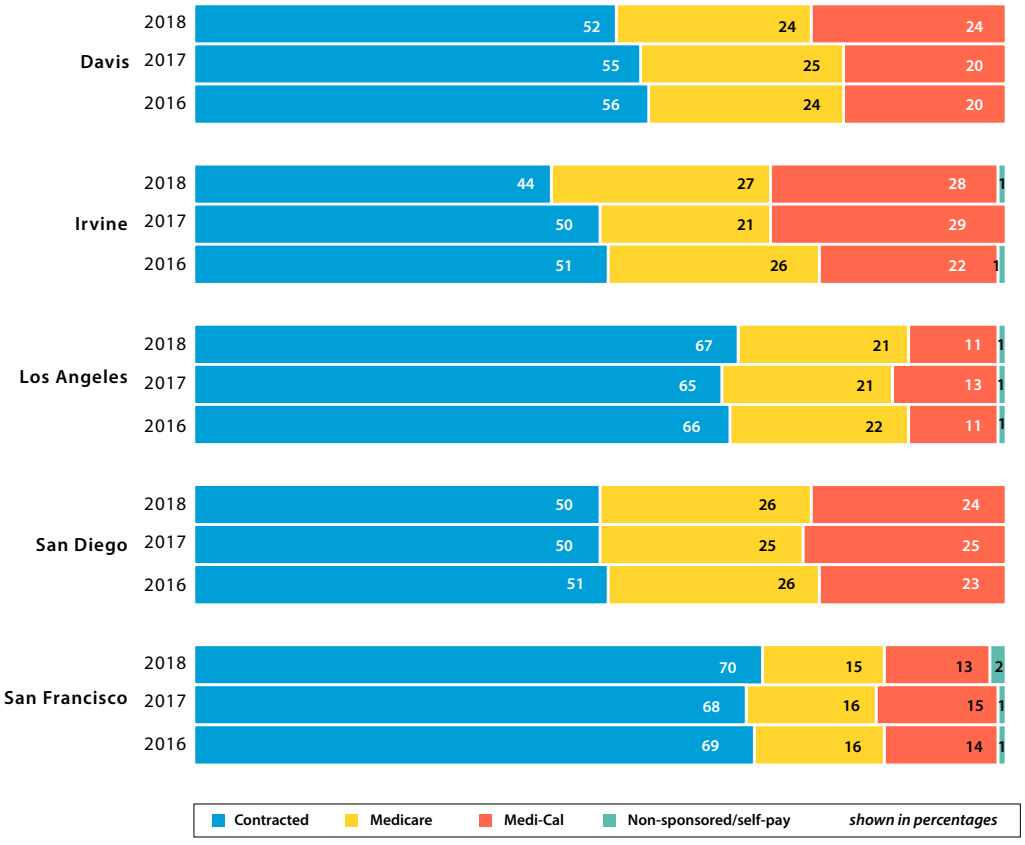
	TOTAL OPERATING REVENUE		NET PATIENT SERVICE REVENUE		
Davis	$74.4	3.5%	$67.3	3.2%	Increase due to growth of patient volume, as well as large settlement with a third party for prior year services.
Irvine	61.2	5.5	36.4	3.3	Increase due to growth of patient volume as well as 340B and specialty pharmacy revenue.
Los Angeles	11.5	0.5	6.3	0.3	Increase due to a slight growth in volume and additional supplemental funding.
San Diego	250.1	14.8	243.0	15.2	Increase due to 9.5% growth in patient census, increased complexity of cases and contract price increases.
San Francisco	418.7	10.6	407.6	10.9	Increase due to growth in patient volumes, primarily outpatient, improvements in reimbursement rates and overall patient acuity levels and prior year Medicare cost report settlements.

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.

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 2018 as follows:

Davis	Medi-Cal increased due to a large settlement received in the current year. Additionally, capitated revenue decreased due to the termination of a large contract.
Irvine	Payor mix changed primarily with increased Medicare offset by a decrease in contract revenue.
Los Angeles	Payor mix changed primarily with a decrease in Medi-Cal and an increase in contracts as a result of a shift from traditional Medi-Cal to Medi-Cal managed care plans. All other payors remained relatively consistent with prior year.
San Diego	Overall payor mix was stable although this year continued the shift away from traditional Medi-Cal towards Medi-Cal managed care plans.
San Francisco	Payor mix changed primarily with a decrease in Medi-Cal and an increase in contracts as a result of a shift from traditional Medi-Cal to Medi-Cal managed care plans.

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 (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 the 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.

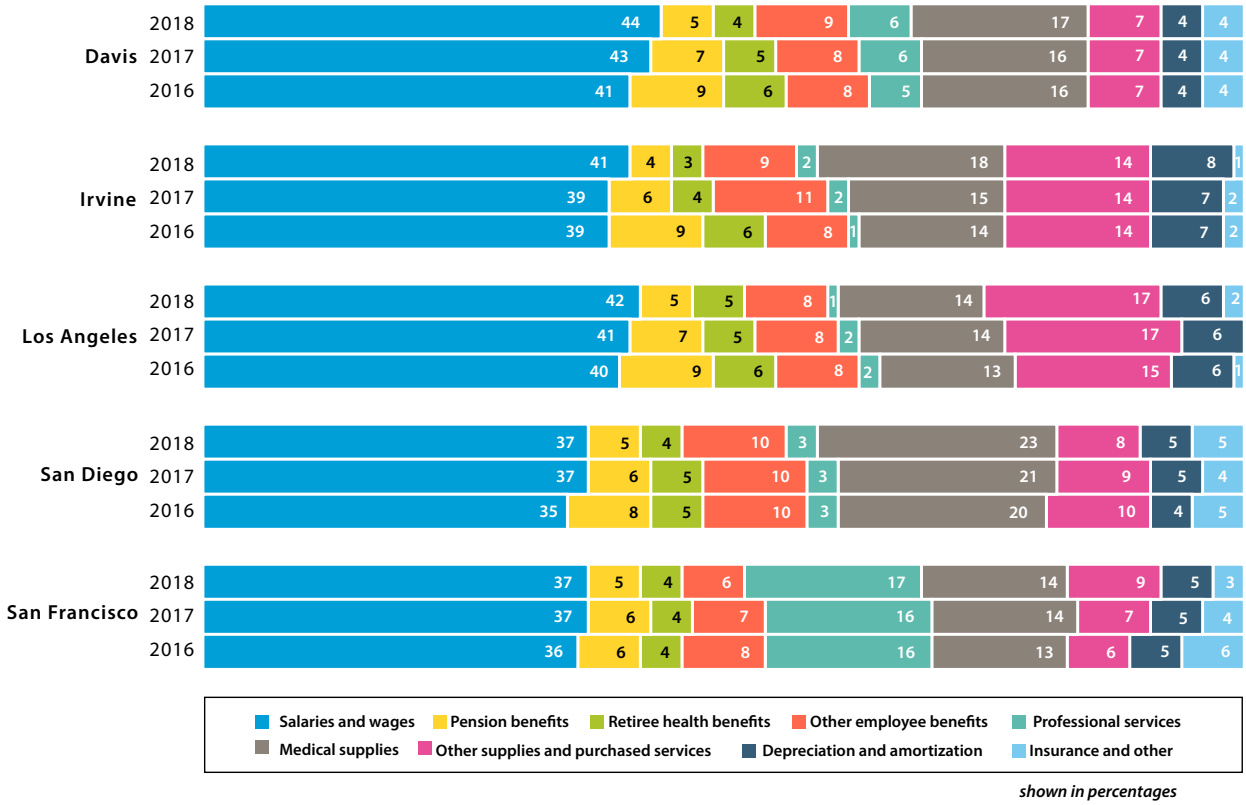
Operating Expenses

Operating expenses fluctuate based on patient statistics, including inpatient occupancy levels, the volume of outpatient visits and the mix of services provided. Additionally, expenses are impacted by inflation and ongoing cost containment efforts by the Medical Centers. The following table summarizes the operating expenses for the Medical Centers:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2018						
Salaries and wages	$898,454	$427,120	$1,011,430	$671,513	$1,589,405	$4,597,922
Pension benefits	107,400	37,541	121,203	86,068	194,567	546,779
Retiree health benefits	89,497	34,908	109,242	77,397	161,755	472,799
Other employee benefits	174,866	89,914	202,184	185,116	269,081	921,161
Professional services	129,586	22,414	35,315	63,125	726,528	976,968
Medical supplies	344,284	183,205	346,885	408,936	609,932	1,893,242
Other supplies and purchased services	139,897	145,814	404,539	150,869	368,743	1,209,862
Depreciation and amortization	76,331	78,723	147,785	93,379	216,292	612,510
Insurance and other	85,254	23,024	15,464	77,362	105,813	306,917
Total	**$2,045,569**	**$1,042,663**	**$2,394,047**	**$1,813,765**	**$4,242,116**	**$11,538,160**
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	318,791	1,155,180
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	98,861	281,672
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	292,693	1,091,322
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	114,245	278,524
Total	**$1,974,918**	**$1,035,154**	**$2,336,904**	**$1,507,201**	**$3,822,694**	**$10,676,871**

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



Total operating expenses changed in 2018 as follows:

Increased (decreased) in millions of dollars			
Davis	$61.9	3.1%	Lower pension and retiree health expenses were offset by hourly wage increases. Supply costs are consistent with volume.
Irvine	(8.1)	(0.8)	Lower pension and retiree health benefits were offset by a net increase in salaries mainly due to rate changes. Other employee benefits — vacation accrual was a one-time charge in fiscal year 2017. Medical supply costs increased consistent with volume.
Los Angeles	9.3	0.4	Increases in salaries, other employee benefits, medical supplies, and other supplies and purchased services due to volume increases and wage rate increases.
San Diego	145.2	8.7	Overall increase reflects 9.5% increase in patient census.
San Francisco	238.7	6.0	Increase due to higher patient volumes and annual cost inflation offset by lower pension and retiree health costs.

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 were 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.

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 favorable changes in pension and retiree health expenses, offset by higher salaries.

(shown as percentage)

	2018	2017	2016	
Davis	57.2%	58.3%	65.7%	Decrease due to lower pension and retiree health costs offset by an increase in salaries.
Irvine	50.1	57.1	64.0	Payroll increase was offset by pension and retiree health benefits decrease.
Los Angeles	57.4	58.3	62.2	Decrease due to lower pension and retiree health benefit expense partially offset by an increase in wages.
San Diego	52.6	57.8	56.9	Decrease due to revenue growth higher than growth in salaries, and reduced pension and retiree health expense.
San Francisco	50.7	54.9	58.8	Decrease due to lower pension and retiree health benefit expense offset by an increase in salaries and wages resulting from increased patient volumes.

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

Increased (decreased) in millions of dollars

	2018						2017					
	Salaries and Wages		FTEs		Rate Changes		Salaries and Wages		FTEs		Rate Changes	
Davis	$54.0	6.4%	216	2.7%	$31.5	3.6%	$44.2	5.5%	174	2.2%	$26.6	3.3%
Irvine	19.4	4.8	(21)	(0.5)	21.4	5.3	1.1	0.3	(52)	(1.2)	4.1	1.1
Los Angeles	39.0	4.0	118	1.3	26.2	2.7	47.8	5.2	123	1.3	34.9	3.8
San Diego	51.0	8.2	363	5.4	17.6	2.8	92.4	17.5	818	13.9	19.2	3.6
San Francisco	92.4	6.2	214	1.8	66.0	4.3	107.2	7.7	464	4.0	51.9	3.6

Employee benefits changed as follows:

Increased (decreased) in millions of dollars

	2018						2017					
	Pension		Retiree Health		Other Employee Benefits		Pension		Retiree Health		Other Employee Benefits	
Davis	($31.3)	(22.6%)	($15.3)	(14.6%)	$11.4	7.0%	($47.0)	(25.3%)	($19.4)	(15.6%)	$2.1	1.3%
Irvine	(28.4)	(43.1)	(11.2)	(24.3)	(28.3)	(23.9)	(25.6)	(28.0)	(14.5)	(24.0)	30.6	34.9
Los Angeles	(35.9)	(22.8)	(18.4)	(14.4)	0.6	0.3	(54.1)	(25.6)	(9.2)	(6.7)	4.0	2.0
San Diego	(16.3)	(16.0)	(2.3)	(2.9)	11.2	6.4	(17.2)	(14.4)	(0.6)	(0.7)	23.5	15.6
San Francisco	(29.3)	(13.1)	(16.1)	(9.1)	(3.6)	(1.3)	(24.2)	(9.7)	7.4	4.4	(16.0)	(5.5)

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. The Medical Centers are required to contribute at a rate set by The Regents. Employer contribution rates were 14.0 percent in 2018, 2017 and 2016, of covered compensation. Pension expense is allocated to the Medical Centers based on their proportionate share of covered compensation for the fiscal year. Pension expense fluctuates primarily based on expected as compared to actual investment returns and the trend in the Medical Centers' proportionate share of the net pension liability. Pension expenses were lower in 2018 and 2017 due to higher than expected investment returns. Pension expense and contributions for the Medical Centers related to UCRP were as follows:

(In thousands of dollars)

	2018		2017		2016	
	Medical Center Pension Expense	Pension Contributions	Medical Center Pension Expense	Pension Contributions	Medical Center Pension Expense	Pension Contributions
Davis	$107,400	$111,593	$138,692	$102,403	$185,667	$95,435
Irvine	38,750	48,153	63,997	48,710	90,499	46,628
Los Angeles	121,203	122,001	157,056	111,966	211,154	105,103
San Diego	86,068	79,580	102,403	69,647	119,576	60,001
San Francisco	172,233	153,693	203,864	139,730	226,586	124,681
Total	**$525,654**	**$515,020**	**$666,012**	**$472,456**	**$833,482**	**$431,848**

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. 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 2018 and 2017 due to the increases in the discount rate. Retiree health benefits expenses and contributions for the Medical Centers are as follows:

(In thousands of dollars)

	2018		2017		2016	
	Retiree Health Expense	Retiree Health Contributions	Retiree Health Expense	Retiree Health Contributions	Retiree Health Expense	Retiree Health Contributions
Davis	$89,497	$22,535	$104,795	$21,562	$124,210	$20,334
Irvine	34,908	10,170	46,113	10,089	60,645	10,433
Los Angeles	109,242	26,042	127,609	24,975	136,790	23,664
San Diego	77,397	16,088	79,684	14,677	80,253	12,780
San Francisco	161,755	33,182	177,865	31,217	170,434	28,147
Total	**$472,799**	**$108,017**	**$536,066**	**$102,520**	**$572,332**	**$95,358**

Other employee benefits fluctuated due to changes in the number of employees and 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 2018 as follows:

Increased (decreased) in millions of dollars			
Davis	$9.6	8.0%	Increases are primarily due to professional network costs for physician services.
Irvine	(1.8)	(7.5)	Decrease due to fewer medical directors and lower consulting costs.
Los Angeles	(5.0)	(12.5)	Decrease due to lower legal fees, lower costs related to consulting and management fees due to cessation of information technology and revenue cycle projects.
San Diego	13.8	28.0	Increase primarily due to realignment of call coverage fees paid to several physician specialties.
San Francisco	66.1	10.0	Increase due to growth of patient volumes. Professional services include the UCSF Faculty Clinical Practices, while other UC Health entities only reflect hospital performance.

