UNIVERSITY OF CALIFORNIA

Medical Centers Report

13/14

By providing that vital intersection of treatment, teaching and research, UC's academic medical centers are taking care of not only their current patients but the future health of California and the world.

UNIVERSITY OF CALIFORNIA

Medical Centers
13/14 Annual Financial Report

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Letter from the Senior Vice President

Collaboration. Coordination. Continuous improvement. These are hallmarks of the future of health care. With health reform accelerating the pace of change, UC Health is staying ahead of the curve by leveraging our strengths to work as a system to increase quality, improve health and reduce costs.

UC Health has embraced the federal Affordable Care Act, which expanded health insurance coverage by extending Medicaid eligibility and creating health exchanges that offer affordable health insurance options. UC Health participates in the new Covered California exchange through a systemwide agreement with Anthem Blue Cross. Other insurers on the exchange also offer access to UC Medical Centers and physicians.

Last year marked the launch of UC Care, a self-insured, preferred provider organization plan for UC employees and retirees that offers care from UC physicians and Medical Centers, as well as providers in Blue Shield's network. UC Care is an innovative way to increase access to world-class care at UC Medical Centers while keeping costs down for members. UC Care exceeded enrollment goals in its first year, and we are exploring efforts to expand its membership.

Recognizing the need to reduce costs and increase revenue, UC Health launched a Leveraging Scale for Value project in March. Under the project, UC Medical Centers will collaborate as a system to save in the range of $100 million to $150 million a year while also looking for ways to enhance revenue. This project, aligned with UC President Janet Napolitano's push to identify cost savings and operational efficiencies, initially will focus on three areas: supply chain, revenue cycle and clinical laboratories.

While we work to become more efficient, we remain committed to our core mission of clinical care, research and education.

UC Medical Centers again were ranked highly by U.S. News & World Report. According to U.S. News & World Report, UC hospitals were recognized as No. 1 in their metropolitan areas and all five Medical Centers (Davis, Irvine, Los Angeles, San Diego and San Francisco) ranked nationally, with two listed among the nation's top 10 hospitals: UCLA (No. 5) and UCSF (No. 8).

UC Medical Centers also help support UC's medical schools, which train nearly half of all medical students in California. UC's sixth medical school, UC Riverside, admitted its first class last year. Overall, UC has the nation's largest health sciences instructional program, with 17 professional schools in seven fields on seven campuses.

By increasing collaboration and by acting more as an integrated system, UC Health can help ensure the financial well-being of our clinical enterprise, allowing us to continue improving the health of Californians.

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

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

The following table presents certain historical utilization statistics for the primary and secondary service areas for the 12-month period ended December 31, 2012. Data for the 12-month period ended December 31, 2012, 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	119	2,015,921	73.0%	12.0%
Secondary	Alpine, Amador, Colusa, El Dorado, Nevada, Sierra, Sutter, Yuba	97	509,462	8.0%	5.0%

The University of California, Davis Medical Center

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

Licensed as a 619-bed general acute care hospital with 34 operating rooms, the Davis Medical Center provides a full range of inpatient general acute and intensive care, and a full complement of ancillary, support and ambulatory services. These services are housed in about 4.9 million gross square feet of facilities, most of which are located on the 144-acre campus in the city of Sacramento. Ambulatory care is provided at the hospital-based clinics and at 17 Primary Care Network ("PCN") satellite clinics in the surrounding communities of Auburn, Carmichael, Davis, Elk Grove, Folsom, Natomas, Rancho Cordova, Rocklin, Roseville and Sacramento.

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

The Davis Medical Center participates in a variety of cooperative outreach activities with regional health care providers. UC Davis' Cancer Care Networks are composed of community-based cancer centers in Marysville, Merced, Bakersfield and Truckee. The UC Davis Transplant Center opened a clinic in Fresno to expand access to kidney and pancreas transplant care in Central California. The Davis Medical Center's nationally recognized clinical telemedicine, distance education and rural affiliation programs have affiliations with the Veterans Administration, Lawrence Livermore National Laboratory and the adjacent Shriners' Hospital for Children — Northern California.

The UC Davis Medical Group, supported by 980 faculty and contract physicians and 699 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 annual U.S. News and World Report "Best Hospitals" 2014-15 survey.
- The American Nurses Credentialing Center (ANCC) recognized the Davis Medical Center with the Magnet® designation in early 2014. The designation is the nation's highest form of recognition for nursing excellence and a benchmark for the quality of care patients receive. Only about 7 percent of U.S. hospitals carry Magnet designation.

- The Davis Medical Center ranked as one of the nation's best hospitals for 2014-15 in 10 adult medical specialties, including cancer care; cardiology and heart surgery; ear, nose and throat; geriatrics; gynecology; nephrology; neurology and neurosurgery; orthopaedics; pulmonology; and urology, according to the annual U.S. News and World Report "Best Hospitals" 2014-15 survey.
- The nation's largest lesbian, gay, bisexual and transgender (LGBT) civil rights organization has recognized the Davis Medical Center as a Leader in LGBT Healthcare Equality for creating an inclusive and welcoming environment for LGBT patients and employees.
- The Davis Medical Center earned the 2013 Enterprise HIMSS Davies Award of Excellence for using electronic health records to successfully improve health care delivery processes and patient safety while achieving a demonstrated return on investment.
- The Davis Medical Center ranked among The Leapfrog Group's list of Top Hospitals for 2013, a distinction that places the Davis Medical Center among a handful of health systems and hospitals in California and among the top 10 percent of hospitals participating in the national survey that met tough national standards for safety and quality.

Continuing expansion and renewal to meet mission and community needs

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

- Main Hospital University Tower Fifth Floor ICU Renovation: Renovation will occur on an existing 18-bed intensive care unit in the University tower requiring extensive renovation and upgrade. Demolition and make-ready work were completed in April 2014. Completion of the project is estimated to be in December 2015.
- The Davis Medical Center significantly expanded the Epic EHR (electronic health record) product suite at the end of the fiscal year to optimally support clinical care, operations and financial management. While Epic has been used for years as a clinical management system, the medical center is now directly using the application to support the patient administration and revenue cycle management, as well as managed care administration. Additionally, new clinical modules for patient census management, perioperative services, home health and radiology are now integrated with the Epic suite.

Regional outreach

The UC Davis Health System continues to increase its affiliations with regional health care providers by providing seamless transfer and repatriation processes, supported by electronic health record interoperability, to ensure that patients receive access to tertiary and quaternary services at the Davis Medical Center when needed. Together with our National Cancer Institute-designated Comprehensive Cancer Center, UC Davis Health System now has four regional Cancer Care Networks partners located throughout California that bring advanced cancer care and the latest clinical research to patients in their local communities. Our telehealth program connects more than 30 specialties to over 60 sites, enabling patients throughout California to receive direct clinical and specialty care without leaving their own communities. Leveraging its leadership in telehealth and using an integrated approach for simulation-based education and distance learning, the program serves as a model for regional population health.

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, 2012. Data for the 12-month period ended December 31, 2012, 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	73	1,701,456	66.2%	7.5%
Secondary	Los Angeles, Riverside, San Bernardino	74	1,430,429	15.7%	2.2%

The University of California, Irvine Medical Center

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

The Irvine Medical Center is licensed to provide acute care hospital services in Orange, California, and was licensed to operate 411 beds in year 2014. The Irvine Medical Center serves as a major tertiary referral center for Orange County and is also the county's only Level I Trauma Center and Regional Burn Center. The construction of the new UC Irvine Douglas Hospital has been completed and opened for patient care. The new replacement hospital meets the state of California's SB 1953, Hospital Facilities Seismic Safety Act.

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

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

Significant events during the year are highlighted below:

National recognition

For the 14th consecutive year, Irvine Medical Center has been listed among "America's Best Hospitals" by U.S. News & World Report and is ranked in the top 50 nationally in three specialties: 33rd for ear, nose and throat, 39th for geriatrics and 50th for nephrology.

MemorialCare Health System affiliation

The Affordable Care Act has shifted the health care market's focus from the volume of care provided, to the value of care provided. In October 2013, UC Irvine Health and the MemorialCare Health System in Southern California, announced an affiliation to expand access to high-quality, cost-effective health care throughout Orange County and create new, innovative models of care that improve the health and well-being of their communities.

UC Irvine Health and MemorialCare will begin this collaboration in FY 2014-2015 with a partnership to open new state-of-the-art primary care health centers. Both organizations remain independent health systems. MemorialCare is a well-regarded, financially stable non-profit organization and nationally prominent integrated delivery system. It is an acknowledged pioneer in evidence-based medicine with six top community hospitals and more than 200 care sites in Los Angeles and Orange counties. MemorialCare is supportive of the UC Irvine Health teaching mission and currently funds approximately 100 of UC Irvine's 600 residency positions.

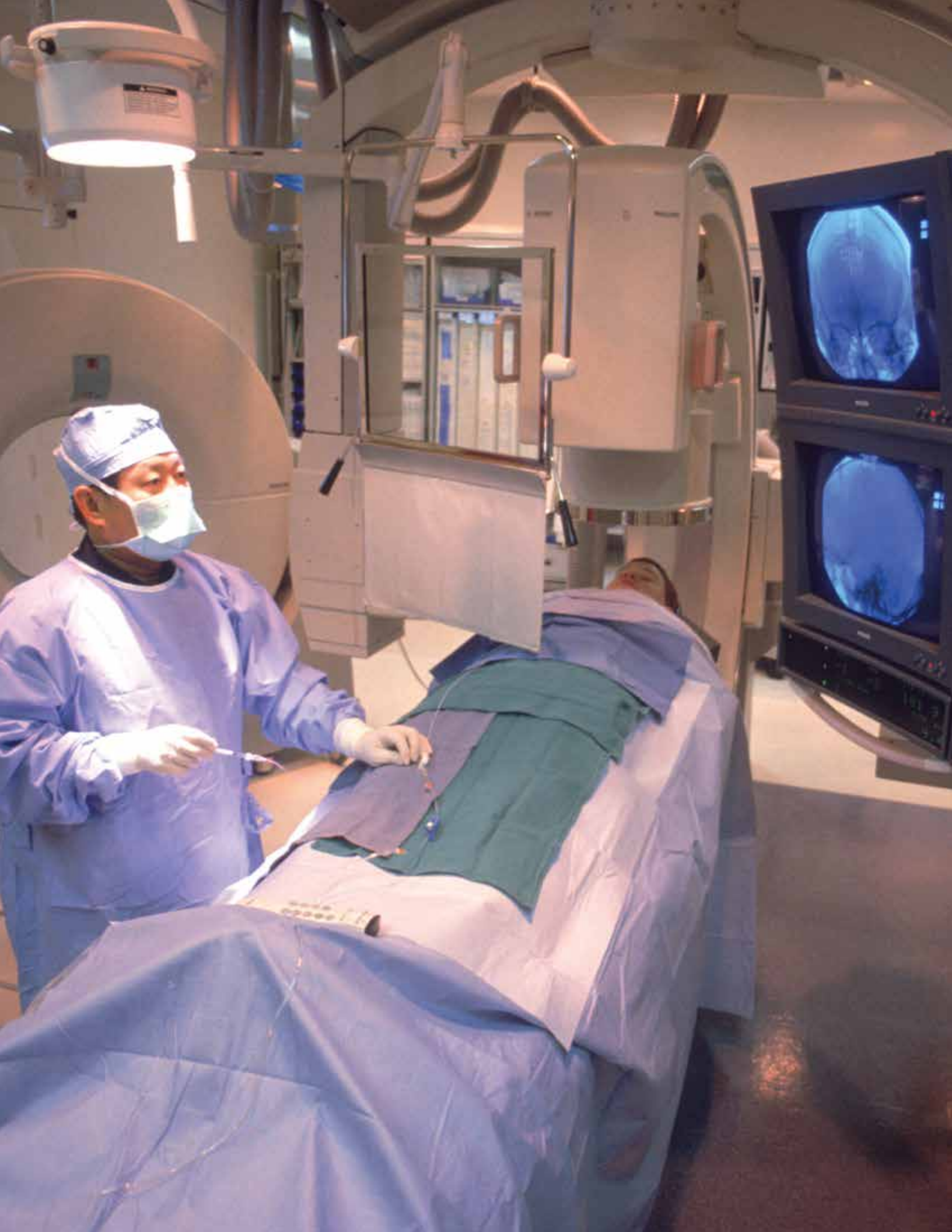
The primary care centers created under this affiliation will offer individual and family health services, urgent care, prevention, wellness and basic diagnostic services. Staffed by UC Irvine Health community-based primary care physicians, the new centers will be available in communities with shortages of primary care physicians and will complement the existing UC Irvine primary care faculty practices located in Orange and Irvine.

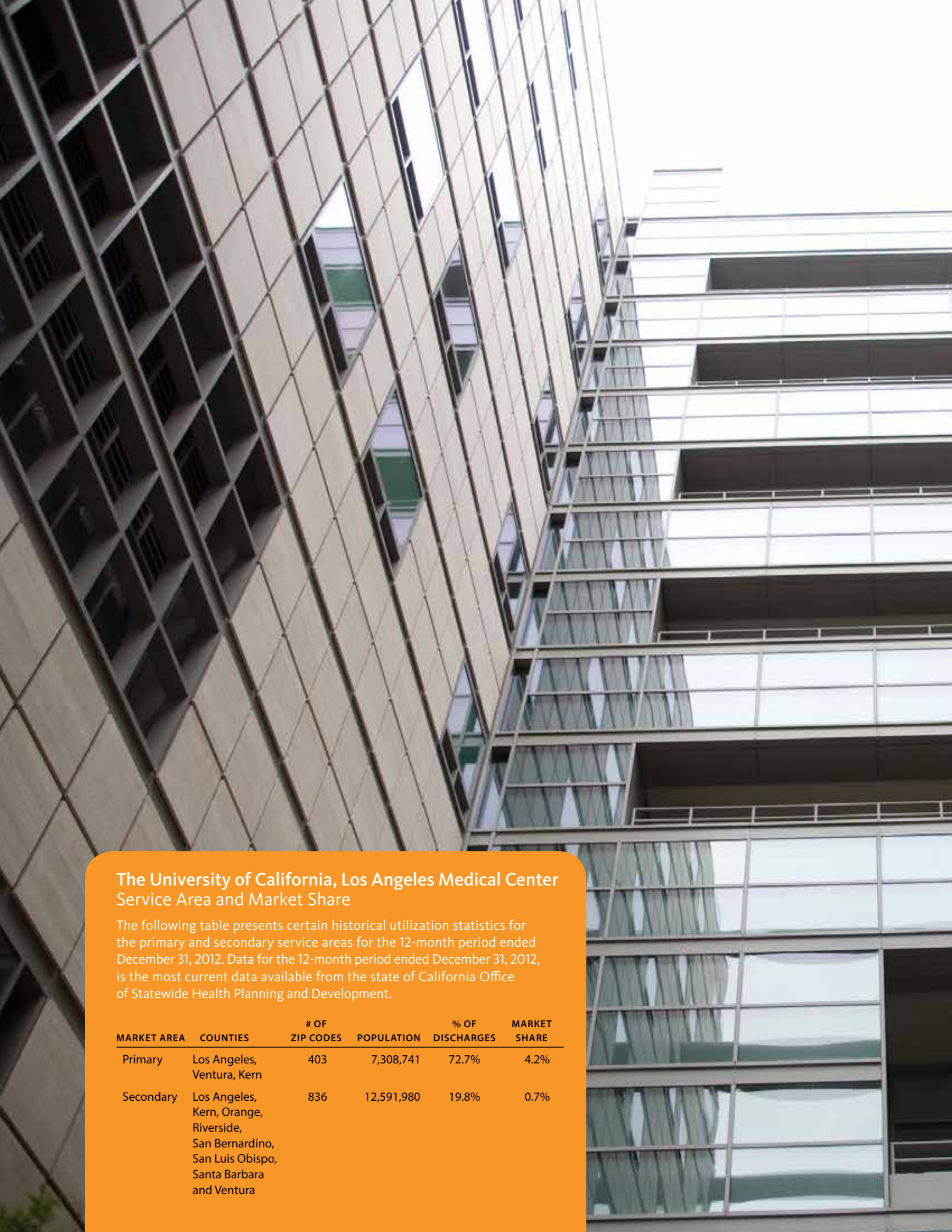
Major hospital projects

The Medical Center has completed the Facility Master Plan study. We are now in the programming phase that will establish budgets and efficiencies. This will transform and relocate the Ambulatory Clinical Services to a new and highly efficient clinic that is patient-centric.

QUEST (Quality, Excellence and Safety through Technology)

QUEST is a multi-year project, started in 2009, that will integrate nearly all of UC Irvine Health's clinical information systems. Central to the project is achieving a complete medical record in both the patient and ambulatory settings. In FY 2014, QUEST successfully executed its strategic plan which included: continued roll-out of clinical documentation in the inpatient and ambulatory settings, development of interfaces that enable critical data from third-party systems to be available in the EMR, implementation of nearly 100 evidence-based order sets, and advanced, disease-specific data retrieval solutions that facilitate the continuity of care. These activities position the medical center to achieve complete Accountable Care Organization and Patient Centered Medical Home models that are being driven by health reforms. Additionally, UC Irvine Health was honored as one of Hospital and Health Networks' 100 Most Wired Hospitals, received National Committee for Quality Assurance Patient Centered Medical Home designation, met all Delivery System Reform Incentive Payments deliverables and achieved Centers for Medicare and Medicaid Services Stage 1 Meaningful Use.





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, 2012. Data for the 12-month period ended December 31, 2012, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	Los Angeles, Ventura, Kern	403	7,308,741	72.7%	4.2%
Secondary	Los Angeles, Kern, Orange, Riverside, San Bernardino, San Luis Obispo, Santa Barbara and Ventura	836	12,591,980	19.8%	0.7%

The University of California, Los Angeles Medical Center

The UCLA Medical Center is part of UCLA Health. UCLA Health also includes the UCLA faculty practice group (FPG) comprised of more than 1,200 full-time clinical faculty physicians. Collectively, UCLA Medical Center and the FPG are UCLA Health.

The UCLA Medical Center operates licensed-bed facilities at the 466-bed Ronald Reagan UCLA Medical Center located in Westwood, the 265-bed Santa Monica-UCLA Medical Center and Orthopaedic Hospital located in Santa Monica, and the 74-bed Resnick Neuropsychiatric Hospital at UCLA located in Westwood. The financial statements also include the activities of the UCLA Tiverton House, a 100-room hotel facility for patients and their families.

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

The UCLA Medical Center's Westwood campus opened in 1955 as a 320-bed hospital and expanded to 669 beds by 1967. On June 29, 2008, the construction of the Ronald Reagan 466-bed and Resnick Neuropsychiatric 74-bed state-of-the-art replacement hospital was completed and opened for patient care. The replacement hospital meets the state of California's SB 1953, Hospital Facilities Seismic Safety Act.

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

The Santa Monica-UCLA Medical Center and Orthopaedic Hospital also serves the University's teaching and research missions while meeting the health care needs of Los Angeles' west side community. The Santa Monica facility features several nationally recognized clinical programs located within its 7-acre campus.

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

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

Significant events during the year are highlighted below:

The UCLA Medical Center continues to maintain its outstanding national reputation

- The UCLA Medical Center's hospitals in Westwood and Santa Monica were named to U.S. News & World Report's most exclusive rankings list: the Best Hospitals 2014–15 Honor Roll. The UCLA Medical Center was ranked No. 5 in the country and No. 1 in both California and the Los Angeles metropolitan area. According to this latest survey, UCLA Medical Center ranked in 15 specialty areas including: cancer at UCLA's Jonsson Comprehensive Cancer Center (ranked No. 9 nationally); cardiology and heart surgery (12); diabetes and endocrinology (9); ear, nose and throat (11); gastroenterology and GI surgery (5); geriatrics (3); gynecology (11); nephrology (8); neurology and neurosurgery (7); ophthalmology at Stein and Doheny Eye Institutes (5); orthopaedics (11); psychiatry at the Resnick Neuropsychiatric Hospital at UCLA (8); pulmonology (16); rheumatology (8); and urology (4).
- The UCLA Medical Center's kidney and lung transplant programs recorded the highest patient survivor rates in the country and received the Distinguished Hospital Award for Clinical Excellence and Stroke Care Excellence by Healthgrades and was recognized by The Joint Commission as among the Top Performing Hospitals on Key Quality Measures.
- UCLA Medical Center received the prestigious HIMSS Stage 7 award and, for the first time, achieved acknowledgement for being among the "Most Wired" health systems in the country.
- The David Geffen School of Medicine at UCLA was granted full accreditation for the remainder of its eight-year term from the Liaison Committee on Medical Education in June, validating the strength of UCLA's medical education program and the dedicated work of UCLA's faculty, staff, trainees and education leadership team.
- The Resnick Neuropsychiatric Hospital at UCLA received the Award for Outstanding Nursing Quality 2013 in the Psychiatric Hospital category from the National Database for Nursing Quality Indicators.

UCLA Medical Center continues to work on strategic initiatives

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

- Early results of the Primary Care Innovation Model are showing that emergency room visits are reduced by 20%, primary care visits are increased and both patients and physicians are highly satisfied.
- UCLA Health patients have access to their online medical records through myuclahealth.org, and nearly 80,000 patients have activated their accounts using this patient-centered portal.
- UCLA Health primary and secondary care expansion continued in the west side of Los Angeles, eastern Ventura County, northern Los Angeles County and the South Bay.
- UCLA Medical Center partnered with Cedars-Sinai Medical Center and Select Medical to create a 138-bed acute inpatient rehabilitation hospital located in the vacant Century City Doctors Hospital to provide advanced treatment of spinal cord injuries, brain injuries, stroke and other acute conditions; the goal is to have the new facility operational by late 2015.
- UCLA's Stein Eye Institute and Doheny Eye Institute signed a long-term affiliation agreement to create the nation's preeminent centers for ophthalmic patient care, vision research and education.
- The Motion Picture and Television Fund joined UCLA Health on June 1, 2014, allowing entertainment industry members and their families to continue to receive health care at their customary locations from the physicians and staff with whom they are familiar, while fostering new outpatient and inpatient programs to enhance both quality and access.

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 that ended December 31, 2012. Data for the 12-month period that ended December 31, 2012, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	San Diego	77	1,365,000	54.6%	13.9%
Secondary	San Diego	95	1,750,000	29.1%	5.3%

The University of California, San Diego Medical Center

In operation since 1966, UC San Diego Health System is San Diego County's only academic health system and is dedicated to delivering outstanding patient care through commitment to the community, groundbreaking research and inspired teaching. Collectively, UC San Diego Medical Center, UC San Diego Thornton Hospital, UC San Diego Moores Cancer Center, UC San Diego Sulpizio Cardiovascular Center, UC San Diego Shiley Eye Center and UC San Diego Jacobs Medical Center (opening in 2016) comprise UC San Diego Health System. The Health System encompasses hospital-based and ambulatory patient care services, teaching and clinical research. It is licensed to operate 563 beds and to provide acute care hospital services at two main sites in Hillcrest and La Jolla.

The Hillcrest site, located in central San Diego, is licensed to operate 390 beds. UC San Diego Medical Center serves as the principal clinical teaching site for UC San Diego School of Medicine, established by The Regents of the University of California in 1962. It is the focal point for the School of Medicine's education and community services missions, and serves as a major tertiary and quaternary referral center for San Diego, Riverside and Imperial Counties. It is home to the only Regional Burn Center, a Comprehensive Stroke Center and one of only two Level I trauma centers in the county. A Level I ranking is the highest level given to a trauma center in the U.S. by the American College of Surgeons because of its comprehensive service. This site is also the only regional Level III neonatal intensive care unit (NICU) within a birthing facility in San Diego. A Level III NICU provides the highest level of care for the smallest and sickest of newborns.