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.

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 2018 as follows:

Increased (decreased) in millions of dollars			
Davis	$33.3	10.7%	Increases in volume and utilization of higher priced pharmaceuticals contributed to the change.
Irvine	27.3	17.5	Increase due to new specialty pharmacy opening in fiscal year 2018 therefore increasing pharmaceutical supplies cost.
Los Angeles	19.9	6.1	Increase due to higher pharmaceutical costs, increased surgical volumes and transplant cases.
San Diego	60.4	17.3	Increase primarily reflects higher patient volume and inflation, particularly for pharmaceuticals.
San Francisco	66.8	12.3	Increase primarily due to higher pharmaceutical and blood costs for high cost treatment therapies.

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 increased due to higher surgical volume and pharmaceutical expense increased 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.

Other Supplies and Purchased Services

Other supplies and purchased services include non-medical supplies, medical purchased services, repairs and maintenance.

Other supplies and purchased services changed in 2018 as follows:

Increased (decreased) in millions of dollars			
Davis	($1.5)	(1.0%)	Other supplies and purchased services are consistent with prior year.
Irvine	0.9	0.6	Slight increase in non-medical supplies offset by decrease in purchased services.
Los Angeles	2.0	0.5	Increase in repairs and maintenance costs and an increase in genetic testing.
San Diego	3.3	2.3	Increase was below growth in patient census and reflects process improvements.
San Francisco	50.0	15.7	Increase due to higher purchased medical services as a result of increased patient volumes and repair and maintenance costs.

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	26.1	8.9	Increase due to higher repair and maintenance costs and higher externally purchased medical services due to greater patient volume.

Depreciation and Amortization

Depreciation and amortization expense changed in 2018 as follows:

Increased (decreased) in millions of dollars			
Davis	($2.5)	(3.2%)	Deferred capital maintenance resulted in lower depreciation expense.
Irvine	9.5	13.6	Increase due to EPIC project and Chao Comprehensive Digestive Disease Center being placed into service.
Los Angeles	4.9	3.5	Increase due to completed projects and new equipment that were capitalized during the year.
San Diego	16.6	21.6	Increase reflects first full year of Jacobs Medical Center, opening of Koman Family Outpatient Pavilion in March 2018, and other projects and equipment.
San Francisco	5.4	2.6	Increase due to the completion of the Benioff Children's Hospital Oakland Outpatient Center and new equipment placed in service during the year.

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.

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)

	2018		2017		2016	
	Income from Operations	Operating Margin	Income (loss) from Operations	Operating Margin	Income (loss) from Operations	Operating Margin
Davis	$176.2	7.9%	$163.7	7.6%	($39.6)	(2.0%)
Irvine	134.8	11.5	65.5	5.9	(25.5)	(2.5)
Los Angeles	120.0	4.8	117.8	4.7	27.1	1.1
San Diego	124.5	6.4	19.6	1.2	37.5	2.4
San Francisco	128.3	2.9	(51.7)	(1.3)	(255.4)	(7.2)
Total	**$683.8**		**$314.9**		**($255.9)**	

In 2018 and 2017, operating results improved due to increased volumes, higher supplemental revenues and lower pension and retiree health benefits expenses. Operating results also improved in San Diego and San Francisco as a result of increased volumes related to opening new hospitals in 2017 and 2015, respectively.

Non-Operating Revenues (Expenses)

Non-operating revenues and expenses include Hospital Fee Program revenue, federal subsidies for bond interest, private gifts, investment income, interest expense and changes in fair value expense and losses on disposals of capital assets. Non-operating revenues and expenses for the years that ended June 30 are as follows:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
Net non-operating revenues (expenses):						
2018	$15,612	($12,761)	$9,872	($24,959)	$46,189	$33,953
2017	9,467	(17,961)	(36,579)	(10,470)	24,134	(31,409)
2016	(461)	(20,450)	(24,398)	16	(14,756)	(60,049)

Net non-operating revenues (expenses) improved (declined) in 2018 as follows:

Change in millions of dollars			
Davis	$6.1	64.9%	Capitalization of interest costs resulted in lower expense, while higher cash balances and outstanding notes receivables resulted in more interest income.
Irvine	5.2	29.0	Net non-operating expenses decreased due to increase in grant and interest income.
Los Angeles	46.5	127.0	Increase is primarily due to an increase in revenue from the Hospital Fee Program grants, an increase in investment income and a decrease in interest expense. In the prior year, there was a significant loss on a hedge termination.
San Diego	(14.5)	(138.4)	Decrease is due to interest expense for full year of Jacobs Medical Center.
San Francisco	22.1	91.4	Increase due to additional Hospital Fee Program grants, increases in investment income and contributions.

Net non-operating revenues (expenses) improved (declined) in 2017 as follows:

Change in millions of dollars			
Davis	$9.9	2,153.6%	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)	(65,537.5)	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	38.9	263.6	Investment income increased from the prior year.

Income (Loss) Before Other Changes in Net Position

Income (loss) before other changes in net position fluctuates consistent with operating results. Income (loss) before other changes in net position for the Medical Centers is as follows:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2018	$191,804	$122,080	$129,890	$99,505	$174,479	$717,758
2017	173,179	47,589	81,201	9,106	(27,563)	283,512
2016	(40,105)	(45,953)	2,736	37,473	(270,133)	(315,982)

Changes in income (loss) before other changes in net position in 2018 are as follows:

Increased (decreased) in millions of dollars			
Davis	$18.6	10.8%	The increase is due to higher volume which outpaced expenses, along with one-time third-party settlements.
Irvine	74.5	156.5	Overall increase due to increase in patient revenue offset by decreases in pension, retiree health benefits and non-operating expenses.
Los Angeles	48.7	60.0	Increase is primarily due to the reduction in pension and retiree health benefits expense.
San Diego	90.4	992.7	Increase primarily due to revenue from higher patient census that outpaced expenses.
San Francisco	202.0	733.0	Increase due to higher patient volumes which outpaced expenses including a reduction in pension and retiree health expenses and prior year Medicare cost report settlements.

Changes in income (loss) before other changes in net position in 2017 are 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	2,867.9	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	242.6	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.

Other 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 for various programs. Transfers from the respective campuses to fund capital projects are reported as contributions for building programs. 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
2018	($46,757)	($30,886)	($201,812)	($155,601)	$18,460	($416,596)
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)

Other changes in net position changed in 2018 as follows:

Increased (decreased) in millions of dollars			
Davis	($17.2)	(58.2%)	The change is primarily due to the Medical Center transferring an under utilized building to the University. Additionally, there were initiatives executed by the University, but funded by the Medical Center.
Irvine	19.8	39.1	The change is due to increased patient revenues and lower pension and related expenses.
Los Angeles	(35.8)	(21.6)	Payments for health system support, representing transfers to the School of Medicine in support of the overall strategic plan.
San Diego	(66.7)	(75.0)	Decrease primarily due to slow down of gifts and donations now that primary fundraising for Jacobs Medical Center is complete; and increased payments for health system support.
San Francisco	66.0	138.8	Change is due to funds donated for the construction of the Precision Cancer Medical Building offset by an increase in health system support.

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 Medi-Cal 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.

STATEMENTS OF NET POSITION

The statements of net position for 2017 and 2016 for San Francisco have been restated for an accounting change related to irrevocable split-interest agreements that was implemented in 2018. 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
2018						
Current assets:						
Cash and cash equivalents	$741,159	$331,844	$943,930	$293,548	$823,411	$3,133,892
Net patient accounts receivable	248,467	155,384	330,172	321,636	594,448	1,650,107
Short-term investments and other current assets	149,804	101,758	392,120	139,660	230,295	1,013,637
Total current assets	**1,139,430**	**588,986**	**1,666,222**	**754,844**	**1,648,154**	**5,797,636**
Restricted assets	45,783	41,547	10,928	4,138	78,109	180,505
Capital assets, net	1,080,332	759,413	1,717,689	1,661,760	2,375,485	7,594,679
Investments and other noncurrent assets	105,448		94,761	20,214	215,288	435,711
Total assets	**2,370,993**	**1,389,946**	**3,489,600**	**2,440,956**	**4,317,036**	**14,008,531**
Deferred outflows of resources	**330,997**	**128,954**	**454,015**	**401,567**	**775,863**	**2,091,396**
Liabilities:						
Current liabilities	408,938	230,244	471,304	246,776	655,904	2,013,166
Long-term debt	342,030	335,335	908,811	792,429	922,666	3,301,271
Net pension liability	643,552	292,837	706,286	460,577	910,558	3,013,810
Net retiree health benefits liability	1,215,567	548,548	1,404,685	867,819	1,789,855	5,826,474
Other liabilities	266,959	138,408	343,508	290,933	404,824	1,444,632
Total liabilities	**2,877,046**	**1,545,372**	**3,834,594**	**2,658,534**	**4,683,807**	**15,599,353**
Deferred inflows of resources	**388,442**	**234,578**	**447,245**	**274,761**	**583,859**	**1,928,885**
Net position:						
Net investment in capital assets	698,049	421,341	780,373	847,607	1,447,759	4,195,129
Restricted	45,783	41,547	10,884		77,245	175,459
Unrestricted	(1,307,330)	(723,938)	(1,129,481)	(938,379)	(1,699,771)	(5,798,899)
Total net position	**($563,498)**	**($261,050)**	**($338,224)**	**($90,772)**	**($174,767)**	**($1,428,311)**

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2017						
Current assets:						
Cash and cash equivalents	$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
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	195,072	543,023
Total assets	**2,134,213**	**1,331,363**	**3,542,920**	**2,393,095**	**3,970,861**	**13,372,452**
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 pension liability	675,141	340,003	741,290	459,781	961,088	3,177,303
Net retiree health benefits liability	1,227,803	574,394	1,422,069	835,720	1,777,540	5,837,526
Other noncurrent 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**	**547,394**	**1,794,421**
Net position:						
Net investment in capital assets	640,415	393,404	790,467	857,221	1,396,747	4,078,254
Restricted	86,748	69,703	11,138		89,739	257,328
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)**	**($367,706)**	**($1,729,473)**

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2016						
Current assets:						
Cash and cash equivalents	$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
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 pension liability	895,967	456,616	990,520	564,996	1,237,418	4,145,517
Net retiree health benefits liability	1,385,392	678,034	1,531,589	873,597	1,810,693	6,279,305
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)**

Cash and Cash Equivalents

Cash and cash equivalents changed in 2018 as follows:

Increased (decreased) in millions of dollars			
Davis	$112.8	17.9%	Increase in cash is due to the strong operational performance as well as an increase in interest.
Irvine	(11.0)	(3.2)	Decrease due to payments to suppliers, salaries and employee benefits outpacing accounts receivable collections.
Los Angeles	(63.8)	(6.3)	Decrease is primarily due to the pay-off of the Note Payable to Campus.
San Diego	(101.3)	(25.7)	Decrease due to construction and opening of Koman Family Outpatient Pavilion and increased health system support.
San Francisco	196.7	31.4	Increase due to the result of strong financial performance from hospital operations.

Cash and cash equivalents 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.

Patient Accounts Receivable

Patient accounts receivable, net of estimated uncollectible accounts, changed in 2018 as follows:

Increased (decreased) in millions of dollars			
Davis	$5.9	2.4%	Higher volume was offset by improved collections.
Irvine	32.9	26.9	Increase due to EPIC revenue cycle conversion.
Los Angeles	12.9	4.1	Increase due to timing of payments from Medi-Cal and Contract payors.
San Diego	67.3	26.5	Increase primarily due to the opening of new facilities near the end of the fiscal year and payer related issues that temporarily increased days in patient receivables at year end.
San Francisco	39.6	7.1	Increase due to higher patient volumes.

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.

Capital Assets

Net capital assets changed in 2018 as follows:

Increased (decreased) in millions of dollars			
Davis	$50.1	4.9%	Ongoing construction resulted in higher capital expenditures.
Irvine	24.9	3.4	Increase due to EPIC system and construction of chiller plant and electrical systems.
Los Angeles	(31.9)	(1.8)	Annual depreciation exceeded capital projects for the year.
San Diego	40.8	2.5	Increase primarily due to construction of Komen Family Outpatient Pavilion.
San Francisco	25.9	1.1	Increase due to the construction of the Precision Cancer Medical Building and the Benioff Children's Hospital Oakland Outpatient Center.

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.

Long-term Debt

Long-term debt, including the current portion, changed in 2018 as follows:

Increased (decreased) in millions of dollars			
Davis	($21.4)	(5.6%)	Debt service payments were made reducing the long-term debt.
Irvine	(3.0)	(0.9)	Debt service payments were made reducing the long-term debt.
Los Angeles	(24.4)	(2.5)	Debt service payments were made reducing the long-term debt.
San Diego	44.6	5.8	Increase primarily due to equipment financing arrangements related to Koman Family Pavilion, net of scheduled debt service payments.
San Francisco	(5.4)	(0.6)	Debt service payments were made reducing 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.