The La Jolla site, located in north San Diego, includes Thornton Hospital, Moores Cancer Center, Sulpizio Cardiovascular Center, Shiley Eye Center and Jacobs Medical Center. Thornton Hospital opened in July 1993 and is a general medical/surgical facility that contains 119 licensed beds. It is the principal location for inpatient cancer services, with Moores Cancer Center serving as the primary site for outpatient clinical oncology care. Moores Cancer Center is one of only 41 National Cancer Institutes in the U.S. and the first and only San Diego-based National Comprehensive Cancer Network® Member Institution. It has one of the first oncology practices in the nation to be recognized by the Quality Oncology Practice Initiative Certification Program, an affiliate of the American Society of Clinical Oncology, for meeting rigorous standards for high-quality cancer care.

Sulpizio Cardiovascular Center, also in La Jolla, contains 54 beds and is the principal location for cardiovascular services; it was named one of the nation's 50 Top Cardiovascular Hospitals for 2013 by Truven Health Analytics. It was the first cardiovascular center in San Diego and the first hospital-based project in the region to receive Leadership in Energy and Environmental Design (LEED) Gold certification from the United States Green Building Council. Shiley Eye Center opened in 1992 and is a retina and glaucoma center, and home to the region's only eye facility dedicated to children.

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

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

UC San Diego Health System continues to maintain an outstanding local and national reputation

- UC San Diego Health System received Healthgrades' "Distinguished Hospital Award for Clinical Excellence" in 2014, an honor only bestowed upon the top 5 percent of hospitals in the U.S. Top performing hospitals were selected based on clinical excellence across a broad spectrum of care in specialty areas, such as cardiac surgery, gastrointestinal, neurosurgery, pulmonary and critical care.
- UC San Diego Health System was ranked first in San Diego in U.S. News & World Report's "Best Hospitals" metro rankings in 2014–15. A hospital had to score in the top 25 percent among its peers in at least one of 16 medical specialties and represent a metropolitan area with 1 million or more residents to qualify.
- In U.S. News & World Report's 2014–15 "Best Hospitals" issue, 11 specialties at UC San Diego Health System were nationally recognized — cancer (#25), cardiology and heart surgery (#23), diabetes and endocrinology (#32), ear, nose and throat (#22), gastroenterology and GI surgery (#31), geriatrics (#19), nephrology (#15), neurology and neurosurgery (#25), orthopedics (#44), pulmonology (#6) and urology (#16). In gynecology and rheumatology, the Health System ranked as "high-performing."
- In 2014, Becker's Hospital Review, a news publication for hospital and health system leadership, named UC San Diego Medical Center one of "100 Great Hospitals in America," as well as one of "100 Hospitals with Great Women's Health Programs" for its innovative care and advanced treatment options in obstetrics and gynecology. Previously, Becker's Hospital Review had also named UC San Diego Health System among "100 Hospitals with Great Neurosurgery and Spine Programs."
- UC San Diego Medical Center, located in Hillcrest, was named one of the nation's 100 Top Hospitals for the second year in a row in 2013 by Truven Health Analytics, and was one of only 12 hospitals in the nation to receive the Everest Award in 2012. This award honors a special group of the 100 Top Hospital winners that have achieved both the highest level of current performance and the greatest improvement over a five-year period.
- The Leapfrog Group, an independent national nonprofit run by employers and other large purchasers of health benefits, designated UC San Diego Health System as a "Top Hospital" in 2012 based on the Leapfrog hospital survey, which is the gold standard for comparing hospitals' performance in quality and patient safety. The UC San Diego Health System has consistently received "A" ratings from The Leapfrog Group's Hospital Safety Score for its overall performance in keeping patients safe from preventable harm and medical errors.
- UC San Diego Health System is a Magnet® hospital as designated by the American Nurses Credentialing Center (ANCC). The Magnet Recognition Program recognizes health care organizations for quality patient care, nursing excellence and innovations in nursing practice.

Construction continues on UC San Diego Jacobs San Diego Medical Center

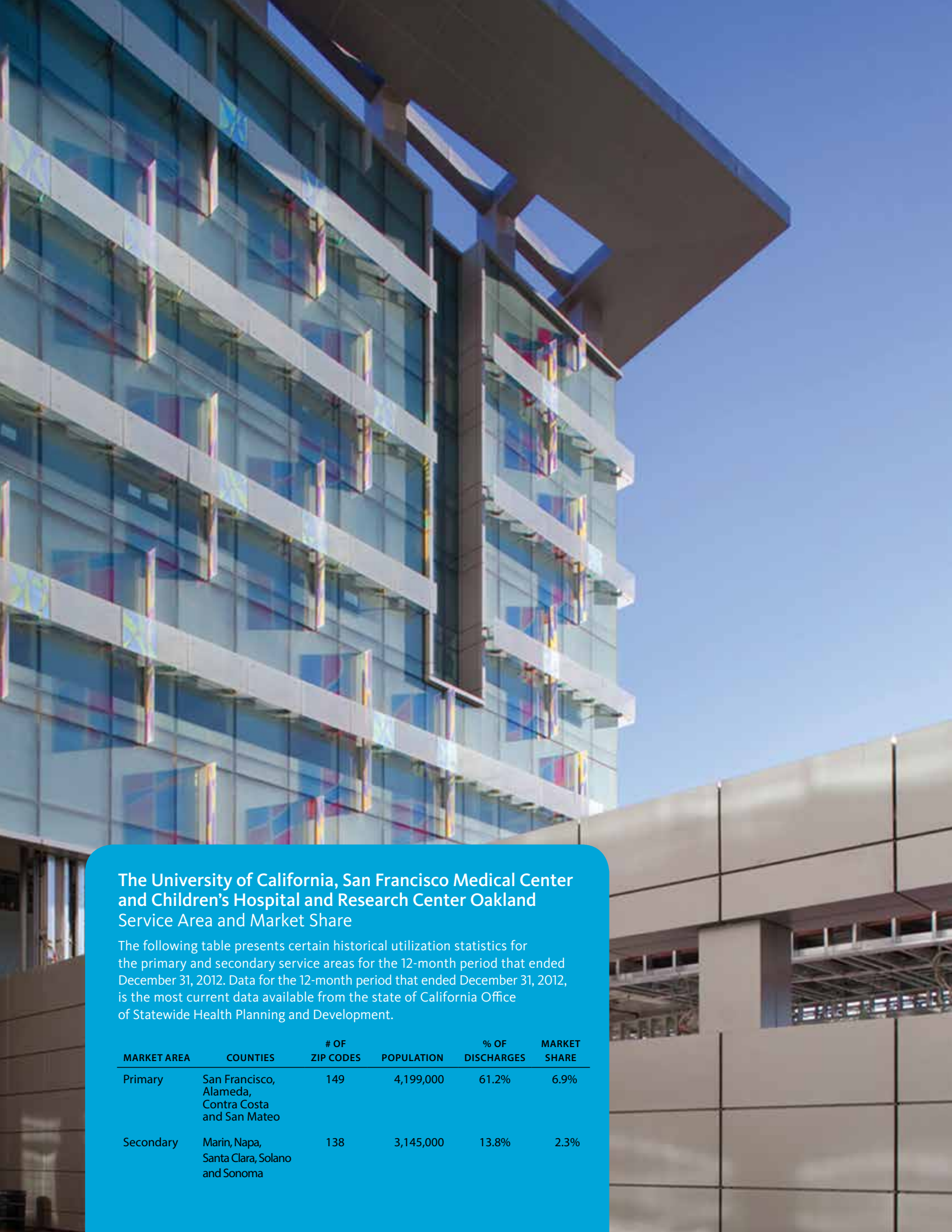
The 10-story, 245-bed, 509,500-square-foot Jacobs Medical Center will include four hospitals in one location: the existing Thornton Hospital, plus the Pauline and Stanley Foster Hospital for Cancer Care, Hospital for Women and Infants, and the Hospital for Advanced Surgery. It will house 14 operating rooms, the region's only intraoperative magnetic resonance imaging (MRI) machines and a helistop. The project has also included renovations to significant portions of Thornton Hospital, as well as a 2-story, 40,000-square-foot Medical Center Central Plant that was completed in September 2014. Jacobs Medical Center is currently the largest hospital project in Southern California; it is slated for completion in 2016 and is targeting LEED Silver certification because of its low carbon footprint and advanced technology.

This $839 million facility has been designed with the patient in mind. From spacious private rooms that maximize daylight to integrated landscape gardens on patient floors, to next-generation medical equipment, designers have fully integrated the vision and needs of patients, doctors and nurses. Each floor will combine all of the necessary healing elements while achieving optimal safety and efficient delivery of care.

Recognition for advanced use of information technology

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

For nine consecutive years, UC San Diego Health System has been among the nation's "Most Wired" hospitals and, for four years, one of the 25 "Most Wireless," according to Hospitals & Health Networks, a publication of the American Hospital Association. In 2014, the Health System was named one of the nation's top 20 "Most Wired Advanced" hospitals out of nearly 5,000 hospitals in the United States. This is a new award category designating the "best of the best" hospitals in the U.S. in terms of health information technology systems. UC San Diego Health System is the only hospital in California to receive this award.



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 that ended December 31, 2012. Data for the 12-month period that ended December 31, 2012, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	San Francisco, Alameda, Contra Costa and San Mateo	149	4,199,000	61.2%	6.9%
Secondary	Marin, Napa, Santa Clara, Solano and Sonoma	138	3,145,000	13.8%	2.3%

The University of California, San Francisco Medical Center and Children's Hospital and Research Center Oakland*

The UCSF Medical Center is a part of UCSF Health which also includes the UCSF Faculty Clinical Practices and UCSF Benioff Children's Hospital Oakland.

UCSF Medical Center

The UCSF Medical Center serves as the principal clinical teaching site for the University of California, San Francisco, School of Medicine, affiliated with the University of California since 1873. Consistently ranked among the nation's top medical schools, the UCSF School of Medicine earns its greatest distinction from its outstanding faculty. In 2014–15, U.S. News & World Report ranked the UCSF School of Medicine fourth nationally for its primary care training and its research training — the only medical school in the country ranked in the top five in both categories.

The UCSF Medical Center is licensed to provide inpatient care at Moffitt-Long Hospital on the 107-acre Parnassus campus and at UCSF Mount Zion, outpatient hospital care at the two hospital sites and physician clinical care at those hospitals and other locations primarily in San Francisco. 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 720 beds.

The UCSF Medical Center's financial statements also include the activities of the UCSF Faculty Practices — the faculty practice organization for the more than 1,100 UCSF faculty physicians. The net revenues from clinical practice are recorded in net patient service revenue; the direct expenses of non-physician staff and non-labor expenses are included in operating expenses. Payments to the faculty for their professional services are classified as purchased services.

UCSF Benioff Children's Hospitals

The Moffitt-Long Hospital includes UCSF Benioff Children's Hospital, a "hospital within a hospital" with more than 150 pediatric specialists practicing in more than 50 areas of medicine.

Effective January 1, 2014, the UCSF Medical Center affiliated with Children's Hospital & Research Center Oakland (CHRCO) 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 102-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.

The hospital is one of only five ACS Pediatric Level I Trauma Centers in the state, and has one of the largest pediatric intensive care units in Northern California. UCSF BCHO has 190 licensed beds, more than 500 physicians in 43 specialties and more than 2,600 employees.

BCHO is a leading teaching hospital with an outstanding pediatric residency program and a number of unique pediatric subspecialty fellowship programs. BCHO's research arm, Children's Hospital Oakland Research Institute (CHORI), is internationally known for its basic and clinical research.

**CHRCO is a discretely presented componenet unit of the University of California*

UCSF Health: Continues to focus on strategic initiatives to meet its mission and community needs

The UCSF Medical Center completed its Health System Strategic Plan designed to foster clinical growth and to advance additional strategic alignments with other providers. Included in the strategic plan are the following initiatives:

- A continued pursuit of excellent specialty medicine focused on streamlining access to services and coordination of care
- Promotion of a high value system of care for regional populations of patients
- A continued implementation of a culture of continuous process improvement

Significant events during the year are highlighted below:

- The affiliation between UCSF Medical Center and CHRCO referred to above improves the ability to advance pediatric care as well as enhance the research and educational missions of both organizations. A significant media campaign was undertaken to raise public awareness and promote the benefits that the affiliations bring to the broader community.
- The development of the UCSF Mission Bay Hospital continued. The Mission Bay project includes construction of approximately 878,000 gross square feet to accommodate a 289-bed inpatient building for Children's, Women's and Cancer hospitals, an outpatient building with a helipad, an energy center and site improvements and infrastructure. Construction is expected to be completed and patients admitted to the new facility in 2015.
- The UCSF Medical Center and UCSF BCHO developed and implemented an enterprise-wide electronic medical records project. The electronic system, creates a single electronic health record for every outpatient and inpatient at each facility. The project transforms how providers and staff exchange information across all care settings, enhances safety and improves the overall patient experience. The system was used during 2013 and 2014, and was also incorporated into patient billing and collections, resulting in improvements in the overall revenue cycle and a decrease in accounts receivable.
- The UCSF Medical Center significantly expanded the use of MyChart, an online patient portal established in 2011. More than 96,000 patients have enrolled in the portal, almost double the amount enrolled at the end of 2013. The portal gives patients confidential access to their medical records and enables them to send and receive messages to doctors, nurses and office staff.
- The UCSF Medical Center achieved a Magnet designation for excellence in nursing by the American Nurses Credentialing Center (ANCC). It is one of only 401 magnet hospitals worldwide to receive this status which recognizes organizations for quality patient care, nursing excellence and innovations in nursing.
- Patient satisfaction scores continued to increase over the previous year and exceeded annual targets established at the beginning of the year.

UCSF Health: Commitment to the Community

- The UCSF Medical Center collaborated with the San Francisco Department of Public Health and other health and social service agencies to develop a community health needs assessment report in 2013 to identify key health priorities in its primary service area. These priorities are important components in the Health System Strategic Plan mentioned above and are included in future goals for the UCSF Medical Center.
- In 2013 UCSF BCHO, in conjunction with hospitals in Alameda County and the public health department, developed a community health needs assessment. With the input of hundreds of community members in 23 focus groups and data from the hospital's primary and secondary service areas, this grass roots effort will direct UCSF BCHO's response to the health care needs of surrounding vulnerable communities.
- UCSF Health provided more than $230 million in uncompensated or undercompensated care in 2014.
- 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 patients.
- Though the UCSF Medical Center and BCHO are known and respected widely, their primary commitment is providing leading-edge health care services to the people of the San Francisco Bay Area and communities throughout Northern California. A patient- and family-centered approach is at the center of everything the organization does and maximizing the patient experience is a top priority.


UCSF
MEDICAL
CENTER

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' and CHRCO's financial position and operating activities for the year ended June 30, 2014, with selected comparative information for the year ended June 30, 2013. 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 (2013, 2014, etc.) in this discussion refer to the fiscal years ended June 30.

OVERVIEW

The University of California, Medical Centers (the "Medical Centers") are part of the University of California (the "University"), a California public corporation under Article IX, Section 9 of the California Constitution. The University is administered by The Regents of the University of California ("The Regents") of which, under the formation documents of the University, administrative authority with respect to the Medical Centers is vested in the President of the University. The Medical Centers consist of the University of California, Davis Medical Center ("UC Davis Medical Center" or "Davis"), the University of California, Irvine Medical Center ("UC Irvine Medical Center" or "Irvine"), the University of California, Los Angeles Medical Center ("UCLA Medical Center" or "Los Angeles"), the University of California, San Diego Medical Center ("UCSD Medical Center" or "San Diego") and the University of California, San Francisco Medical Center ("UCSF Medical Center" or "San Francisco"), 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 financial statements also include Children's Hospital & Research Center Oakland ("CHRCO"), a component unit of the University of California.

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

OPERATING STATISTICS

The following table presents utilization statistics for the Medical Centers and CHRCO:

(shown in fiscal year)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
Licensed beds							
2014	619	411	805	563	720	190	3,308
2013	619	411	806	565	720	190	3,311
Admissions							
2014	30,471	19,287	42,142	27,650	29,230	10,001	158,781
2013	30,200	19,312	41,335	27,674	28,530	10,342	157,393
Average daily census							
2014	473	295	733	446	495	132	2,574
2013	466	301	731	427	487	134	2,546
Discharges							
2014	30,736	19,311	42,117	27,899	29,160	9,913	159,136
2013	30,326	19,401	40,997	26,988	28,484	10,345	156,541
Average length of stay							
2014	5.7	5.6	6.4	5.8	6.2	4.9	5.9
2013	5.6	5.7	6.5	5.8	6.2	4.7	5.9
Patient days							
2014	172,756	107,782	267,506	162,651	180,520	48,215	939,430
2013	170,241	109,921	266,976	155,797	177,646	48,766	929,347
Case mix index[1]							
2014	1.67	1.77	1.95	1.69	2.04	1.30	
2013	1.67	1.72	1.96	1.64	2.03	1.26	
Outpatient visits							
2014	1,013,498	592,526	706,325	655,921	963,692	234,697	4,166,659
2013	937,237	561,021	720,536	661,544	899,218	236,392	4,015,948

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

Licensed Beds

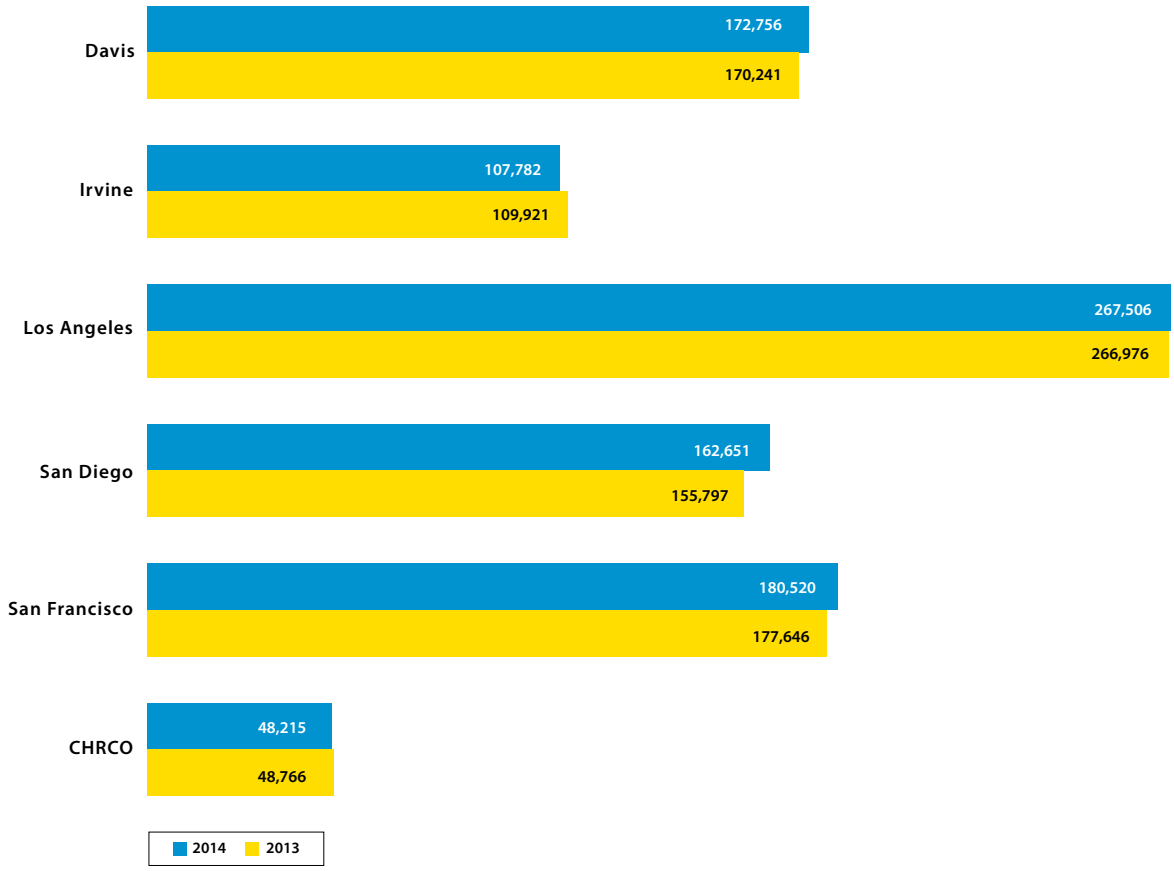
Licensed beds changed as follows:

Increased (decreased)

Los Angeles	(1)	Reduced one licensed bed as part of annual licensing with the state.
San Diego	(2)	Two medical surgical beds were delicensed at the Hillcrest location, one was used for storage and the other was not needed.

Admissions and Patient Days

Admissions fluctuate based upon the Medical Centers' and CHRCO's 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 2014 as follows:

Increased (decreased)

	Admissions		Patient Days		
Davis	271	0.9%	2,515	1.5%	Admissions and patient days increased due to growth in pediatric services.
Irvine	(25)	(0.1%)	(2,139)	(1.9%)	Modest decrease in intensive care.
Los Angeles	807	2.0%	530	0.2%	Higher inpatient volume and higher contract patient days.
San Diego	(24)	(0.1%)	6,854	4.4%	Higher days due to a small increase in length of stay.
San Francisco	700	2.5%	2,874	1.6%	Higher inpatient volume due to growth of childrens programs.
CHRCO	(342)	(3.3%)	(551)	(1.1%)	Reduced patient demand offset by increased acuity.

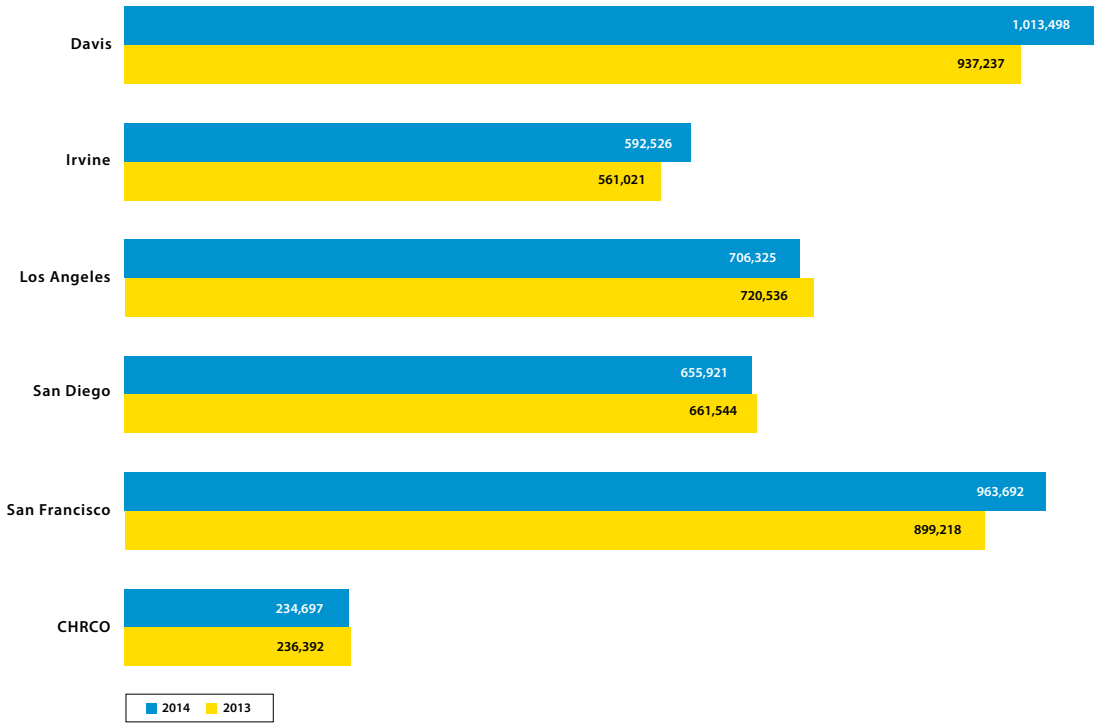
Outpatient Visits

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

(shown in fiscal year)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
2014							
Hospital clinics	443,415	547,468	640,012	587,576	902,651	190,180	3,311,302
Primary care network	482,930						482,930
Home health and hospice	19,616				18,746		38,362
Emergency visits	67,537	45,058	66,313	68,345	42,295	44,517	334,065
Total	**1,013,498**	**592,526**	**706,325**	**655,921**	**963,692**	**234,697**	**4,166,659**
2013							
Hospital clinics	403,330	517,341	654,189	595,179	844,839	189,880	3,204,758
Primary care network	452,311						452,311
Home health and hospice	19,402				16,474		35,876
Emergency visits	62,194	43,680	66,347	66,365	37,905	46,512	323,003
Total	**937,237**	**561,021**	**720,536**	**661,544**	**899,218**	**236,392**	**4,015,948**