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)

	2018		2017		2016	
	Proportionate Share	Net Pension Liability	Proportionate Share	Net Pension Liability	Proportionate Share	Net Pension Liability
Davis	6.8%	$643,552	6.7%	$675,141	6.6%	$895,967
Irvine	3.0	279,015	3.2	321,946	3.2	438,524
Los Angeles	7.5	706,286	7.3	741,290	7.3	990,520
San Diego	4.9	460,577	4.5	459,781	4.1	564,996
San Francisco	9.4	886,409	9.1	919,943	8.6	1,171,002
Total	**31.6%**	**$2,975,839**	**30.8%**	**$3,118,101**	**29.8%**	**$4,061,009**

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 7.8 percent in 2018, positive 14.5 percent in 2017 and negative 2.0 percent in 2016. The discount rate used to estimate the net pension liability was 7.25 percent in 2018, 2017 and 2016.

The Irvine Medical Center's proportionate share of the net pension liability for the Orange County Employee Retirement System was $13.8 million, $18.1 million and $18.1 million as of June 30, 2018, 2017 and 2016, respectively.

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 $24.1 million, $41.1 million and $66.4 million as of June 30, 2018, 2017 and 2016, respectively, and the liability is reported by San Francisco.

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)

	2018		2017		2016	
	Proportionate Share	Net Retiree Health Benefits Liability	Proportionate Share	Net Retiree Health Benefits Liability	Proportionate Share	Net Retiree Health Benefits Liability
Davis	6.6%	$1,215,567	6.6%	$1,227,803	6.6%	$1,385,392
Irvine	3.0	548,548	3.1	574,394	3.2	678,034
Los Angeles	7.7	1,404,685	7.6	1,422,069	7.3	1,531,589
San Diego	4.8	867,819	4.5	835,720	4.1	873,597
San Francisco	9.8	1,789,855	9.5	1,777,540	8.6	1,810,693
Total	**31.9%**	**$5,826,474**	**31.3%**	**$5,837,526**	**29.8%**	**$6,279,305**

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, 2018, 2017 and 2016 was 3.87 percent, 3.58 percent and 2.85 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 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 its 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 cash on hand.

Days cash on hand are as follows:

	2018	2017	2016
Davis	137	120	90
Irvine	126	128	96
Los Angeles	191	164	150
San Diego	62	91	118
San Francisco	92	77	61

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 and collection processes.

Days of revenue in accounts receivable are as follows:

	2018	2017	2016
Davis	42	42	46
Irvine	50	41	50
Los Angeles	50	48	52
San Diego	64	58	50
San Francisco	52	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:

	2018	2017	2016
Davis	8.8	6.4	1.3
Irvine	12.7	6.5	1.3
Los Angeles	5.0	4.4	3.5
San Diego	3.8	1.9	2.0
San Francisco	7.4	4.0	(0.3)

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.

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.


4

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, 2018 and 2017, 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, 2018 and 2017, 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 of California 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 of California as of June 30, 2018 and 2017, 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 irrevocable split-interest agreements as of July 1, 2017. Our opinions are not modified with respect to this matter.

Other Matter

The accompanying management's discussion and analysis on pages 26 through 50, 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 110 through 113 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
San Francisco, California
October 10, 2018

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF NET POSITION

At June 30, 2018 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
ASSETS						
Current assets						
Cash and cash equivalents	$741,159	$331,844	$943,930	$293,548	$823,411	$3,133,892
Short-term investments			230,080			230,080
Net patient accounts receivable	248,467	155,384	330,172	321,636	594,448	1,650,107
Other receivables	21,433	597	33,539	18,884	86,924	161,377
Third-party payor settlements, net	42,500	63,803	41,270	67,434	25,862	240,869
Inventory	34,367	21,641	36,695	31,724	55,062	179,489
Prepaid expenses and other assets	51,504	15,717	50,536	21,618	62,447	201,822
Total current assets	**1,139,430**	**588,986**	**1,666,222**	**754,844**	**1,648,154**	**5,797,636**
Restricted assets:						
Deposits held for hospital construction	45,783	41,547	45	4,138	16	91,529
Donor funds			10,883		78,093	88,976
Capital assets, net	1,080,332	759,413	1,717,689	1,661,760	2,375,485	7,594,679
Investments in joint ventures	16,369		1,460	18,884	13,712	50,425
Investments			63,370		188,099	251,469
Other assets	89,079		29,931	1,330	13,477	133,817
Total assets	**2,370,993**	**1,389,946**	**3,489,600**	**2,440,956**	**4,317,036**	**14,008,531**
DEFERRED OUTFLOWS OF RESOURCES	**330,997**	**128,954**	**454,015**	**401,567**	**775,863**	**2,091,396**
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	66,944	46,774	201,492	116,215	259,651	691,076
Accrued salaries and benefits	110,751	60,368	166,951	75,816	151,795	565,681
Third-party payor settlements, net	173,380	104,744	67,470	15,930	136,227	497,751
Current portion of long-term debt and financing obligations	21,152	2,737	28,548	25,862	5,060	83,359
Other current liabilities	36,711	15,621	6,843	12,953	103,171	175,299
Total current liabilities	**408,938**	**230,244**	**471,304**	**246,776**	**655,904**	**2,013,166**
Long-term debt and financing obligations, net of current portion	342,030	335,335	908,811	792,429	922,666	3,301,271
Net pension liability	643,552	292,837	706,286	460,577	910,558	3,013,810
Net retiree health benefits liability	1,215,567	548,548	1,404,685	867,819	1,789,855	5,826,474
Notes payable to campus		20,632		95,000		115,632
Pension payable to University	266,959	117,776	294,440	192,368	369,031	1,240,574
Interest rate swap agreements			49,068		6,435	55,503
Self-insurance					18,413	18,413
Other noncurrent liabilities				3,565	10,945	14,510
Total liabilities	**2,877,046**	**1,545,372**	**3,834,594**	**2,658,534**	**4,683,807**	**15,599,353**
DEFERRED INFLOWS OF RESOURCES	**388,442**	**234,578**	**447,245**	**274,761**	**583,859**	**1,928,885**
NET POSITION						
Net investment in capital assets	698,049	421,341	780,373	847,607	1,447,759	4,195,129
Restricted: Nonexpendable endowments and gifts			603		27,715	28,318
Restricted: Expendable capital projects and other	45,783	41,547	10,281		49,530	147,141
Unrestricted	(1,307,330)	(723,938)	(1,129,481)	(938,379)	(1,699,771)	(5,798,899)
Total net position	**($563,498)**	**($261,050)**	**($338,224)**	**($90,772)**	**($174,767)**	**($1,428,311)**

See accompanying notes to financial statements.

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 and cash equivalents	$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	14,432		1,392	20,136	9,370	45,330
Investments			278,294		171,102	449,396
Other assets	3,762		28,645	1,290	14,600	48,297
Total assets	**2,134,213**	**1,331,363**	**3,542,920**	**2,393,095**	**3,970,861**	**13,372,452**
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	59,575	46,617	182,055	111,674	210,552	610,473
Accrued salaries and benefits	98,700	61,389	157,557	69,579	199,673	586,898
Third-party payor settlements, net	118,546	121,267	30,262	28,510	116,133	414,718
Current portion of long-term debt and financing obligations	21,834	2,765	26,920	19,511	4,869	75,899
Other current liabilities	29,954	38,482	7,647	2,528	61,243	139,854
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 pension liability	675,141	340,003	741,290	459,781	961,088	3,177,303
Net retiree health benefits liability	1,227,803	574,394	1,422,069	835,720	1,777,540	5,837,526
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**	**547,394**	**1,794,421**
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		26,229	26,840
Restricted: Expendable capital projects and other	86,748	69,703	10,527		63,510	230,488
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)**	**($367,706)**	**($1,729,473)**

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, 2018 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
Net patient service revenue	$2,172,804	$1,124,757	$2,395,252	$1,838,912	$4,155,733	$11,687,458
Other operating revenue:						
Clinical teaching support		7,882	13,467			21,349
Grants and contracts					43,766	43,766
Other	48,957	44,865	105,346	99,317	170,907	469,392
Total other operating revenue	**48,957**	**52,747**	**118,813**	**99,317**	**214,673**	**534,507**
Total operating revenue	**2,221,761**	**1,177,504**	**2,514,065**	**1,938,229**	**4,370,406**	**12,221,965**
Operating expenses:						
Salaries and wages	898,454	427,120	1,011,430	671,513	1,589,405	4,597,922
Pension benefits	107,400	37,541	121,203	86,068	194,567	546,779
Retiree health benefits	89,497	34,908	109,242	77,397	161,755	472,799
Other employee benefits	174,866	89,914	202,184	185,116	269,081	921,161
Professional services	129,586	22,414	35,315	63,125	726,528	976,968
Medical supplies	344,284	183,205	346,885	408,936	609,932	1,893,242
Other supplies and purchased services	139,897	145,814	404,539	150,869	368,743	1,209,862
Depreciation and amortization	76,331	78,723	147,785	93,379	216,292	612,510
Insurance and other	85,254	23,024	15,464	77,362	105,813	306,917
Total operating expenses	**2,045,569**	**1,042,663**	**2,394,047**	**1,813,765**	**4,242,116**	**11,538,160**
Income from operations	**176,192**	**134,841**	**120,018**	**124,464**	**128,290**	**683,805**
Non-operating revenues (expenses):						
Hospital Fee Program grants	4,041	3,685	6,584	5,596	7,238	27,144
Investment income	13,952	5,573	21,720	4,881	17,390	63,516
Build America Bonds federal interest subsidies		3,353	3,074	2,368	15,089	23,884
Private gifts, net					31,034	31,034
Net appreciation in fair value of investments			9,645		19,273	28,918
Interest expense	(6,989)	(12,927)	(34,419)	(37,532)	(43,844)	(135,711)
Gain (loss) on disposal of capital assets	266	(6)	(470)	(525)	(298)	(1,033)
Other	4,342	(12,439)	3,738	253	307	(3,799)
Net non-operating revenues (expenses)	**15,612**	**(12,761)**	**9,872**	**(24,959)**	**46,189**	**33,953**
Income before other changes in net position	**191,804**	**122,080**	**129,890**	**99,505**	**174,479**	**717,758**
Other changes in net position:						
Donated assets			(466)	5,149	120,820	125,503
Contributions (distributions) for building programs	1,066	1,566		(23,133)	1,251	(19,250)
Transfers (to) from University, net	(19,570)	6,198	12,629	(3,034)	15,850	12,073
Changes in allocation for pension payable to University	2,032	9,523	(1,148)	(10,528)	(3,175)	(3,296)
Health system support	(30,285)	(48,173)	(212,827)	(124,055)	(116,286)	(531,626)
Other changes in net position	**(46,757)**	**(30,886)**	**(201,812)**	**(155,601)**	**18,460**	**(416,596)**
Increase (decrease) in net position	**145,047**	**91,194**	**(71,922)**	**(56,096)**	**192,939**	**301,162**
Net position:						
Beginning of year	(708,545)	(352,244)	(266,302)	(34,676)	(367,706)	(1,729,473)
End of year	**($563,498)**	**($261,050)**	**($338,224)**	**($90,772)**	**($174,767)**	**($1,428,311)**

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, 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	318,791	1,155,180
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	98,861	281,672
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		24,608	43,586
Interest expense	(8,881)	(13,405)	(42,129)	(23,595)	(47,595)	(135,605)
Gain (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
Net non-operating revenues (expenses)	**9,467**	**(17,961)**	**(36,579)**	**(10,470)**	**24,134**	**(31,409)**
Income (loss) before other changes in net position	**173,179**	**47,589**	**81,201**	**9,106**	**(27,563)**	**283,512**
Other changes in net position:						
Donated assets			3,500	30,533	12,934	46,967
Contributions (distributions) 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)
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)**	**(75,151)**	**(99,252)**
Net position:						
Beginning of year, as previously reported	(852,162)	(349,128)	(181,496)	45,120	(291,416)	(1,629,082)
Cumulative effect of accounting change					(1,139)	(1,139)
Beginning of year, as restated	(852,162)	(349,128)	(181,496)	45,120	(292,555)	(1,630,221)
End of year	**($708,545)**	**($352,244)**	**($266,302)**	**($34,676)**	**($367,706)**	**($1,729,473)**