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



Total outpatient visits changed in 2014 as follows:

Increased (decreased)			
Davis	76,261	8.1%	Outpatient visits increased due to improved access and efficiencies in clinical operations.
Irvine	31,505	5.6%	Overall increase in clinic visits.
Los Angeles	(14,211)	(2.0%)	Hospital clinics decreased by 2.2% and emergency visits decreased by 0.1%..
San Diego	(5,623)	(0.8%)	A small decrease in clinic visits offset partially by growth in emergency visits.
San Francisco	64,474	7.2%	Increase is due to expansion of outpatient programs and clinical outreach efforts.
CHRCO	(1,695)	(0.7%)	Improved access to outpatient care has decreased emergency room visits.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Medical Centers changed their accounting policies with the implementation of new accounting standards. Changes in accounting policies for pensions are designed to improve transparency regarding pension obligations by requiring recognition of a liability equal to the net pension liability for the Medical Centers' proportionate share of the University's defined benefit plans. This standard requires recognition of pension expense using a systematic method, designed to match the cost of pension benefits with service periods for eligible employees, and the Medical Centers are allocated their proportionate share of the University's pension expense. The Medical Centers also adopted accounting changes for reporting deferred inflows and outflows, which required the write-off of unamortized bond issuance costs. Financial information for 2013 has been restated to retroactively apply these new accounting policies.

On January 1, 2014, The Regents became the sole corporate and voting member of CHRCO, an existing legally separate 501(c)(3) corporation. San Francisco provides certain management services for CHRCO. Since the University has the ability to impose its will on CHRCO, under accounting requirements, CHRCO is a discretely presented component unit of the University of California. Financial information for CHRCO is presented to retroactively apply this change in accounting entity. The CHRCO financial data is presented in accordance with the new accounting standards described above.

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
2014							
Net patient service revenue	$1,559,516	$861,988	$1,914,604	$1,228,648	$2,308,685	$357,823	$8,231,264
Other operating revenue	26,142	26,787	73,433	64,216	81,588	70,353	342,519
Total operating revenue	**1,585,658**	**888,775**	**1,988,037**	**1,292,864**	**2,390,273**	**428,176**	**8,573,783**
Total operating expenses	1,528,912	811,841	1,864,822	1,145,948	2,230,869	484,006	8,066,398
Income (loss) from operations	**56,746**	**76,934**	**123,215**	**146,916**	**159,404**	**(55,830)**	**507,385**
Total net non-operating revenues (expenses)	(9,761)	(10,940)	(20,098)	(2,810)	22,400	26,474	5,265
Income (loss) before other changes in net position	**46,985**	**65,994**	**103,117**	**144,106**	**181,804**	**(29,356)**	**512,650**
Other changes in net position	(42,418)	(24,549)	(114,249)	(48,952)	202,223	41,628	13,683
Increase (decrease) in net position	**4,567**	**41,445**	**(11,132)**	**95,154**	**384,027**	**12,272**	**526,333**
Beginning of year, as restated	319,639	247,745	1,113,894	520,647	398,642	418,882	3,019,449
Net position - end of year	**$ 324,206**	**$289,190**	**$1,102,762**	**$ 615,801**	**$ 782,669**	**$431,154**	**$3,545,782**
2013							
Net patient service revenue	$1,448,358	$ 795,678	$1,846,792	$1,088,146	$2,098,463	$405,398	$7,682,835
Other operating revenue	28,089	30,272	67,661	48,942	65,846	77,871	318,681
Total operating revenue	**1,476,447**	**825,950**	**1,914,453**	**1,137,088**	**2,164,309**	**483,269**	**8,001,516**
Total operating expenses	1,490,053	802,403	1,813,098	1,052,270	2,157,740	464,841	7,780,405
Income (loss) from operations	**(13,606)**	**23,547**	**101,355**	**84,818**	**6,569**	**18,428**	**221,111**
Total net non-operating revenues (expenses)	(10,988)	(11,992)	(7,801)	(3,366)	12,146	23,601	1,600
Income (loss) before other changes in net position	**(24,594)**	**11,555**	**93,554**	**81,452**	**18,715**	**42,029**	**222,711**
Other changes in net position	(19,713)	(35,962)	(103,235)	(2,704)	14,187	37,406	(110,021)
Increase (decrease) in net position	**(44,307)**	**(24,407)**	**(9,681)**	**78,748**	**32,902**	**79,435**	**112,690**
Net position - beginning of year:							
Beginning of year, as previously reported	1,022,346	605,413	1,822,407	858,750	1,169,160	339,447	5,817,523
Cumulative effect of accounting and reporting entity changes	(658,400)	(333,261)	(698,832)	(416,851)	(803,420)		(2,910,764)
Beginning of year, as restated	363,946	272,152	1,123,575	441,899	365,740	339,447	2,906,759
Net position - end of year	**$ 319,639**	**$ 247,745**	**$1,113,894**	**$ 520,647**	**$ 398,642**	**$418,882**	**$3,019,449**

University of California Retirement Benefits

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, and the Medical Centers' financial statements for 2013 have been restated for their proportionate share of the University's pension expense. Pension expense is allocated to the Medical Centers based on their proportionate share of covered compensation for the fiscal year.

Prior to adopting the pension accounting changes, the Medical Centers reported pension expense based on cash contributions to UCRP. The Medical Centers are required to contribute at a rate set by The Regents. Employer contribution rates were 12.0 percent and 10.0 percent in 2014 and 2013, respectively, of covered compensation. The Regents approved increasing the employer contribution rate to 14.0 percent for 2015. These pension accounting changes do not impact the Medical Centers' requirements for making contributions to UCRP. Pension expenses are lower due to investment gains on plan assets in excess of expected returns.

Pension expense and contributions for the Medical Centers are as follows:

(in thousands of dollars)

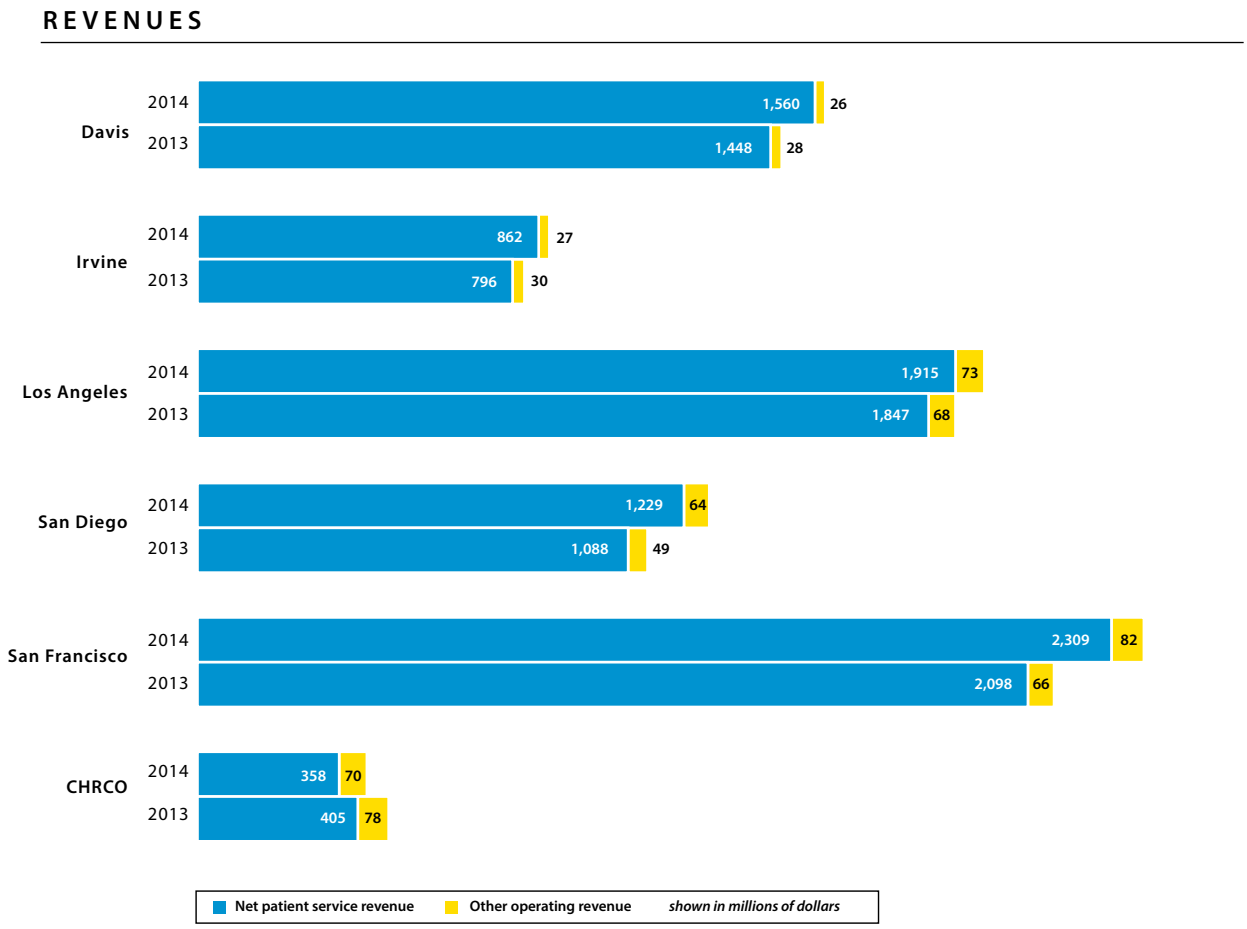
	2014		2013	
	Medical Center pension expense	**Pension contributions**	**Medical Center pension expense**	**Pension contributions**
Davis	$ 98,554	$ 72,105	$159,491	$ 55,904
Irvine	50,486	36,306	79,477	28,619
Los Angeles	111,890	79,216	171,471	60,075
San Diego	53,515	41,793	90,739	32,881
San Francisco	98,636	80,467	185,869	66,032
Total	**$413,081**	**$309,887**	**$687,047**	**$243,511**

Revenues

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

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

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



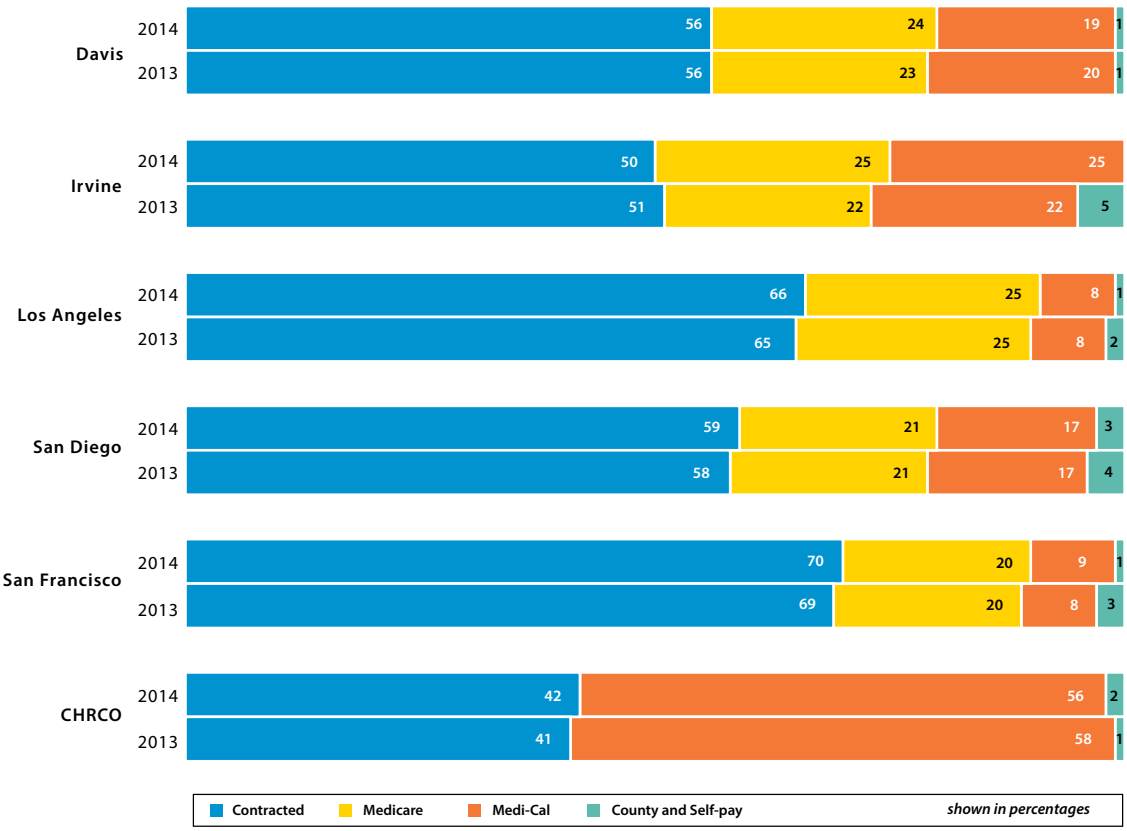
Revenues for 2014 as compared to 2013 are as follows:

Increased (decreased) in millions of dollars

	Total Operating Revenue		Net Patient Service Revenue		
Davis	$109.2	7.4%	$111.2	7.7%	Performance is due to increases in contracted rates, as well as Medicaid expansion under the Affordable Care Act .
Irvine	62.8	7.6%	66.3	8.3%	Increase in Medicare and contract volume, and outpatient visits.
Los Angeles	73.6	3.8%	67.8	3.7%	Increase in contracts and Medicare due to rates and volume increases. Total operating revenues included electronic health record funds received in 2014.
San Diego	155.8	13.7%	140.5	12.9%	The increase is due to higher patient volume (census, surgery cases, emergency room visits and several new pharmaceutical programs), as well as to increased intensity of cases (measured by total case mix index) and contract price increases.
San Francisco	226.0	10.4%	210.2	10.0%	Increase of patient care volumes; inpatient, outpatient visits and surgeries. Also, the implementation of a new billing system in the prior year has led to better cash collections and other revenue cycle improvements in the current year.
CHRCO	(55.1)	(11.4%)	(47.6)	(11.7%)	Decreased net patient service revenue due to delayed California Quality Assurance Fee revenue offset partially by higher reimbursement rates. Total operating revenues impacted by grant expirations.

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:

REVENUES



Payor mix changed in 2014 as follows:

Davis	The payor mix remained consistent with the prior year with a slight increase in Medicare and a slight decrease in Medi-Cal.
Irvine	Payor mix changed with 22% increase in Medicare, 23% increase in Medi-Cal and a slight decrease in County and Self pay.
Los Angeles	Largest change in payor mix occurred in non-sponsored with a 62% decrease. Medicare increased by 6%, Medi-Cal increased by 5% and Contracts increased by 5%.
San Diego	Payor mix was stable overall. There was a slight increase in Contracts patient volume and reimbursements, partly due to the shift of county enrollees into commercial managed care plans beginning in the second half of the year.
San Francisco	Medi-Cal increased due to the impact of expanded Medi-Cal eligibility throughout the state. Low reimbursement rates for Medi-Cal did not change the revenue payor mix significantly.
CHRCO	Lower revenues from the delay of the current California Quality Assurance Fee Program decreased the Medi-Cal revenue percentage.

Operating Expenses

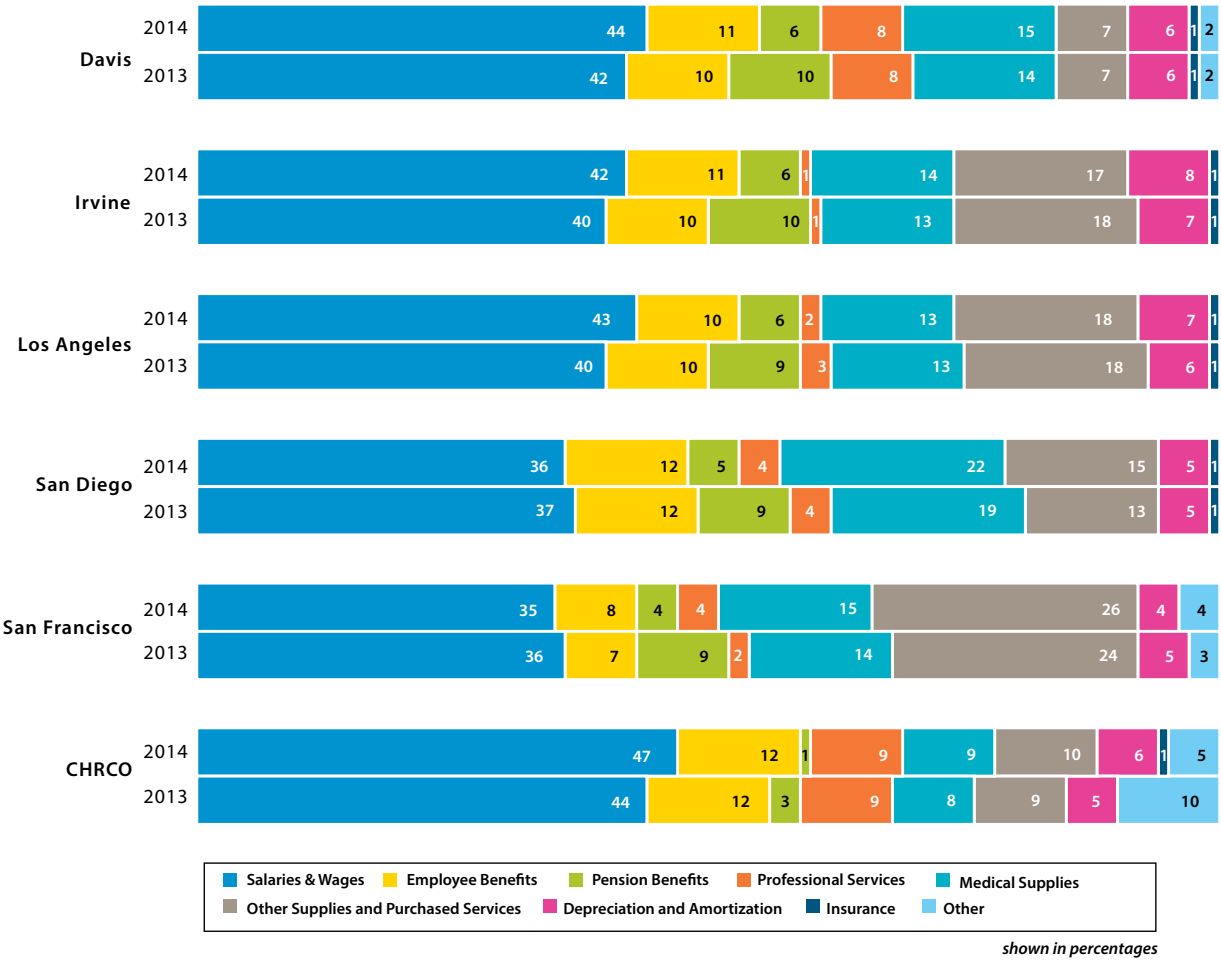
The following table summarizes the operating expenses for the Medical Centers and CHRCO:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
2014							
Salaries and wages	$ 666,731	$337,195	$ 804,060	$ 426,274	$ 819,158	$228,001	$3,281,419
Retiree health and other employee benefits	171,066	92,501	194,241	133,120	176,489	57,951	825,368
Pension benefits	98,554	50,486	111,890	53,515	98,636	5,703	418,784
Professional services	129,434	4,725	39,497	44,336	41,955	43,846	303,793
Medical supplies	234,856	115,701	246,120	254,660	336,272	41,628	1,229,237
Other supplies and purchased services	107,605	141,709	331,584	171,854	573,660	48,269	1,374,681
Depreciation and amortization	85,928	65,366	126,069	56,149	98,523	29,940	461,975
Insurance	8,545	4,158	11,361	6,040	6,638	3,260	40,002
Other	26,193				79,538	25,408	131,139
Total	**$1,528,912**	**$811,841**	**$1,864,822**	**$1,145,948**	**$2,230,869**	**$484,006**	**$8,066,398**
2013							
Salaries and wages	$ 628,312	$324,434	$ 744,101	$ 402,371	$ 772,994	$205,887	$3,078,099
Retiree health and other employee benefits	155,100	83,775	174,867	123,854	155,010	54,482	747,088
Pension benefits	159,491	79,477	171,471	90,739	185,869	12,387	699,434
Professional services	115,040	4,236	48,314	43,230	34,919	43,849	289,588
Medical supplies	203,246	107,775	229,626	198,127	307,126	38,436	1,084,336
Other supplies and purchased services	106,197	141,274	322,548	135,782	521,982	41,635	1,269,418
Depreciation and amortization	88,238	56,887	110,964	52,315	100,801	21,515	430,720
Insurance	9,304	4,545	11,207	5,852	6,367	2,040	39,315
Other	25,125				72,672	44,610	142,407
Total	**$1,490,053**	**$802,403**	**$1,813,098**	**$1,052,270**	**$2,157,740**	**$464,841**	**$7,780,405**

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

OPERATING EXPENSES



shown in percentages

Total operating expenses changed in 2014 as follows:

Increased (decreased) in millions of dollars

Davis	$38.9	2.6%	Higher costs are attributable to increases in salaries and pension benefits, as well as pharmaceutical costs.
Irvine	9.4	1.2%	Increase in salaries and benefits and depreciation expenses.
Los Angeles	51.7	2.9%	Increase in salary and employee benefits, medical supplies, other supplies and purchased services and an increase in depreciation costs.
San Diego	93.7	8.9%	Higher patient volume resulted in increased labor costs, medical supplies and purchased services, offset partially by operational efficiencies obtained from process improvement efforts and from a reduction in pension expense.
San Francisco	73.1	3.4%	Increase in non-pension benefit costs and medical supply costs, offset by a reduction in pension expense.
CHRCO	19.2	4.1%	One-time expenses related to the Electronic Health Record implementation and affiliation costs; increase in depreciation costs due to the Electronic Health Record system. Other expenses were lower due to the payment delay for the fee towards the California Quality Assurance Fee.

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 expenses and other employee benefits. Salaries and benefits as a percentage of total operating revenues have changed primarily due to lower pension expense and operational initiatives as follows:

	2014	2013	
Davis	59.1%	63.9%	Decrease is due to lower pension expense, offset by a small increase in FTE's.
Irvine	54.0%	59.0%	Increase in salaries was offset by decreases in benefits and pension expenses.
Los Angeles	55.8%	57.0%	Salaries and benefits decreased due to staffing costs related to the implementation of the electronic health record, market pressure wage increases and lower pension expense.
San Diego	47.4%	54.3%	Decreased pension expense was partially offset by volume-related FTE growth and scheduled pay increases.
San Francisco	45.8%	51.5%	Decrease primarily due to decrease of pension expense.
CHRCO	68.1%	56.4%	Salary increases due to implementation staffing for the electronic health record occurred while operating revenues were limited by the delayed approval of a portion of the California Quality Assurance Fee Program causing salaries as a percentage of revenue to increase from prior year.