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF CASH FLOWS

For the year ended June 30, 2018 (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	$2,137,790	$1,075,330	$2,424,797	$1,723,041	$4,119,593	$11,480,551
Payments to employees	(891,423)	(453,987)	(1,004,666)	(665,276)	(1,634,372)	(4,649,724)
Payments to suppliers	(717,905)	(356,920)	(791,467)	(727,947)	(1,742,457)	(4,336,696)
Payments for benefits	(334,815)	(130,758)	(378,375)	(292,960)	(572,134)	(1,709,042)
Other receipts (payments)	43,896	(6,722)	103,350	133,658	209,776	483,958
Net cash provided by operating activities	**237,543**	**126,943**	**353,639**	**170,516**	**380,406**	**1,269,047**
Cash flows from noncapital financing activities:						
Health system support	(30,285)	(48,173)	(200,198)	(124,055)	(116,286)	(518,997)
Grants from the Hospital Fee Program	7,045	3,685	6,584	5,596	7,238	30,148
Transfers to University, net	(19,570)			(11,270)		(30,840)
Gifts received for other than capital purposes					31,038	31,038
Repayment of notes payable to campus		(5,158)	(75,000)			(80,158)
Net cash used by noncapital financing activities	**(42,810)**	**(49,646)**	**(268,614)**	**(129,729)**	**(78,010)**	**(568,809)**
Cash flows from capital and related financing activities:						
Contributions (distributions) for building programs	1,066	1,566		(23,133)	1,251	(19,250)
Proceeds from financing obligations and other borrowings	5,340	1,765	24,030	263,123		294,258
Build America Bonds federal interest subsidies		3,353	3,074	2,368	15,089	23,884
Proceeds from sale of capital assets	62			332		394
Purchases of capital assets	(110,227)	(97,856)	(115,657)	(115,339)	(212,689)	(651,768)
Refinancing or prepayment of outstanding debt	(4,595)	(1,875)	(20,680)	(225,521)		(252,671)
Scheduled principal paid on long-term debt and financing obligations	(18,436)	(1,539)	(20,231)	(19,527)	(4,210)	(63,943)
Interest paid on long-term debt and financing obligations	(12,895)	(15,265)	(41,657)	(41,715)	(54,211)	(165,743)
Gifts and donated funds			(466)	5,149	120,820	125,503
Other non-operating receipts (payments)	2,440	247	254	253	(142)	3,052
Net cash used by capital and related financing activities	**(137,245)**	**(109,604)**	**(171,333)**	**(154,010)**	**(134,092)**	**(706,284)**
Cash flows from investing activities:						
Investment income received	11,892	5,573	21,720	4,881	17,390	61,456
Distributions from (contributions to) investments in joint ventures, net	150		3,416	1,252	(4,342)	476
Purchase of investments			(5,512)		(4,566)	(10,078)
Proceeds from sales and maturities of investments					2,284	2,284
Change in restricted assets	40,965	28,155	2,853	5,816	17,173	94,962
Other non-operating receipts (payments)	2,255	(12,439)			444	(9,740)
Net cash provided by investing activities	**55,262**	**21,289**	**22,477**	**11,949**	**28,383**	**139,360**
Net increase (decrease) in cash and cash equivalents	**112,750**	**(11,018)**	**(63,831)**	**(101,274)**	**196,687**	**133,314**
Cash and cash equivalents - beginning of year	628,409	342,862	1,007,761	394,822	626,724	3,000,578
Cash and cash equivalents - end of year	**$741,159**	**$331,844**	**$943,930**	**$293,548**	**$823,411**	**$3,133,892**

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF CASH FLOWS *continued*

For the year ended June 30, 2018 (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 from operations	$176,192	$134,841	$120,018	$124,464	$128,290	$683,805
Adjustments to reconcile income from operations to net cash provided by operating activities:						
Depreciation and amortization expense	76,331	78,723	147,785	93,379	216,292	612,510
Provision for uncollectible accounts	118,743	58,513	33,960	28,622	30,362	270,200
Changes in operating assets and liabilities:						
Patient accounts receivable	(124,649)	(91,417)	(46,906)	(95,900)	(70,006)	(428,878)
Other receivables	(3,397)	(39,374)	(12,157)	(2,751)	(46,532)	(104,211)
Inventory	(3,021)	(2,204)	(2,968)	(3,296)	(4,442)	(15,931)
Prepaid expenses and other assets	(11,556)	1,629	(8,590)	(6,053)	(7,609)	(32,179)
Other assets	(84,797)					(84,797)
Accounts payable and accrued expenses	(3,841)	(4,912)	19,522	8,627	28,953	48,349
Accrued salaries and benefits	12,051	(1,021)	9,395	6,237	(47,878)	(21,216)
Third-party payor settlements	47,155	(16,523)	42,762	(48,593)	3,504	28,305
Other liabilities	4,542	2,929	(804)	10,159	41,056	57,882
Pension benefits	(26,692)	(16,057)	(24,093)	(1,066)	73,695	5,787
Retiree health benefits	60,482	21,816	75,715	56,687	34,721	249,421
Net cash provided by operating activities	**$237,543**	**$126,943**	**$353,639**	**$170,516**	**$380,406**	**$1,269,047**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION						
Payables for property and equipment	$23,823	$2,475	$9,499	$4,317	$31,116	$71,230
Bond retirements				(3,480)		(3,480)
Amortization of bond premium	3,403	1,384	6,743	2,891	1,197	15,618
Capital asset transfers from (to) the University	(10,637)	1,566				(9,071)
Change in fair value of interest rate swaps			(12,870)		(2,989)	(15,859)
Swap fair value amortization			(1,046)			(1,046)
Advances from University				21,336		21,336
Beneficial interests in irrevocable split-interest agreements					12,798	12,798
Notes receivable for net patient service revenue	95,610					95,610

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 (distributions) for building programs	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 and cash equivalents	**163,501**	**89,530**	**104,144**	**(70,767)**	**176,023**	**462,431**
Cash and cash equivalents - beginning of year	464,908	253,332	903,617	465,589	450,701	2,538,147
Cash and cash equivalents - end of year	**$628,409**	**$342,862**	**$1,007,761**	**$394,822**	**$626,724**	**$3,000,578**

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	(22,634)	(26,849)	(18,656)	36,083	47,370	15,314
Other liabilities	8,968	37,157	(88,882)	3,305	16,664	(22,788)
Pension benefits	16,006	11,205	22,866	26,694	44,246	121,017
Retiree health benefits	77,490	33,335	95,981	61,097	138,332	406,235
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
Beneficial interests in irrevocable split-interest agreements					13,271	13,271

See accompanying notes to financial statements.

Notes to Financial Statements

Years ended June 30, 2018 and 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. 81, *Irrevocable Split-Interest Agreements*, was implemented by the Medical Centers as of July 1, 2017. The Statement establishes standards for accounting and financial reporting for irrevocable split-interest agreements. The Statement requires that the Medical Centers recognize assets, liabilities and deferred inflows of resources for split-interest agreements administered by the Medical

Centers at the inception of the agreement. The Statement also requires the Medical Centers to recognize assets and deferred inflows representing their beneficial interests in irrevocable split-interest agreements that are administered by third parties. The Statement requires the Medical Centers to recognize revenue when the resources become available to spend.

The adoption of Statement No. 81 did not result in any adjustments to the financial statements of Davis, Irvine, Los Angeles and San Diego. The effects of the changes from the adoption of Statement No. 81 on San Francisco's financial statements for the year ended June 30, 2017, are as follows:

(in thousands of dollars)

	SAN FRANCISCO AS OF AND FOR THE YEAR ENDED JUNE 30, 2017		
	As Previously Reported	Effect of Adoption of Statement No. 81	As Restated
STATEMENT OF NET POSITION			
Other assets	$1,329	$13,271	$14,600
Total assets	3,957,590	13,271	3,970,861
Deferred inflows of resources	533,051	14,343	547,394
Restricted net position: Nonexpendable endowments and gifts	26,204	25	26,229
Restricted net position: Expendable capital projects and other	64,607	(1,097)	63,510
Total net position	(366,634)	(1,072)	(367,706)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
Net appreciation in fair value of investments	24,541	67	24,608
Net nonoperating revenues	24,067	67	24,134
Loss before other changes in net position	(27,630)	67	(27,563)
Decrease in net position	(75,218)	67	(75,151)

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 post-employment benefits. Implementation of Statement No. 85 had no impact on the 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. Implementation of Statement No. 86 had no impact on the financial statements.

Significant accounting policies of the Medical Centers are as follows (total columns are memorandum only):

Cash and cash equivalents. 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, 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 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 2017-2018 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 Medical Center'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. Other assets include beneficial interests in irrevocable split-interest agreements administered by third parties and are classified as level 3 on the fair value hierarchy.

Restricted Assets, Deposits Held for Hospital Construction. The University directly finances the construction, renovation and acquisition of facilities and equipment as 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.

Beneficial interests in irrevocable split-interest agreements. The beneficial interests in irrevocable split-interest agreements represent the Medical Centers' right to the portion of the benefits from the irrevocable split-interest agreements that are administered by third parties and are recognized as an asset and deferred inflows of resources. These are measured at fair value and are reported as other noncurrent assets in the statements of net position. Changes in the fair value of the beneficial interest asset are recognized as an increase or decrease in the related deferred inflows of resources. At the termination of the agreement, net assets received from the beneficial interests are recognized as revenues.

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. Certain 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 changes in irrevocable split-interest agreements as deferred inflows of resources until the resources become available to spend.

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 $9.8 million and $7.8 million as of June 30, 2018 and 2017, 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 Faculty Clinical Practices.

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 Pension Liability. The University of California Retirement Plan (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.

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

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 patients under publicly sponsored programs, which may reimburse at amounts less than the cost of the services provided to the recipients. The difference between the cost of services provided to these 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), except for tax on unrelated business income tax under IRC Section 511. The University is also exempt from federal income tax under IRC Section 115(a) as a state institution. In addition, the University is exempt from state income taxes imposed under the California Revenue and Taxation Code. CHRCO is qualified for exemption under IRC Section 501(c)(3).

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 2017 financial information to conform to the 2018 financial statement presentation.

New Accounting Pronouncements. 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 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.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for the Medical Centers' fiscal year beginning July 1, 2018. This Statement defines debt for purposes of disclosures in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires additional disclosures related to debt, including providing additional information for direct borrowings and direct placements of debt separately from other debt. The Medical Centers are evaluating the effect that Statement No. 88 will have on its financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* effective prospectively for the Medical Centers' fiscal year beginning July 1, 2020. The Statement requires that interest cost incurred before the end of a construction period to be recognized as an expense in the period in which the cost is incurred. As a result, interest costs would not be capitalized as part of the asset's historical cost. For construction in progress, interest cost incurred after applying Statement No. 89 will not be capitalized. The Medical Centers are evaluating the effect that Statement No. 89 will have on its financial statements.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests — An amendment of GASB Statements No. 14 and No. 61*, effective for the Medical Centers' fiscal year beginning July 1, 2019. The Statement defines a majority equity interest in a legally separate organization and clarifies the accounting and financial reporting for majority equity interests, classified as either investments or component units, in the financial statements. The Medical Centers are evaluating the effect that Statement No. 90 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	
		2018	2017	2018	2017
Fixed- or variable-income securities:					
U.S. government-guaranteed:					
U.S. Treasury bills, notes and bonds	2			$422	$434
U.S. government-guaranteed				**422**	**434**
Other U.S. dollar-denominated:					
U.S. agencies - asset-backed securities	2			29	29
Other U.S. dollar-denominated				**29**	**29**
Commingled funds:					
U.S. equity funds	1			1,096	1,059
Non-U.S. equity funds	1			404	528
U.S. bond funds	1			326	307
Non-U.S. bond funds	1			159	152
Money market funds	1			95	106
Balanced funds	NAV	293,450	278,294	234,375	212,704
Commingled funds		**293,450**	**278,294**	**236,455**	**214,856**
Publicly traded real estate investment trusts	1			259	264
Real estate	3				589
Total investments		**293,450**	**278,294**	**237,165**	**216,172**
Less: Current portion		(230,080)			
Less: Reported as restricted assets in donor funds				(49,066)	(45,070)
Noncurrent portion		**$63,370**	**$278,294**	**$188,099**	**$171,102**

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 $230.1 million and $220.2 million at June 30, 2018 and 2017, respectively.

Investments in TRIP require at least one calendar quarter notice to the campus 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 scale. 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 $63.4 million and $58.1 million at June 30, 2018 and 2017, respectively.

EIP. UCSF Medical Center invests primarily in the UCSF Foundation's Endowed Investment Pool (EIP). 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 Medical Center'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, 2018 and 2017 are as follows:

(in thousands of dollars)

	SAN FRANCISCO	
	2018	**2017**
Fixed- or variable-income securities:		
U.S. government-guaranteed	$422	$436
Other U.S. dollar-denominated:		
Not rated	29	29
Commingled funds:		
U.S. bond funds: Not rated	326	307
Non-U.S. bond funds: Not rated	159	152
Money market funds: Not rated	95	106

UCLA Medical Center's and UCSF 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 Medical Center'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 five 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, 2018 and 2017 are as follows:

	SAN FRANCISCO	
	2018	**2017**
U.S. government-guaranteed:		
U.S. Treasury bills, notes and bonds	5.5	3.8

UCSF Medical Center 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, 2018 and 2017, the fair value of UCSF Medical Center's other asset backed securities was $29, with an effective duration of 4.0 and 2.7, respectively.

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, 2018 and 2017, UCSF Medical Center is subject to foreign currency risk as a result of holding various currency denominations in the following investments:

(in thousands of dollars)

	SAN FRANCISCO	
	2018	**2017**
Commingled funds:		
Various currency denominations:		
Non-U.S. equity funds	$404	$528
Non-U.S. bond funds	159	152
Real estate investment trusts	97	105
Total exposure to foreign currency risk	**$660**	**$785**

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, except for 2004 and 2005, which are still under review; through June. 30, 2011 for UC Irvine Medical Center; through June 30, 2008 for Ronald Reagan UCLA Medical Center; through June 30, 2014 for the Santa Monica Hospital; through June 30, 2016 for the Resnick Neuropsychiatric Hospital; through June 30, 2011, for UCSD Medical Center; through June 30, 2009 for UCSF Medical Center, except for 2004 and 2005, which are currently under review; 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 (Waiver Program). The Waiver Program has been enacted in three five-year phases, the first covering 2006 through 2010, the second covering 2011 through 2015 and the third covering 2016 through 2020. The total payments under the Waiver Program made to the Medical Centers include a combination of Medi-Cal inpatient FFS payments, Medi-Cal Disproportionate Share Hospital (DSH) payments and the Safety Net Care Pool. Effective November 2011 through 2015, the Medical Centers are also eligible to receive incentive payments designed to encourage delivery system innovation in connection with federal health care reform. Effective July 2017, the Medical Centers may be eligible to receive enhanced payments and additional reimbursement for Medi-Cal managed care patients. However, since final approval of these payments is still pending with the Center for Medicare and Medicaid Services, the Medical Centers have not recognized revenues as of June 30, 2018.

The Medical Centers are reimbursed at interim rates with final settlement of such items determined after submission of annual filings and audits thereof by the state. Payments under The Waiver Program are based on the allocation of pooled funds amongst all participating designated public hospitals in the state and are subject to change based on the audit results of the other participating designated public hospitals. The Medical Centers have received final settlements for the Waiver Program through 2007. The state is in the process of conducting audits of 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. CHRCO is an essential Medi-Cal and California Children's Services provider. Inpatient services are reimbursed by the All Patient Refined Diagnosis Related Group, 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. 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 $85.7 million and $54.5 million of patient service revenue under the Hospital Fee Program for the years ended June 30, 2018 and 2017, respectively. CHRCO paid $23.4 million and $14.7 million in Quality Assurance Fees for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, 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 non-government third-party payors to provide patient care to beneficiaries under a variety of payment arrangements. These include arrangements with:

- Commercial insurance companies that reimburse the Medical 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.
- CHRCO receives Medi-Cal supplemental payments, which are comprised of both federal and non-federal components. CHRCO received $56.7 million and $85.0 million under these programs for the years ended June 30, 2018 and 2017, respectively. Included in the $56.7 million is $26.5 million approved in 2018 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	
	2018	**2017**	**2018**	**2017**
Davis	20.0%	19.8%	17.7%	17.3%
Irvine	22.8	25.0	17.6	17.4
Los Angeles	13.6	11.1	5.1	5.7
San Diego	24.9	29.5	14.6	13.6
San Francisco	11.9	10.3	9.4	11.1

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)

	2018	**2017**
Davis	$102,692	$65,345
Irvine*	10,849	45,361
Los Angeles	17,719	36,651
San Diego	48,394	34,898
San Francisco	52,601	16,319
Total	**$232,255**	**$198,574**

** 2017 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	
	2018	**2017**	**2018**	**2017**
Davis	$68,606	$61,991	$118,743	$108,876
Irvine	68,633	33,757	58,513	23,415
Los Angeles	37,343	44,060	33,960	25,282
San Diego	48,614	40,952	28,622	27,229
San Francisco	59,599	55,412	30,362	40,706
Total	**$282,795**	**$236,172**	**$270,200**	**$225,508**

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2018						
Medicare	$525,856	$307,346	$499,129	$470,418	$611,649	$2,414,398
Medi-Cal	506,292	313,130	282,076	440,892	563,128	2,105,518
Contract (discounted or per-diem)	1,040,980	490,985	1,566,189	924,287	2,873,526	6,895,967
Contract (capitated)	97,141		30,013		39,225	166,379
Non-sponsored/self-pay	2,535	13,296	17,845	3,315	68,205	105,196
Total	**$2,172,804**	**$1,124,757**	**$2,395,252**	**$1,838,912**	**$4,155,733**	**$11,687,458**
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**

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
2018						
Charity care at established rates	$22,859	$77,350	$13,353	$77,270	$67,402	$258,234
Estimated cost of charity care	4,959	19,516	6,111	24,246	21,263	76,095
Estimated cost in excess of reimbursement for patients under publicly sponsored programs	214,403	95,087	365,060	289,175	830,423	1,794,148
2017						
Charity care at established rates	$19,863	$36,347	$10,007	$49,863	$59,381	$175,461
Estimated cost of charity care	3,904	9,497	4,672	16,950	19,984	55,007
Estimated cost in excess of reimbursement for patients under publicly sponsored programs	185,277	181,775	317,676	334,682	589,438	1,608,848

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
2018			
Cash and STIP	$4,120	$29,027	$33,147
General Endowment Pool and Endowed Investment Pool	6,243	46,276	52,519
Mutual funds	30		30
Charitable remainder trusts	491	2,790	3,281
Total	**$10,884**	**$78,093**	**$88,977**
2017			
Cash and STIP	$4,177	$40,014	$44,191
General Endowment Pool and Endowed Investment 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**

Donor restricted funds for the years ended June 30 are available for the following purposes:

(in thousands of dollars)

	Los Angeles	San Francisco	TOTAL
2018			
Capital projects	$1,051	$6,132	$7,183
Endowments	603	27,715	28,318
Operations	9,230	44,246	53,476
Total	**$10,884**	**$78,093**	**$88,977**
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**

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	2016	ADDITIONS	DISPOSALS	2017	ADDITIONS	DISPOSALS	2018
ORIGINAL COST							
Land	$36,675			$36,675			$36,675
Buildings and improvements	1,350,568	$17,488		1,368,056	$23,402	($18,929)	1,372,529
Equipment	414,722	35,448	($30,228)	419,942	75,721	(25,988)	469,675
Construction in progress	36,316	52,127		88,443	37,457		125,900
Capital assets, at cost	**$1,838,281**	**$105,063**	**($30,228)**	**$1,913,116**	**$136,580**	**($44,917)**	**$2,004,779**

	2016	DEPRECIATION	DISPOSALS	2017	DEPRECIATION	DISPOSALS	2018
ACCUMULATED DEPRECIATION							
Buildings and improvements	$557,712	$40,846		$598,558	$39,061	($9,207)	$628,412
Equipment	276,496	37,993	($30,177)	284,312	37,270	(25,547)	296,035
Accumulated depreciation	834,208	**$78,839**	**($30,177)**	882,870	**$76,331**	**($34,754)**	924,447
Capital assets, net	**$1,004,073**			**$1,030,246**			**$1,080,332**

(in thousands of dollars)

IRVINE	2016	ADDITIONS	DISPOSALS	2017	ADDITIONS	DISPOSALS	2018
ORIGINAL COST							
Land	$12,418	$441		$12,859			$12,859
Buildings and improvements	855,219	24,955		880,174	$5,990	($367)	885,797
Equipment	361,297	60,822	($302)	421,817	66,285	(11,672)	476,430
Construction in progress	19,348	(559)		18,789	31,605		50,394
Capital assets, at cost	**$1,248,282**	**$85,659**	**($302)**	**$1,333,639**	**$103,880**	**($12,039)**	**$1,425,480**

	2016	DEPRECIATION	DISPOSALS	2017	DEPRECIATION	DISPOSALS	2018
ACCUMULATED DEPRECIATION							
Buildings and improvements	$305,956	$34,481		$340,437	$36,805	($367)	$376,875
Equipment	224,147	34,790	($244)	258,693	41,918	(11,419)	289,192
Accumulated depreciation	530,103	**$69,271**	**($244)**	599,130	**$78,723**	**($11,786)**	666,067
Capital assets, net	**$718,179**			**$734,509**			**$759,413**

(in thousands of dollars)

LOS ANGELES	2016	ADDITIONS	DISPOSALS	2017	ADDITIONS	DISPOSALS	2018
ORIGINAL COST							
Land	$62,474	($5,873)	($9,683)	$46,918	$2,581		$49,499
Buildings and improvements	1,985,063	29,376	(4,297)	2,010,142	22,484		2,032,626
Equipment	692,306	60,107	(29,401)	723,012	88,531	($23,024)	788,519
Construction in progress	23,144	9,941		33,085	2,808		35,893
Capital assets, at cost	**$2,762,987**	**$93,551**	**($43,381)**	**$2,813,157**	**$116,404**	**($23,024)**	**$2,906,537**

	2016	DEPRECIATION	DISPOSALS	2017	DEPRECIATION	DISPOSALS	2018
ACCUMULATED DEPRECIATION							
Buildings and improvements	$503,876	$56,567	($801)	$559,642	$56,934		$616,576
Equipment	445,665	86,274	(27,964)	503,975	90,851	($22,554)	572,272
Accumulated depreciation	949,541	**$142,841**	**($28,765)**	1,063,617	**$147,785**	**($22,554)**	1,188,848
Capital assets, net	**$1,813,446**			**$1,749,540**			**$1,717,689**

(in thousands of dollars)

SAN DIEGO	2016	ADDITIONS	DISPOSALS	2017	ADDITIONS	DISPOSALS	2018
ORIGINAL COST							
Land	$8,641			$8,641			$8,641
Buildings and improvements	825,738	$844,584		1,670,322	$162,250		1,832,572
Equipment	346,184	97,926	($9,820)	434,290	63,200	($29,341)	468,149
Construction in progress	835,192	(715,649)		119,543	(90,734)		28,809
Capital assets, at cost	**$2,015,755**	**$226,861**	**($9,820)**	**$2,232,796**	**$134,716**	**($29,341)**	**$2,338,171**

	2016	DEPRECIATION	DISPOSALS	2017	DEPRECIATION	DISPOSALS	2018
ACCUMULATED DEPRECIATION							
Buildings and improvements	$343,408	$42,935		$386,343	$53,604		$439,947
Equipment	201,229	33,844	($9,568)	225,505	39,775	($28,816)	236,464
Accumulated depreciation	544,637	**$76,779**	**($9,568)**	611,848	**$93,379**	**($28,816)**	676,411
Capital assets, net	**$1,471,118**			**$1,620,948**			**$1,661,760**

(in thousands of dollars)

SAN FRANCISCO	2016	ADDITIONS	DISPOSALS	2017	ADDITIONS	DISPOSALS	2018
ORIGINAL COST							
Land	$143,268			$143,268			$143,268
Buildings and improvements	2,539,484	$100,300		2,639,784	$138,125	($124)	2,777,785
Equipment	1,049,641	45,009	($28,841)	1,065,809	59,850	(13,448)	1,112,211
Construction in progress	183,711	35,331	(1,013)	218,029	44,562	7	262,598
Capital assets, at cost	**$3,916,104**	**$180,640**	**($29,854)**	**$4,066,890**	**$242,537**	**($13,565)**	**$4,295,862**

	2016	DEPRECIATION	DISPOSALS	2017	DEPRECIATION	DISPOSALS	2018
ACCUMULATED DEPRECIATION							
Buildings and improvements	$928,216	$89,565		$1,017,781	$93,070		$1,110,851
Equipment	606,162	121,348	($27,939)	699,571	123,222	($13,267)	809,526
Accumulated depreciation	1,534,378	**$210,913**	**($27,939)**	1,717,352	**$216,292**	**($13,267)**	1,920,377
Capital assets, net	**$2,381,726**			**$2,349,538**			**$2,375,485**

(in thousands of dollars)

TOTAL	2016	ADDITIONS	DISPOSALS	2017	ADDITIONS	DISPOSALS	2018
ORIGINAL COST							
Land	$263,476	($5,432)	($9,683)	$248,361	$2,581		$250,942
Buildings and improvements	7,556,072	1,016,703	(4,297)	8,568,478	352,251	($19,420)	8,901,309
Equipment	2,864,150	299,312	(98,592)	3,064,870	353,587	(103,473)	3,314,984
Construction in progress	1,097,711	(618,809)	(1,013)	477,889	25,698	7	503,594
Capital assets, at cost	**$11,781,409**	**$691,774**	**($113,585)**	**$12,359,598**	**$734,117**	**($122,886)**	**$12,970,829**

	2016	DEPRECIATION	DISPOSALS	2017	DEPRECIATION	DISPOSALS	2018
ACCUMULATED DEPRECIATION							
Buildings and improvements	$2,639,168	$264,394	($801)	$2,902,761	$279,474	($9,574)	$3,172,661
Equipment	1,753,699	314,249	(95,892)	1,972,056	333,036	(101,603)	2,203,489
Accumulated depreciation	4,392,867	**$578,643**	**($96,693)**	4,874,817	**$612,510**	**($111,177)**	5,376,150
Capital assets, net	**$7,388,542**			**$7,484,781**			**$7,594,679**

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	TOTAL
2018					
Equipment under financing obligations		$2,220	$106,660	$75,651	$184,531
Accumulated amortization		(1,929)	(43,716)	(13,866)	(59,511)
Total		**$291**	**$62,944**	**$61,785**	**$125,020**
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**

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 UC Irvine Medical Center has an internal payable of $25.8 million to the UCI campus as of June 30, 2018. The payable bears no interest and is being repaid in annual installments with the final payment due in May 2023.

The UCLA Medical Center had 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 as of June 30, 2017. Interest was charged on the line of credit based on the STIP rate, an annual average of 1.2 percent for the year ended June 30, 2017. Interest expense of $5.2 million was recorded on the line of credit for the year ended June 30, 2017. The note was paid off in 2018 and no interest was charged for the year ended June 30, 2018.

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, 2018 and 2017, balances of $95.0 million and $73.7 million, respectively, were outstanding and are reported as a note payable to the campus on the statements of net position. Interest payments of $2.9 million and $2.5 million were made on the loan for the years ended June 30, 2018 and 2017, respectively.

Advances from the University, financed through the University's bank lines, are made to the Medical Centers to finance capital projects. As of June 30, 2017, UCSF Medical Center had $19.7 million of advances reported as other current 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 $75.2 million and $79.0 million at June 30, 2018 and 2017, respectively.

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

(in thousands of dollars)

	NOTIONAL AMOUNT		FAIR VALUE – POSITIVE (NEGATIVE)			CHANGES IN FAIR VALUE		
	2018	2017	CLASSIFICATION	2018	2017	CLASSIFICATION	2018	2017
Los Angeles	$124,775	$124,775	Other noncurrent liabilities	($31,577)	($40,420)	Deferred outflows	$8,843	$17,184
	24,250	24,250	Other noncurrent liabilities	(8,307)	(10,252)	Deferred outflows	1,945	4,649
	25,750	25,750	Other noncurrent liabilities	(9,184)	(11,266)	Deferred outflows	2,082	5,232
San Francisco	64,075	67,540	Other noncurrent liabilities	(6,435)	(9,423)	Deferred outflows	2,988	4,765

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, 2018 or 2017.