Approximately one-half of the Medical Centers' and CHRCO's workforces, including nurses and employees providing ancillary services, expand and contract with patient volumes. Salaries and wages, full-time equivalent (FTE) employees and salary and wage rates changed in 2014 as compared to 2013, as follows:

Increased (decreased) in millions of dollars

	Salaries and Wages		FTEs		Rate Changes	
Davis	$38.4	6.1%	147	2.0%	$25.6	4.0%
Irvine	12.8	3.9%	22	0.5%	11.1	3.4%
Los Angeles	60.0	8.1%	154	1.8%	45.5	6.1%
San Diego	23.9	5.9%	38	0.7%	21.0	5.2%
San Francisco	46.2	6.0%	38	0.5%	42.1	5.4%
CHRCO	22.1	10.7%	77	3.6%	14.2	6.9%

Health and welfare costs increased in 2014 due to higher insurance premiums. Employee benefits, which include pension and health and welfare costs, changed in 2014 as follows:

Increased (decreased) in millions of dollars

	Employee Benefits		Pension		Health and Welfare	
Davis	$(45.0)	(14.3%)	$(60.9)	(38.2%)	$16.0	10.3%
Irvine	(20.3)	(12.4%)	(29.0)	(36.5%)	8.7	10.4%
Los Angeles	(40.2)	(11.6%)	(59.6)	(34.8%)	19.4	11.1%
San Diego	(28.0)	(13.0%)	(37.2)	(41.0%)	9.3	7.6%
San Francisco	(65.8)	(19.3%)	(87.2)	(46.9%)	21.5	13.9%
CHRCO	(3.2)	(4.8%)	(6.7)	(54.0%)	3.5	6.4%

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 2014 as follows:

Increased (decreased) in millions of dollars

Davis	$14.4	12.5%	Increase is due to higher professional fees for physicians and temporary information technology employee resources for our electronic health records investment.
Irvine	0.5	11.5%	Increase in professional services for medical director fees.
Los Angeles	(8.8)	(18.2%)	Lower costs related to consulting and management fees due to the cessation of a major expense reduction project, a reduction in the electronic health record consulting costs, and a reduction in legal fees.
San Diego	1.1	2.6%	Professional services for physician fees were higher.
San Francisco	7.0	20.1%	Higher costs associated with the affiliation with Children's Hospital & Research Center at Oakland.

Medical Supplies

Medical supplies are subject to significant inflationary pressures, due to escalating pharmaceutical costs and continued innovation in implants, prosthetics and other medical supplies. The Medical Centers and CHRCO have ongoing initiatives to control supply utilization and to negotiate competitive pricing. Medical supply expenses, including pharmaceuticals, changed in 2014 as follows:

Increased (decreased) in millions of dollars			
Davis	$31.6	15.6%	Higher surgical cases, as well as inpatient volumes, contributed to increased costs for supplies and prosthetics. Pharmaceutical costs were higher due to an increase in outpatient speciality areas and related medication costs.
Irvine	7.9	7.4%	Increase in pharmaceutical costs due to higher usage in inpatient and cancer areas.
Los Angeles	16.5	7.2%	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	56.5	28.5%	Higher inpatient volumes and surgical cases resulted in increased costs for prosthetics and surgical supplies. Pharmaceutical costs were higher due to an increased volume of expensive medications in several outpatient specialty areas.
San Francisco	29.1	9.5%	Increase due to higher pharmaceutical costs from an expanded pharmacy program and additional patient volume.
CHRCO	3.2	8.3%	Increase due to higher pharmaceutical costs as a result of an increase in the usage of expensive medications used in new therapies, and prosthetics and surgical supplies.

Other Supplies and Purchased Services

Other supplies and purchased services include non-medical supplies, medical purchased services, repairs and maintenance, administrative, treasury and insurance services. Other supplies and purchased services changed in 2014 as follows:

Increased (decreased) in millions of dollars			
Davis	$1.4	1.3%	Supply costs are consistent with the prior year.
Irvine	0.4	0.3%	Increase in purchased services and facility costs, offset by decrease in supplies, consulting and legal fees.
Los Angeles	9.0	2.8%	Increase in repair and maintenance costs, blood costs, recruiting and marketing costs.
San Diego	36.1	26.6%	Increase is primarily due to bond issuance costs, strike-related costs, equipment leases & maintenance, purchased services to assist in process improvements, and contracted services for certain outpatient pharmacy programs.
San Francisco	51.7	9.9%	Higher costs due to increased medical services costs.
CHRCO	6.6	15.9%	Increase in repair and maintenance costs, blood costs, marketing costs and affiliation costs.

Depreciation and Amortization

Depreciation and amortization expense changed in 2014 as follows:

Increased (decreased) in millions of dollars			
Davis	$(2.3)	(2.6%)	Deferred capital maintenance resulted in lower depreciation expense.
Irvine	8.5	14.9%	Increase due to capitalization of GHEI clinic, QUEST projects and new equipment purchased.
Los Angeles	15.1	13.6%	Increase due to a full year of depreciation for the new electronic health record system that was placed in service at the end of the previous fiscal year vs. partial depreciation in prior year. Additionally, increase due to new additions of equipment.
San Diego	3.8	7.3%	Increase due to completed projects and new equipment that were capitalized during the year.
San Francisco	(2.3)	(2.3%)	Slight decrease due to assets becoming fully depreciated during the year.
CHRCO	8.4	39.2%	Increase due to depreciation for the new electronic health record system placed in service in the current fiscal 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. 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 and CHRCO reported income (loss) from operations and operating margins of:

(in millions of dollars)

	2014		2013	
	Income (loss) from Operations	Operating Margin	Income (loss) from Operations	Operating Margin
Davis	$ 56.7	3.6%	$ (13.6)	(0.9%)
Irvine	76.9	8.7%	23.5	2.9%
Los Angeles	123.2	6.2%	101.4	5.3%
San Diego	146.9	11.4%	84.8	7.5%
San Francisco	159.4	6.7%	6.6	0.3%
CHRCO	(55.8)	(13.0%)	18.4	3.8%

Overall, the operating margins for the Medical Centers have generally increased due to higher volumes and more favorable contracted rates. Overall, the Medical Centers continue to make investments in facilities and electronic health records, and costs during the start-up and implementation periods of these investments reduce operation margins. CHRCO results have declined due to the decrease in revenues from the expiration in 2013 of supplemental state health care reimbursement programs and the implementation of an electronic health records system in addition to cost increases due to inflation.

Non-operating Revenues (Expenses)

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
Total net non-operating revenues (expenses):							
2014	$ (9,761)	$(10,940)	$(20,098)	$(2,810)	$22,400	$26,474	$5,265
2013	(10,988)	(11,992)	(7,801)	(3,366)	12,146	23,601	1,600

Total net non-operating revenues (expenses) improved (declined) in 2014 as follows:

Change in millions of dollars

Davis	$1.2	11.2%	Due to higher cash balances, interest income was slightly higher than in the prior year. Additionally, income from joint ventures increased due to improved performance.
Irvine	1.1	8.8%	Investment Income was higher and interest expense was slightly lower.
Los Angeles	(12.3)	(157.6%)	Decrease in revenue from the California Quality Assurance Fee Program, decrease in recognition of gain on interest rate swap due to a reduction in the fair market value, decrease in interest income, and an increase in interest expense.
San Diego	0.6	16.5%	Interest income from a favorable settlement of a long-standing claim related to overpaid payroll taxes, more than offset the absence of any direct grant portion of the Hospital Fee Program revenue in FY 14.
San Francisco	10.3	84.4%	Lower interest expense as a greater amount of interest cost was capitalized.
CHRCO	2.9	12.2%	Investment income increases offset by cost of debt refinancing.

Income (Loss) Before Other Changes in Net Position

Income (loss) before other changes in net position were as follows:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
2014	$46,985	$ 65,994	$103,117	$144,106	$181,804	$(29,356)	$512,650
2013	(24,594)	11,555	93,554	81,452	18,715	42,029	222,711

Income (loss) before other changes in net position changed in 2014 as follows:

Increased (decreased) in millions of dollars			
Davis	$71.6	291.0%	Improved operational performance and deferred capital maintenance contributed to the increase.
Irvine	54.4	471.1%	Increase due to the increase of patient revenues especially in outpatient ancillary services.
Los Angeles	9.6	10.2%	Increases in patient revenues resulted in operating revenues that outpaced increases in operating expenses. The increase in patient revenues was attributed to an increase in rates and volume for contracts and Medicare.
San Diego	62.7	76.9%	Higher patient volume resulted in operating revenues that outpaced increases in operating expenses. The increase in operating expenses was controlled primarily by a focus on process improvements in key areas and by a reduction in pension expense.
San Francisco	163.1	871.4%	Significant reduction of pension expense due to favorable returns on plan assets and an increase of patient volume and improvements in the revenue cycle process.
CHRCO	(71.4)	(169.8%)	CHRCO results have declined due to the delay in revenues of supplemental state health care reimbursement programs and the implementation of an electronic health records system in addition to cost increases due to inflation.

Other Changes in Net Position

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
2014	$(42,418)	$ (24,549)	$(114,249)	$(48,952)	$202,223	$41,628	$ 13,683
2013	(19,713)	(35,962)	(103,235)	(2,704)	14,187	37,406	(110,021)

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

Other changes in net position changed in 2014 as follows:

Increased (decreased) in millions of dollars			
Davis	$(22.7)	(115.2%)	The Medical Center is supporting the investment of the professional practice in its electronic health record development.
Irvine	11.4	31.7%	Increase due to the proportionate share of changes from pension.
Los Angeles	(11.0)	(10.7%)	Payments for health system support, representing transfers to the School of Medicine, and decrease due to the proportionate share of changes from pension.
San Diego	(46.2)	(1,710.4%)	The one-time receipt of proceeds from Children's Hospital Bond Act funds that was received in 2013 was not repeated in 2014.
San Francisco	188.0	1325.4%	Received contributions to fund the construction of a new hospital facility.
CHRCO	4.2	11.3%	Increased contributions received for capital projects and higher receipts from Children's Hospital Bond Act funds in the current year.