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		EFFECTIVE DATE	MATURITY DATE	CASH PAID OR RECEIVED	COUNTERPARTY CREDIT RATING
	2018	2017				
Los Angeles						
Pay fixed 4.550 percent; receive 67 percent of 3-Month LIBOR* +0.61 percent	$31,610	$31,610	2016	2030	None	Aa2/A+
Pay fixed 4.625 percent; receive 67 percent of 3-Month LIBOR* +0.67 percent	38,670	38,670	2016	2037	None	Aa2/A+
Pay fixed 4.6935 percent; receive 67 percent of 3-Month LIBOR* +0.74 percent	54,495	54,495	2016	2043	None	Aa2/A+
Pay fixed 4.741 percent; receive 67 percent of 3-Month LIBOR* +0.79 percent	24,250	24,250	2016	2045	None	Aa2/A+
Pay fixed 4.741 percent; receive 67 percent of 3-Month LIBOR* +0.79 percent	25,750	25,750	2016	2047	None	Aa2/A+
San Francisco						
Pay fixed 3.5897 percent; receive 58 percent of 1-Month LIBOR* +0.48 percent	64,075	67,540	2007	2032	None	Aa3/A+

** London Interbank Offered Rate (LIBOR)*

Interest Rate Swap Risk Factors

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 with the counterparty that is currently rated Aa2/A+, the University may be entitled to receive collateral to the extent the positive fair value exceeds $20.0 million as of June 30, 2018. At June 30, 2018 and 2017, 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. Interest rates on the bonds are tax-exempt interest rates, 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
2018						
University of California Medical Center Pooled Revenue Bonds:						
2007 Series B*					$64,075	$64,075
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			7,695	9,620		17,315
2010 Series H Build America Bonds					700,000	700,000
2013 Series J	$9,805	2,230	58,935	300,800	525	372,295
2013 Series K*			31,300			31,300
2016 Series L	247,800	120,400	262,020	87,415	107,250	824,885
2016 Series M	57,555	36,310	45,180		19,130	158,175
University of California General Revenue Bonds:						
2017 Series AY	4,525	1,765	20,365	192,785		219,440
Financing obligations		291	94,551	67,413		162,255
Other borrowings			75,244			75,244
Total outstanding debt and financing obligations	**319,685**	**316,851**	**887,635**	**768,388**	**910,600**	**3,203,159**
Unamortized bond premium	43,497	21,221	49,724	49,903	17,126	181,471
Total debt and financing obligations	**363,182**	**338,072**	**937,359**	**818,291**	**927,726**	**3,384,630**
Less: Current portion	(21,152)	(2,737)	(28,548)	(25,862)	(5,060)	(83,359)
Noncurrent portion of debt and financing obligations	**$342,030**	**$335,335**	**$908,811**	**$792,429**	**$922,666**	**$3,301,271**

** Variable-rate bonds*

(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*

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*	1.2 percent	Monthly	Through 2032
2007 Series C-2*	2.2 to 2.4 percent	Quarterly	Through 2045
2009 Series F "Build America Bonds"	4.3 percent, after 35.0 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 35.0 percent federal subsidy	Semi-annually	Through 2048
2013 Series J	4.0 percent to 5.3 percent	Semi-annually	Through 2048
2013 Series K*	1.2 percent	Monthly	Beginning 2045 through 2047
2016 Series L	2.5 percent to 5.0 percent	Semi-annually	Through 2047
2016 Series M	1.5 percent to 3.5 percent	Semi-annually	Through 2047
University of California General Revenue Bonds:			
2017 Series AY	3.0 percent to 5.0 percent	Semi-annually	Beginning 2022 through 2041
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)

	2018		2017	
	INTEREST EXPENSE	INTEREST CAPITALIZED	INTEREST EXPENSE	INTEREST CAPITALIZED
Davis	$6,989	$4,104	$8,881	$2,266
Irvine	12,927	954	13,405	1,070
Los Angeles	34,419	832	42,129	830
San Diego	37,532	2,459	23,595	13,551
San Francisco	43,844	9,701	47,595	6,107
Total	**$135,711**	**$18,050**	**$135,605**	**$23,824**

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, 2018			
Long-term debt and financing obligations at June 30, 2017	$383,956	$621	$384,577
New obligations	4,525		4,525
Bond premium, net	514		514
Principal payments and debt retirements	(22,410)	(621)	(23,031)
Amortization of bond premium	(3,403)		(3,403)
Long-term debt and financing obligations at June 30, 2018	**363,182**		**363,182**
Less: Current portion	(21,152)		(21,152)
Noncurrent portion of long-term debt and financing obligations at June 30, 2018	**$342,030**		**$342,030**
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 debt 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**

(in thousands of dollars)

IRVINE	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2018			
Long-term debt and financing obligations at June 30, 2017	$340,475	$630	$341,105
New obligations	1,765		1,765
Bond premium, net			
Principal payments and debt retirements	(3,075)	(339)	(3,414)
Amortization of bond premium	(1,384)		(1,384)
Long-term debt and financing obligations at June 30, 2018	**337,781**	**291**	**338,072**
Less: Current portion	(2,446)	(291)	(2,737)
Noncurrent portion of long-term debt and financing obligations at June 30, 2018	**$335,335**		**$335,335**
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 debt 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**

(in thousands of dollars)

LOS ANGELES	REVENUE BONDS	FINANCING OBLIGATIONS	OTHER BORROWINGS	TOTAL
Year ended June 30, 2018				
Long-term debt and financing obligations at June 30, 2017	$779,554	$103,112	$79,048	$961,714
New obligations	20,365			20,365
Bond premium, net	2,934			2,934
Principal payments and debt retirements	(32,350)	(8,561)		(40,911)
Amortization of bond premium	(2,939)		(3,804)	(6,743)
Long-term debt and financing obligations at June 30, 2018	**767,564**	**94,551**	**75,244**	**937,359**
Less: Current portion	(15,816)	(8,929)	(3,803)	(28,548)
Noncurrent portion of long-term debt and financing obligations at June 30, 2018	**$751,748**	**$85,622**	**$71,441**	**$908,811**
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 debt 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**

(in thousands of dollars)

SAN DIEGO	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2018			
Long-term debt and financing obligations at June 30, 2017	$729,215	$44,466	$773,681
New obligations	192,785	35,674	228,459
Bond premium, net	34,664		34,664
Principal payments and debt retirements	(202,895)	(12,727)	(215,622)
Amortization of bond premium	(2,891)		(2,891)
Long-term debt and financing obligations at June 30, 2018	**750,878**	**67,413**	**818,291**
Less: Current portion	(10,978)	(14,884)	(25,862)
Noncurrent portion of long-term debt and financing obligations at June 30, 2018	**$739,900**	**$52,529**	**$792,429**
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 debt 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**

(in thousands of dollars)

SAN FRANCISCO	REVENUE BONDS	TOTAL
Year ended June 30, 2018		
Long-term debt and financing obligations at June 30, 2017	$933,133	$933,133
New obligations		
Principal payments and debt retirements	(4,210)	(4,210)
Amortization of bond premium	(1,197)	(1,197)
Long-term debt and financing obligations at June 30, 2018	**927,726**	**927,726**
Less: Current portion	(5,060)	(5,060)
Noncurrent portion of long-term debt and financing obligations at June 30, 2018	**$922,666**	**$922,666**
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 debt 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**

(in thousands of dollars)

TOTAL	REVENUE BONDS	FINANCING OBLIGATIONS	OTHER BORROWINGS	TOTAL
Year ended June 30, 2018				
Long-term debt and financing obligations at June 30, 2017	$3,166,333	$148,829	$79,048	$3,394,210
New obligations	219,440	35,674		255,114
Bond premium, net	38,112			38,112
Principal payments and debt retirements	(264,940)	(22,248)		(287,188)
Amortization of bond premium	(11,814)		(3,804)	(15,618)
Long-term debt and financing obligations at June 30, 2018	**3,147,131**	**162,255**	**75,244**	**3,384,630**
Less: Current portion	(55,452)	(24,104)	(3,803)	(83,359)
Noncurrent portion of long-term debt and financing obligations at June 30, 2018	**$3,091,679**	**$138,151**	**$71,441**	**$3,301,271**
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 debt 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	(51,212)	(20,883)	(3,804)	(75,899)
Noncurrent portion of long-term debt and financing obligations at June 30, 2017	**$3,115,121**	**$127,946**	**$75,244**	**$3,318,311**

In December 2017, General Revenue Bonds totaling $625.5 million of tax-exempt bonds were issued to refinance all or a portion of certain projects of the University through the advance refunding of certain bonds, including most of the outstanding Medical Center Pooled Revenue Bonds, 2013 Series J of $223.4 million. The bonds mature at various dates through 2041. The tax-exempt bonds have a stated weighted average interest rate of 4.7 percent. The refunding of the outstanding Medical Center Pooled Revenue Bonds resulted in a loss of $32.4 million, recorded as a deferred outflow of resources that will be amortized as interest expense over the term of the refunded bonds. The bond premium of $39.7 million will be amortized as a reduction to interest expense over the term of the bonds. The refinancing and refunding of previously outstanding Medical Center Pooled Revenue Bonds resulted in cash flow savings of $22.2 million and an economic gain of $17.7 million.

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. In the event of a failed remarketing, the variable-rate demand bonds can be put back to The Regents for tender. The University provides its own liquidity in connection with mandatory and optional tenders and remarketing of these bonds. 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. 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 bond 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 capital projects and other needs at 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 certain other covenants. Pledged revenues for the Medical Centers for the year ended June 30, 2018 was $12.2 billion.

The Medical Center Pooled Revenue Bonds 2007 Series B and 2013 Series K totaling $64.1 million and $31.3 million, respectively, are variable-rate demand obligations subject to daily and weekly remarketing, respectively. 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.

As of June 30, 2018, CHRCO had no amounts outstanding under its revolving credit facility for $25.0 million. The interest rate on the credit facility is 3.2 percent as of June 30, 2018 and the facility expires on August 31, 2020.

Future Debt Service and Interest Rate Swaps

Future debt service payments for the Medical Centers' fixed- and variable-rate debt for each of the five fiscal years subsequent to June 30, 2018, and thereafter, are shown below. Although not a prediction by the Medical Centers of the future interest rate cost of the variable-rate bonds or the impact of the interest rate swaps, these amounts assume that current interest rates on variable-rate bonds and the current reference rates of the interest rate swaps will remain the same. As these rates vary, variable-rate bond interest payments and net interest rate swap payments will vary.

(in thousands of dollars)

DAVIS	REVENUE BONDS	PRINCIPAL	INTEREST
Year ending June 30			
2019	$31,187	$17,900	$13,287
2020	30,796	18,125	12,671
2021	30,370	18,325	12,045
2022	29,967	18,710	11,257
2023	29,504	19,055	10,449
2024 - 2028	120,927	80,480	40,447
2029 - 2033	60,039	30,235	29,804
2034 - 2038	60,026	37,005	23,021
2039 - 2043	60,119	46,270	13,849
2044 - 2048	37,169	33,580	3,589
Total future debt service	**490,104**	**$319,685**	**$170,419**
Less: Interest component of future payments	(170,419)		
Principal portion of future payments	319,685		
Adjusted by:			
Unamortized bond premium	43,497		
Total debt	**$363,182**		

(in thousands of dollars)

IRVINE	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2019	$18,209	$295	$18,504	$1,531	$16,973
2020	21,390		21,390	4,465	16,925
2021	21,403		21,403	4,620	16,783
2022	21,375		21,375	4,790	16,585
2023	21,376		21,376	5,000	16,376
2024 - 2028	110,789		110,789	32,575	78,214
2029 - 2033	115,283		115,283	45,560	69,723
2034 - 2038	113,316		113,316	56,735	56,581
2039 - 2043	110,260		110,260	71,025	39,235
2044 - 2048	96,623		96,623	79,065	17,558
2049	12,241		12,241	11,485	756
Total future debt service	**662,265**	**295**	**662,560**	**$316,851**	**$345,709**
Less: Interest component of future payments	(345,705)	(4)	(345,709)		
Principal portion of future payments	316,560	291	316,851		
Adjusted by:					
Unamortized bond premium	21,221		21,221		
Total debt	**$337,781**	**$291**	**$338,072**		

(in thousands of dollars)

LOS ANGELES	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2019	$47,494	$13,573	$61,067	$21,779	$39,288
2020	50,037	13,717	63,754	25,176	38,578
2021	48,710	13,867	62,577	24,805	37,772
2022	48,350	4,052	52,402	15,498	36,904
2023	48,431	4,214	52,645	16,448	36,197
2024 - 2028	233,911	23,738	257,649	88,789	168,860
2029 - 2033	230,125	28,881	259,006	114,674	144,332
2034 - 2038	227,690	35,138	262,828	151,287	111,541
2039 - 2043	227,120	30,182	257,302	189,220	68,082
2044 - 2048	179,390		179,390	156,480	22,910
2049	8,777		8,777	8,235	542
Total future debt service	**1,350,035**	**167,362**	**1,517,397**	**$812,391**	**$705,006**
Less: Interest component of future payments	(632,195)	(72,811)	(705,006)		
Principal portion of future payments	717,840	94,551	812,391		
Adjusted by:					
Unamortized bond premium	49,724		49,724		
Other borrowings	75,244		75,244		
Total debt	**$842,808**	**$94,551**	**$937,359**		

(in thousands of dollars)

SAN DIEGO	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2019	$42,844	$16,562	$59,406	$21,824	$37,582
2020	42,836	15,659	58,495	21,514	36,981
2021	40,396	11,812	52,208	15,780	36,428
2022	40,386	6,808	47,194	11,210	35,984
2023	40,384	4,235	44,619	9,027	35,592
2024 - 2028	247,881	13,115	260,996	93,942	167,054
2029 - 2033	246,051	8,453	254,504	113,911	140,593
2034 - 2038	243,900		243,900	132,845	111,055
2039 - 2043	243,998		243,998	171,630	72,368
2044 - 2048	202,869		202,869	176,705	26,164
Total future debt service	**1,391,545**	**76,644**	**1,468,189**	**$768,388**	**$699,801**
Less: Interest component of future payments	(690,570)	(9,231)	(699,801)		
Principal portion of future payments	700,975	67,413	768,388		
Adjusted by:					
Unamortized bond premium	49,903		49,903		
Total debt	**$750,878**	**$67,413**	**$818,291**		

(in thousands of dollars)

SAN FRANCISCO	REVENUE BONDS	PRINCIPAL	INTEREST
Year ending June 30			
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	71,874	20,395	51,479
2024 - 2028	354,191	113,390	240,801
2029 - 2033	343,159	136,805	206,354
2034 - 2038	326,157	163,140	163,017
2039 - 2043	309,888	200,880	109,008
2044 - 2048	269,946	226,900	43,046
2049	1,200	1,125	75
Total future debt service	**1,937,171**	**$910,600**	**$1,026,571**
Less: Interest component of future payments	(1,026,571)		
Principal portion of future payments	910,600		
Adjusted by:			
Unamortized bond premium	17,126		
Total debt	**$927,726**		

(in thousands of dollars)

TOTAL	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2019	$197,685	$30,430	$228,115	$67,389	$160,726
2020	203,386	29,376	232,762	74,145	158,617
2021	213,238	25,679	238,917	82,580	156,337
2022	212,197	10,860	223,057	69,903	153,154
2023	211,569	8,449	220,018	69,925	150,093
2024 - 2028	1,067,699	36,853	1,104,552	409,176	695,376
2029 - 2033	994,657	37,334	1,031,991	441,185	590,806
2034 - 2038	971,089	35,138	1,006,227	541,012	465,215
2039 - 2043	951,385	30,182	981,567	679,025	302,542
2044 - 2048	785,997		785,997	672,730	113,267
2049	22,218		22,218	20,845	1,373
Total future debt service	**5,831,120**	**244,301**	**6,075,421**	**$3,127,915**	**$2,947,506**
Less: Interest component of future payments	(2,865,460)	(82,046)	(2,947,506)		
Principal portion of future payments	2,965,660	162,255	3,127,915		
Adjusted by:					
Unamortized bond premium	181,471		181,471		
Other borrowings	75,244		75,244		
Total debt	**$3,222,375**	**$162,255**	**$3,384,630**		

Additional information on the revenue bonds can be obtained from the 2017-2018 annual report of the University of California.

For the Medical Centers' cash flow hedges, future debt service payments for the Medical Centers' variable-rate debt and net receipts or payments on the associated hedging derivative instruments for each of the five fiscal years subsequent to June 30, 2018, and thereafter are as presented below. 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, 2018, combined debt service requirements of the variable-rate debt and net swap payments are as follows:

(in thousands of dollars)

LOS ANGELES	VARIABLE-RATE BOND			
	PRINCIPAL	INTEREST	INTEREST RATE SWAP, NET	TOTAL
Year ending June 30				
2019		$3,692	$4,170	$7,862
2020		3,701	4,170	7,871
2021		3,706	4,170	7,876
2022		3,685	4,170	7,855
2023	$3,365	3,685	4,170	11,220
2024 - 2028	19,260	17,312	19,569	56,141
2029 - 2033	24,075	14,998	17,053	56,126
2034 - 2038	30,175	12,053	13,903	56,131
2039 - 2043	55,030	7,687	9,363	72,080
2044 - 2048	42,870	1,481	2,073	46,424
Total future debt service	**$174,775**	**$72,000**	**$82,811**	**$329,586**

(in thousands of dollars)

SAN FRANCISCO	VARIABLE-RATE BOND			
	PRINCIPAL	INTEREST	INTEREST RATE SWAP, NET	TOTAL
Year ending June 30				
2019	$3,590	$749	$1,227	$5,566
2020	3,725	721	1,161	5,607
2021	3,860	678	1,086	5,624
2022	3,995	633	1,011	5,639
2023	4,145	585	934	5,664
2024 - 2028	23,090	2,139	3,415	28,644
2029 - 2033	21,670	649	1,029	23,348
Total future debt service	**$64,075**	**$6,154**	**$9,863**	**$80,092**

(in thousands of dollars)

TOTAL	VARIABLE-RATE BOND			
	PRINCIPAL	INTEREST	INTEREST RATE SWAP, NET	TOTAL
Year ending June 30				
2019	$3,590	$4,441	$5,397	$13,428
2020	3,725	4,422	5,331	13,478
2021	3,860	4,384	5,256	13,500
2022	3,995	4,318	5,181	13,494
2023	7,510	4,270	5,104	16,884
2024 - 2028	42,350	19,451	22,984	84,785
2029 - 2033	45,745	15,647	18,082	79,474
2034 - 2038	30,175	12,053	13,903	56,131
2039 - 2043	55,030	7,687	9,363	72,080
2044 - 2048	42,870	1,481	2,073	46,424
Total future debt service	**$238,850**	**$78,154**	**$92,674**	**$409,678**

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 expenses for the years ended June 30 are as follows:

(in thousands of dollars)

	2018	2017
Davis	$21,396	$21,349
Irvine	5,018	4,769
Los Angeles	14,219	14,427
San Diego	17,318	16,116
San Francisco	49,578	46,597
Total	**$107,529**	**$103,258**

Future minimum payments on operating leases with an initial or non-cancellable 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						
2019	$24,327	$3,663	$12,080	$17,812	$38,354	$96,236
2020	22,670	2,456	9,984	16,186	34,023	85,319
2021	20,022	2,116	6,980	15,411	27,950	72,479
2022	16,704	1,823	5,545	11,667	19,220	54,959
2023	12,770	1,671	1,808	7,670	13,476	37,395
2024 – 2042	45,358	2,267	10,599	13,366	76,250	147,840
Total	**$141,851**	**$13,996**	**$46,996**	**$82,112**	**$209,273**	**$494,228**

11. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2018						
Deferred outflows of resources						
Net pension liability	$72,255	$23,834	$72,974	$98,624	$190,224	$457,911
Net retiree health benefits liability	249,969	105,120	331,973	274,684	578,571	1,540,317
Debt refunding	8,773			28,259	633	37,665
Interest rate swap agreements			49,068		6,435	55,503
Total	**$330,997**	**$128,954**	**$454,015**	**$401,567**	**$775,863**	**$2,091,396**
Deferred inflows of resources						
Net pension liability	$22,198	$37,351	$22,632	$13,291	$30,618	$126,090
Net retiree health benefits liability	366,244	197,227	423,225	261,470	539,275	1,787,441
Debt refunding			1,388			1,388
Irrevocable split-interest agreements					13,966	13,966
Total	**$388,442**	**$234,578**	**$447,245**	**$274,761**	**$583,859**	**$1,928,885**

(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
Irrevocable split-interest agreements					14,343	14,343
Total	**$369,066**	**$205,017**	**$421,778**	**$251,166**	**$547,394**	**$1,794,421**

12. RETIREMENT PLANS
University of California Retirement Plan

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 2017-2018 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 during the years ended June 30 are as follows:

(in thousands of dollars)

	2018			2017		
	MEDICAL CENTER	EMPLOYEE	TOTAL	MEDICAL CENTER	EMPLOYEE	TOTAL
Davis	$111,593	$63,612	$175,205	$102,403	$58,672	$161,075
Irvine	48,153	27,090	75,243	48,710	27,566	76,276
Los Angeles	122,001	68,520	190,521	111,966	63,142	175,108
San Diego	79,580	45,038	124,618	69,647	39,636	109,283
San Francisco	153,693	88,405	242,098	139,730	80,894	220,624
Total	**$515,020**	**$292,665**	**$807,685**	**$472,456**	**$269,910**	**$742,366**

Additional deposits were made by the University to UCRP of $391.8 million and $481.0 million for the fiscal years ended June 30, 2018 and 2017, 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)

	2018	2017
Davis	$26,678	$32,007
Irvine	11,567	15,263
Los Angeles	29,279	35,143
San Diego	19,093	21,797
San Francisco	36,746	43,612
Total	**$123,363**	**$147,822**

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)

	2018		2017	
	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	6.8%	$643,552	6.7%	$675,141
Irvine	3.0	279,015	3.2	321,946
Los Angeles	7.5	706,286	7.3	741,290
San Diego	4.9	460,577	4.5	459,781
San Francisco	9.4	886,409	9.1	919,943
Total	**31.6%**	**$2,975,839**	**30.8%**	**$3,118,101**

The Medical Centers' net pension liability was measured as of June 30, 2018 and 2017 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, 2017 and 2016, 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)

	2018	2017
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 2018 and 2017 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
Treasury Inflation Protected Securities	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, 2018 and 2017 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, 2018 net pension liability of the Medical Center calculated using the June 30, 2018 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	$1,232,831	$643,552	$151,805
Irvine	534,500	279,015	65,816
Los Angeles	1,353,008	706,286	166,603
San Diego	882,312	460,577	108,643
San Francisco	1,698,064	886,409	209,091
Total	**$5,700,715**	**$2,975,839**	**$701,958**

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources for pensions are 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
2018						
Deferred Outflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$24,416	$1,534	$20,474	$64,388	$102,784	$213,596
Changes of assumptions or other inputs	31,212	13,531	34,252	22,336	42,987	144,318
Difference between expected and actual experience	16,627	7,209	18,248	11,900	22,902	76,886
Total	**$72,255**	**$22,274**	**$72,974**	**$98,624**	**$168,673**	**$434,800**
Deferred Inflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$3,697	$24,675	$2,327	$50	$3,159	$33,908
Net difference between projected and actual earnings on pension plan investments	14,727	6,385	16,163	10,540	20,285	68,100
Difference between expected and actual experience	3,774	1,636	4,142	2,701	5,198	17,451
Total	**$22,198**	**$32,696**	**$22,632**	**$13,291**	**$28,642**	**$119,459**
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**

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
2019	$59,498	$17,212	$65,971	$58,284	$109,868	$310,833
2020	27,125	3,953	27,930	32,907	60,158	152,073
2021	(40,475)	(24,594)	(46,603)	(17,904)	(42,069)	(171,645)
2022	1,738	(5,468)	835	8,630	8,199	13,934
2023	2,171	(1,525)	2,209	3,416	3,875	10,146
Total	**$50,057**	**($10,422)**	**$50,342**	**$85,333**	**$140,031**	**$315,341**

The University of California Retirement Savings Program (UCRSP) plans (Defined Contribution (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 UCRSP 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, 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 2017-2018 annual reports of the Orange County Employee Retirement System at www.ocers.org.

Membership in the OCERS Plan consisted of the following at December 31, 2017: 16,947 retired members and beneficiaries, 5,803 inactive members, 21,721 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 $13.8 million and $18.1 million as of June 30, 2018 and 2017, respectively. Irvine's net pension liability for OCERS was measured as of June 30, 2018 and 2017, and the total pension liability was determined by an actuarial valuation as of December 31, 2017 and 2016 rolled forward to June 30, 2018 and 2017, respectively. The actuarial assumptions used in 2018 were based on the results of an experience study for the period from January 1, 2014 through December 31, 2016. The actuarial assumptions used in 2017 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, 2018: 2.8 percent inflation, 7.0 percent investment rate of return, 4.25-12.25 percent projected salary increases and 3.0 percent cost-of-living adjustments. The net pension liability for the Plan was calculated based upon the following assumptions as of June 30, 2017: 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		
Global Equity	35.0%	6.4%
Core Bonds	13.0	1.0
High-Yield Bonds	4.0	3.5
Bank Loan	2.0	2.9
TIPS	4.0	1.0
Emerging Market Debt	4.0	3.8
Real Estate	10.0	4.3
Core Infrastructure	2.0	5.5
Natural Resources	10.0	7.9
Risk Mitigation	5.0	4.7
Mezzanine/Distressed Debts	3.0	6.5
Private Equity	8.0	9.5
Total	**100.0%**	

Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent and 7.25 percent for June 30, 2018 and 2017, respectively. 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, 2018 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	$21,989	$13,822	$7,189

Deferred Outflows of Resources and Deferred Inflows of Resources

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

(in thousands of dollars)

	2018	2017
Deferred Outflows of Resources		
Changes of assumptions or other inputs	$1,186	
Difference between expected and actual experience	374	$491
Net difference between projected and actual earnings on pension plan investments		586
Total	**$1,560**	**$1,077**
Deferred Inflows of Resources		
Difference between expected and actual experience	$2,286	$443
Changes of assumptions or other inputs	482	703
Net difference between projected and actual earnings on pension plan investments	1,887	
Total	**$4,655**	**$1,146**

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 six years is as follows:

(in thousands of dollars)

Year ending June 30	
2019	($848)
2020	(511)
2021	(856)
2022	(720)
2023	(159)
2024	(1)
Total	**($3,095)**

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, 2018 and 2017: 3.0 percent inflation, 7.0 percent investment rate of return, 5.0 percent salary increases through 2017, 4.0 percent afterward and no cost-of-living adjustments. CHRCO recognized pension expense of $22.3 million and $20.0 million for the years ended June 30, 2018 and 2017, 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'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, 2018 and 2017 is as follows:

(in thousands of dollars)

	Children's Hospital & Research Center Oakland Pension Plan	
	2018	**2017**
CONDENSED STATEMENT OF PLAN FIDUCIARY NET POSITION		
Investments at fair value	$460,061	$409,008
Total assets	**460,061**	**409,008**
Net position held in trust	**460,061**	**409,008**
CONDENSED STATEMENT OF CHANGES IN PLAN'S FIDUCIARY NET POSITION		
Contributions	33,600	28,800
Investment and other income, net	33,269	41,256
Total additions	**66,869**	**70,056**
Benefit payment and participant withdrawals	12,802	11,767
Plan expense	3,014	2,727
Total deductions	**15,816**	**14,494**
Increase in net position held in trust	51,053	55,562
Net position held in trust		
Beginning of year	409,008	353,446
End of year	**460,061**	**409,008**
CHANGES IN TOTAL PENSION LIABILITY		
Service cost	11,304	9,910
Interest	31,854	29,672
Difference between expected and actual experience	92	33
Changes of benefit terms	3,609	2,442
Benefits paid, including refunds of employee contributions	(12,802)	(11,767)
Net change in total pension liability	**34,057**	**30,290**
Total pension liability		
Beginning of year	450,152	419,862
End of year	**484,209**	**450,152**
Net pension liability, end of year	**$24,148**	**$41,144**

Membership in the CHRCO Plan consisted of the following at June 30, 2018:

Retirees and beneficiaries receiving benefits	957
Inactive members entitled to, but not yet receiving benefits	1,144
Active members	1,856
Total membership	**3,957**

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, 2018, and the total pension liability was determined by an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2018. The actuarial assumptions used in the June 30, 2018 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)

	TARGET ALLOCATION	LONG-TERM EXPECTED REAL RATE OF RETURN
Asset Class		
U.S. Equity	51.5%	4.3%
Developed International Equity	13.5	4.9
Emerging Market Equity	1.9	7.8
Core Fixed Income	33.1	1.4
Total	**100.0%**	

Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent for June 30, 2018 and 2017. 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, 2018 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	$91,671	$24,148	($31,644)

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)

	2018	2017
DEFERRED OUTFLOWS OF RESOURCES		
Difference between expected and actual experience	$5,714	$4,356
Changes of benefit terms	178	195
Changes of assumptions	15,659	21,768
Net difference between projected and actual earnings on pension plan investments		1,355
Total	**$21,551**	**$27,674**
DEFERRED INFLOWS OF RESOURCES		
Difference between expected and actual experience	$1,709	$2,370
Net difference between projected and actual earnings on pension plan investments	267	
Total	**$1,976**	**$2,370**

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	
2019	$10,597
2020	8,236
2021	152
2022	158
2023	432
Total	**$19,575**

13. 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 2017-2018 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 $2.80 and $2.93 per $100 of UCRP covered payroll effective July 1, 2017 and 2016, respectively.

The Medical Centers' contributions for the years ended June 30 are as follows:

(in thousands of dollars)		
	2018	**2017**
Davis	$22,535	$21,562
Irvine	10,170	10,089
Los Angeles	26,042	24,975
San Diego	16,088	14,677
San Francisco	33,182	31,217
Total	**$108,017**	**$102,520**

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)

	2018		2017	
	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%	$1,215,568	6.6%	$1,227,803
Irvine	3.0	548,548	3.1	574,394
Los Angeles	7.7	1,404,685	7.6	1,422,069
San Diego	4.8	867,819	4.5	835,720
San Francisco	9.8	1,789,855	9.5	1,777,540
Total	**31.9%**	**$5,826,475**	**31.3%**	**$5,837,526**

The Medical Centers' net retiree health benefits liability was measured as of June 30, 2018 and 2017 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, 2017 and 2016, 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)

	2018	2017
Discount rate	3.87%	3.58%
Inflation	3.0	3.0
Investment rate of return	3.0	3.0
Health care cost trend rates	Initially ranges from 5.0 to 9.3 decreasing to an ultimate rate of 5.0 for 2033 and later years	Initially ranges from 5.0 to 9.5 decreasing to an ultimate rate of 5.0 for 2032 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, 2018 net retiree health benefits liability of the Medical Center calculated using the June 30, 2018 health care cost trend rate assumption with initial trend ranging from 5.0 percent to 9.3 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 8.3%) DECREASING TO (4.0%)	CURRENT TREND (5.0% to 9.3%) DECREASING TO (5.0%)	1% INCREASE (6.0% to 10.3%) DECREASING TO (6.0%)
Davis	$1,040,716	$1,215,568	$1,460,980
Irvine	469,643	548,548	659,295
Los Angeles	1,202,629	1,404,685	1,688,277
San Diego	742,989	867,819	1,043,024
San Francisco	1,532,395	1,789,855	2,151,210
Total	**$4,988,372**	**$5,826,475**	**$7,002,786**

Discount Rate

The discount rate used to estimate the net retiree health benefits liability as of June 30, 2018 and 2017 was 3.87 percent and 3.58 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, 2018 net retiree health benefits liability of the Medical Center calculated using the June 30, 2018 discount rate assumption of 3.87 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 (2.87%)	CURRENT DISCOUNT (3.87%)	1% INCREASE (4.87%)
Davis	$1,451,157	$1,215,568	$1,044,116
Irvine	654,862	548,548	471,177
Los Angeles	1,676,927	1,404,685	1,206,559
San Diego	1,036,012	867,819	745,416
San Francisco	2,136,747	1,789,855	1,537,402
Total	**$6,955,705**	**$5,826,475**	**$5,004,670**

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources for retiree health benefits are 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
2018						
Deferred outflows of resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$22,265	$2,364	$68,842	$112,121	$243,289	$448,881
Changes of assumptions or other inputs	222,471	100,394	257,083	158,827	327,577	1,066,352
Net difference between projected and actual earnings on plan investments	254	115	294	181	374	1,218
Difference between expected and actual experience	4,979	2,247	5,754	3,555	7,331	23,866
Total	**$249,969**	**$105,120**	**$331,973**	**$274,684**	**$578,571**	**$1,540,317**
Deferred inflows of resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions		$31,952				$31,952
Changes of assumptions or other inputs	$214,481	96,789	$247,850	$153,123	$315,812	1,028,055
Difference between expected and actual experience	151,763	68,486	175,375	108,347	223,463	727,434
Total	**$366,244**	**$197,227**	**$423,225**	**$261,470**	**$539,275**	**$1,787,441**

(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**

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
2019	($11,143)	($10,508)	($7,055)	$5,551	$13,568	($9,587)
2020	(11,166)	(10,518)	(7,081)	5,535	13,535	(9,695)
2021	(11,188)	(10,528)	(7,107)	5,518	13,501	(9,804)
2022	(11,216)	(10,541)	(7,139)	5,499	13,461	(9,936)
2023	(11,242)	(10,553)	(7,169)	5,480	13,422	(10,062)
Thereafter	(60,320)	(39,459)	(55,701)	(14,369)	(28,191)	(198,040)
Total	**($116,275)**	**($92,107)**	**($91,252)**	**$13,214**	**$39,296**	**($247,124)**

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 or the University's wholly owned captive insurance company. Such risks are subject to various per-claim and aggregate limits, with excess liability coverage provided by independent insurers.

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, are included as other employee benefits in the statements of revenues, expenses and changes in net position.

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, 2018				
Liabilities at June 30, 2017	$4,563	$12,221	$1,675	$18,459
Claims incurred and changes in estimates	(1,943)	2,411	10,104	10,572
Claim payments	2,430	(2,954)	(10,094)	(10,618)
Liabilities at June 30, 2018	**$5,050**	**$11,678**	**$1,685**	**$18,413**
Discount rate	**Undiscounted**	**5.0%**	**Undiscounted**	
Year ended June 30, 2017				
Liabilities 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 at June 30, 2015	$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**	

CHRCO has two irrevocable letters of credit with a bank totaling $10.8 million as of June 30, 2018, which is security for the workers' compensation large dollar insurance deductible. No amounts were drawn on the letter of credit as of June 30, 2018.

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
2018						
Other employee benefits	$10,074	$6,052	$22,963	$11,417	$18,456	$68,962
Professional services	70,177	4,463	2,079	59,812	601,395	737,926
Other supplies and purchased services	14,321	42,983	83,616	12,444	39,073	192,437
Insurance and other	11,706	6,639	7,179	11,197	11,322	48,043
Interest income (expense), net	(11,888)	(5,573)	(21,720)	(4,866)	(15,498)	(59,545)
Total	**$94,390**	**$54,564**	**$94,117**	**$90,004**	**$654,748**	**$987,823**
2017						
Other 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	(7,434)	(3,621)	(16,540)	(5,599)	(11,737)	(44,931)
Total	**$96,704**	**$54,838**	**$93,047**	**$69,312**	**$593,349**	**$907,250**

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 are as follows:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2018						
Reported as operating expenses	$94,390	$54,564	$94,117	$90,004	$654,748	$987,823
Reported as health system support	30,285	48,173	212,827	124,055	116,286	531,626
Total payments to the University	**$124,675**	**$102,737**	**$306,944**	**$214,059**	**$771,034**	**$1,519,449**
2017						
Reported as operating expenses	$96,704	$54,838	$93,047	$69,312	$593,349	$907,250
Reported as health system support	28,088	59,727	175,341	109,586	84,898	457,640
Total payments to the University	**$124,792**	**$114,565**	**$268,388**	**$178,898**	**$678,247**	**$1,364,890**

16. COMPONENT UNIT INFORMATION

Condensed financial statement information related to CHRCO for the years ended June 30 is as follows:

(in thousands of dollars)

	2018	2017
CONDENSED STATEMENT OF NET POSITION		
Current assets	$311,603	$249,445
Capital assets, net	325,396	295,766
Other assets	269,174	266,607
Total assets	**906,173**	**811,818**
Total deferred outflows of resources	**21,551**	**27,674**
Current liabilities	193,228	104,878
Long-term debt	102,518	103,592
Other noncurrent liabilities	53,506	70,927
Total liabilities	**349,252**	**279,397**
Total deferred inflows of resources	**15,942**	**16,714**
Net investment in capital assets	222,341	191,683
Restricted	66,759	79,945
Unrestricted	273,430	271,753
Total net position	**$562,530**	**$543,381**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		
Operating revenues		
Net patient service revenue	$525,401	$530,515
Grants and contracts	43,766	46,195
Other operating revenue	22,441	20,854
Operating expenses	(582,955)	(558,460)
Depreciation expense	(35,946)	(33,842)
Operating income (loss)	**(27,293)**	**5,262**
Non-operating revenues, net	44,428	42,218
Income before other changes in net position	**17,135**	**47,480**
Other, including donated assets	2,014	17,450
Increase in net position	**19,149**	**64,930**
Net position:		
Beginning of year, as previously reported	543,381	479,590
Cumulative effect of accounting change		(1,139)
Beginning of year, as restated	543,381	478,451
Net position - end of year	**$562,530**	**$543,381**
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	$37,520	$37,041
Noncapital financing activities	23,462	19,523
Capital and related financing activities	(56,953)	5,336
Investing activities	18,657	(14,452)
Net increase in cash and cash equivalents	**22,686**	**47,448**
Cash and cash equivalents – beginning of year	118,862	71,414
Cash and cash equivalents – end of year	**$141,548**	**$118,862**

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, 2018 are estimated to be approximately:

(in thousands of dollars)	
Davis	$44,899
Irvine	56,119
Los Angeles	11,648
San Diego	11,771
San Francisco	109,137
Total	**$233,574**

Under an agreement with a private, non-profit hospital, UCSF Medical Center paid in contributions $20.0 million in September 2018, and committed to provide $90.0 million in aggregate capital investments through a series of newly formed joint ventures with the hospital over the course of the initial 10 years of the agreement. An additional service agreement was signed for UCSF Medical Center to operate certain outpatient clinics whose sole corporate member is the same non-profit hospital.

Required Supplementary Information *(Unaudited)*

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					
2018	6.8%	$643,552	$791,832	81.3%	85.9%
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					
2018	3.0%	$279,015	$343,303	81.3%	85.9%
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					
2018	7.5%	$706,286	$869,020	81.3%	85.9%
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					
2018	4.9%	$460,577	$566,698	81.3%	85.9%
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					
2018	9.4%	$886,409	$1,090,645	81.3%	85.9%
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					
2018	31.6%	$2,975,839	$3,661,498	81.3%	85.9%
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

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)

	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY					
As of June 30					
Service cost	$11,304	$9,910	$10,410	$9,448	$9,274
Interest on the total pension liability	31,854	29,672	27,782	24,683	22,453
Changes of benefit terms	92	33	24	40	142
Difference between expected and actual experience	3,609	2,442	(3,690)	762	2,487
Changes of assumptions or other inputs			3,613	33,105	
Benefits paid, including refunds of employee contributions	(12,802)	(11,767)	(9,509)	(8,082)	(6,994)
Net change in total pension liability	34,057	30,290	28,630	59,956	27,362
Total pension liability - beginning of year	450,152	419,862	391,232	331,276	303,914
Total pension liability - end of year	484,209	450,152	419,862	391,232	331,276
PLAN NET POSITION					
Contributions - employer	33,600	28,800	24,000	18,000	14,500
Net investment income	33,269	41,256	214	11,797	48,704
Benefits paid, including refunds of employee contributions	(12,802)	(11,767)	(9,509)	(8,082)	(6,994)
Administrative expense	(3,014)	(2,727)	(1,816)	(1,222)	(718)
Net change in plan net position	51,053	55,562	12,889	20,493	55,492
Total plan net position - beginning of year	409,008	353,446	340,557	320,064	264,572
Total plan net position - end of year	460,061	409,008	353,446	340,557	320,064
Net pension liability - end of year	$24,148	$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)

	2018	2017	2016	2015	2014
Total pension liability	$484,209	$450,152	$419,862	$391,232	$331,276
Plan net position	460,061	409,008	353,446	340,557	320,064
Net pension liability	$24,148	$41,144	$66,416	$50,675	$11,212
Ratio of plan net position to total pension liability	95.0%	90.9%	84.2%	87.0%	96.6%
Covered payroll	$187,639	$184,083	$165,672	$177,986	$175,189
Net pension liability as a percentage of covered payroll	12.9%	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)

	2018	2017	2016	2015	2014
Actuarially calculated employer contributions	$7,710	$5,642	$7,823	$12,239	$21,282
Contributions in relation to the actuarially calculated employer contribution	33,600	28,800	24,000	18,000	14,500
Annual contribution (excess) deficiency	($25,890)	($23,158)	($16,177)	($5,761)	$6,782
Covered payroll	$187,639	$184,083	$165,672	$177,986	$175,189
Actual contributions as a percentage of covered payroll	17.9%	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 and thereafter 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 years' 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	Adjusted RP-2014 Mortality Table for males or females with back up base table to 2006, as appropriate, with generational adjustments for mortality improvements based on Scale MP-2016.

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
2018	0.3%	$13,822	$15	92,146.7%	37.6%
2017	0.3	18,057	44	41,038.6	34.5
2016	0.3	18,092	285	6,348.1	34.8

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)

AS OF JUNE 30	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					
2018	6.6%	$1,215,568	$804,821	151.0%	0.7%
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					
2018	3.0%	$548,548	$363,214	151.0%	0.7%
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					
2018	7.7%	$1,404,685	$930,071	151.0%	0.7%
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					
2018	4.8%	$867,819	$574,571	151.0%	0.7%
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					
2018	9.8%	$1,789,855	$1,185,071	151.0%	0.7%
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					
2018	31.9%	$5,826,475	$3,857,748	151.0%	0.7%
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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