STATEMENTS OF NET POSITION

The following tables are an abbreviated statements of net position at June 30:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
2014							
Current assets:							
Cash	$ 298,005	$ 272,032	$ 821,098	$ 254,660	$ 495,361	$ 11,674	$ 2,152,830
Patient accounts receivable (net)	225,159	133,120	303,492	236,829	325,730	68,258	1,292,588
Other current assets	86,239	55,279	105,594	96,858	72,959	49,811	466,740
Total current assets	**609,403**	**460,431**	**1,230,184**	**588,347**	**894,050**	**129,743**	**3,912,158**
Restricted assets		3,232	15,705	216,687	16,703	53,353	305,680
Capital assets (net)	1,044,562	734,373	1,871,926	1,117,283	1,913,427	283,632	6,965,203
Other assets	20,638		29,898	15,125		164,504	230,165
Total assets	**1,674,603**	**1,198,036**	**3,147,713**	**1,937,442**	**2,824,180**	**631,232**	**11,413,206**
Deferred outflows of resources	**251,415**	**124,238**	**329,765**	**139,639**	**256,587**	**5,445**	**1,107,089**
Liabilities:							
Current liabilities	259,435	231,659	308,007	167,397	283,370	82,943	1,332,811
Long-term debt	323,879	285,473	820,828	677,705	837,536		2,945,421
Pension obligations	468,810	235,813	513,936	271,458	523,452	11,212	2,024,681
Other liabilities	131,565	65,783	274,040	81,743	158,374	80,715	792,220
Total liabilities	**1,183,689**	**818,728**	**1,916,811**	**1,198,303**	**1,802,732**	**174,870**	**7,095,133**
Deferred inflows of resources	**418,123**	**214,356**	**457,905**	**262,977**	**495,366**	**30,653**	**1,879,380**
Net position:							
Net investment in capital assets	697,588	431,649	1,042,789	634,869	1,075,700	224,314	4,106,909
Restricted		3,232	12,670		9,959	53,353	79,214
Unrestricted	(373,382)	(145,691)	47,303	(19,068)	(302,990)	153,487	(640,341)
Total net position	**$ 324,206**	**$ 289,190**	**$1,102,762**	**$ 615,801**	**$ 782,669**	**$ 431,154**	**$ 3,545,782**

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
2013							
Current assets:							
Cash	$ 254,609	$ 158,830	$ 700,743	$ 185,552	$ 413,486	$ 33,352	$ 1,746,572
Patient accounts receivable (net)	215,062	108,313	335,353	171,750	324,577	56,074	1,211,129
Other current assets	86,696	76,003	114,113	114,893	107,211	80,851	579,767
Total current assets	**556,367**	**343,146**	**1,150,209**	**472,195**	**845,274**	**170,277**	**3,537,468**
Restricted assets		21,018	15,311	120	30,213	48,115	114,777
Capital assets (net)	1,077,727	725,978	1,911,573	908,868	1,630,307	241,873	6,496,326
Other assets	25,413		27,881	11,403		165,655	230,352
Total assets	**1,659,507**	**1,090,142**	**3,104,974**	**1,392,586**	**2,505,794**	**625,920**	**10,378,923**
Deferred outflows of resources	**325,097**	**159,281**	**368,745**	**189,645**	**365,001**	**3,958**	**1,411,727**
Liabilities:							
Current liabilities	262,044	162,166	367,727	215,763	288,900	75,543	1,372,143
Long-term debt	335,485	295,822	723,719	190,352	843,951	63,138	2,452,467
Pension obligations	690,989	345,341	739,451	405,012	822,056	39,342	3,042,191
Other liabilities	131,535	70,739	267,018	80,491	226,168	22,233	798,184
Total liabilities	**1,420,053**	**874,068**	**2,097,915**	**891,618**	**2,181,075**	**200,256**	**7,664,985**
Deferred inflows of resources	**244,912**	**127,610**	**261,910**	**169,966**	**291,078**	**10,740**	**1,106,216**
Net position:							
Net investment in capital assets	696,397	427,435	1,128,214	677,957	748,754	176,137	3,854,894
Restricted			12,135		21,862	52,439	86,436
Unrestricted	(376,758)	(179,690)	(26,455)	(157,310)	(371,974)	190,306	(921,881)
Total net position	**$ 319,639**	**$ 247,745**	**$1,113,894**	**$ 520,647**	**$ 398,642**	**$ 418,882**	**$ 3,019,449**

Cash

Cash changed in 2014 as follows:

Increased (decreased) in millions of dollars			
Davis	$ 43.4	17.0%	Operating activities generated high cash receipts which exceeded spending on capital and financing activities.
Irvine	113.2	71.3%	Increase due to cash provided by operating activities. Capital expenditure in GHEI was funded by donated assets to School of Medicine.
Los Angeles	120.4	17.2%	Increase in cash due to more timely payments for patient accounts receivables and third-party settlements.
San Diego	69.1	37.2%	The increase was primarily due to cash provided by operations. Capital spending for construction of the Jacobs Medical Center was funded by proceeds from a bond issue and by contributions.
San Francisco	81.9	19.8%	Increase due to cash provided from operations. Spending on capital for Mission Bay hospital facility was partially supported by contributions.
CHRCO	(21.7)	(6.5%)	Decrease is due to capital spending on the electronic health record system not yet reimbursed by the state grant approved under the Children's Hospital Bond Act and the delayed approval of the current year's California Quality Assurance Fee Program.

Patient Accounts Receivable

Patient accounts receivable, net of estimated uncollectible accounts, changed in 2014 as follows:

Increased (decreased) in millions of dollars			
Davis	$10.1	4.7%	Increase in contracted rates and speciality pharmacy services, as well as increased volumes.
Irvine	24.8	22.9%	Increase due to higher outpatient volume.
Los Angeles	(31.9)	(9.5%)	Decrease due to improved timeliness of billing and collections of patient accounts receivable related to the implementation of a new billing system at the end of 2013.
San Diego	65.1	37.9%	Increase due partially to the slowing of billing and collection as a result of the mid-year implementation of a new billing system, to the timing of fixed patient payments from the federal government at fiscal year end, and to overall increased patient volume in the fourth quarter.
San Francisco	1.2	0.4%	Slight increase due to increase of patient volume offset by revenue cycle improvements which has accelerated the timing of collections on patient billings.
CHRCO	12.2	21.7%	Increase due partially to the slowing of billing and collection as a result of the mid-year implementation of a new billing system and full implementation of the state's change in payment methodology to APR-DRG as compared to a daily per-diem rate.

Capital Assets

Net capital assets changed in 2014 as follows:

Increased (decreased) in millions of dollars			
Davis	$(33.2)	(3.1%)	Decrease is due to deferred capital maintenance.
Irvine	8.4	1.2%	Completion of the GHEI clinic and equipment purchases.
Los Angeles	(39.6)	(2.1%)	Annual depreciation exceeded capital projects for the year.
San Diego	208.4	22.9%	Primarily for construction of the Jacobs Medical Center.
San Francisco	283.1	17.4%	Construction costs for the development of the Mission Bay hospital facility.
CHRCO	41.8	17.3%	Capital spending on the electronic health record system.

Long-term Debt

Long-term debt, including the current portion, changed in 2014 as follows:

Increased (decreased) in millions of dollars			
Davis	$(12.9)	(3.5%)	Principal payments on bonds and financing loans exceeded new debt.
Irvine	(11.7)	(3.7%)	Debt service payments.
Los Angeles	96.9	13.2%	Increase due to the refinancing of debt with a new bond.
San Diego	488.0	238.5%	This is due to proceeds from new bonds issued in August 2013 as permanent financing for the Jacobs Medical Center, net of debt service payments on existing debt.
San Francisco	(46.0)	(5.2%)	Debt service payments.
CHRCO	(64.5)	(98.2%)	The 2007 bonds were refinanced as part of the affiliation.

Pension Obligations

The University has a financial responsibility for pension benefits associated with its defined benefit plans, and the Medical Centers' financial statements for 2013 have been restated for their proportionate share of the University's net pension liability. The net pension liability is allocated to the Medical Centers based on their proportionate share of covered compensation for the fiscal year.

(in thousands of dollars)

	2014		2013	
	Proportionate Share	**Pension Obligation**	**Proportionate Share**	**Pension Obligation**
Davis	6.6%	$ 468,810	6.5%	$ 690,989
Irvine	3.3%	235,813	3.3%	345,341
Los Angeles	7.3%	513,936	7.0%	739,451
San Diego	3.9%	271,458	3.8%	405,012
San Francisco	7.4%	523,452	7.8%	822,056
Total	**28.5%**	**$2,013,469**	**28.4%**	**$3,002,849**

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 17.4 percent in 2014 and 11.7 percent in 2013. The discount rate used to estimate the net pension liability as of June 30, 2014 and 2013 was 7.5 percent and 7.5 percent, respectively.

CHRCO is the sponsor of a single employer defined benefit plan subject to 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 decreased due to actual investment earnings exceeding expected investment returns.

LIQUIDITY AND CAPITAL RESOURCES

Days Cash on Hand

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

	2014	2013
Davis	75	66
Irvine	133	78
Los Angeles	172	150
San Diego	85	68
San Francisco	85	73
CHRCO	145	167

Days of Revenue in Accounts Receivable

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

	2014	2013
Davis	53	54
Irvine	56	50
Los Angeles	58	66
San Diego	70	58
San Francisco	51	56
CHRCO	70	50

Debt Service Coverage

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

	2014	2013
Davis	2.9	1.5
Irvine	4.1	2.2
Los Angeles	3.3	4.8
San Diego	4.9	5.4
San Francisco	3.4	2.2

CHRCO's debt was defeased by the University with commercial paper, therefore, CHRCO has a payable to the University until the debt is refinanced into University of California Medical Center Pooled Revenue Bonds.

LOOKING FORWARD

Payments from Federal and State Health Care Programs

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

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

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

University of California Retirement and Other Post-Employment Benefit Plans

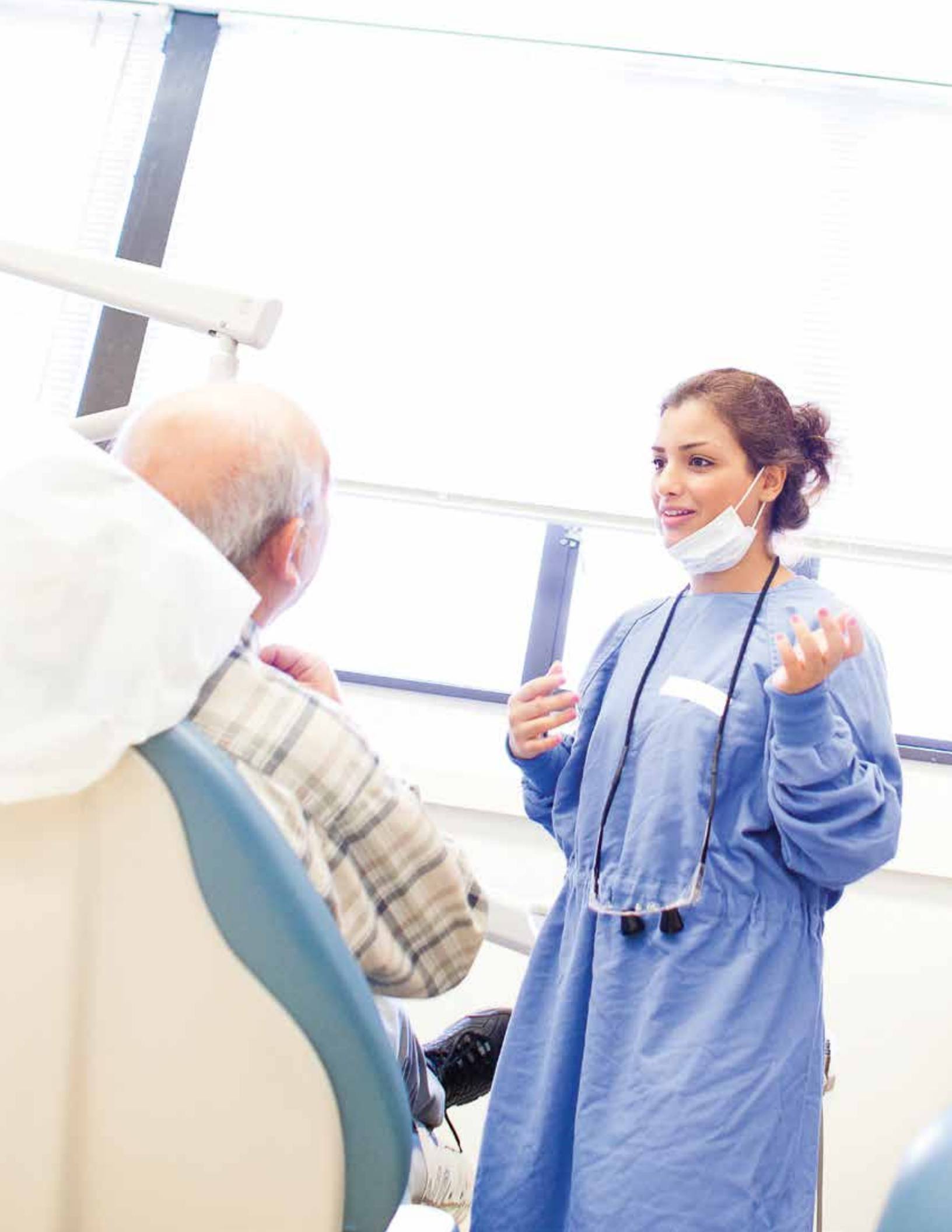
UCRP costs are funded by a combination of investment earnings, employee member and employer contributions. The unfunded liability for the campuses and Medical Centers as of the July 1, 2014 actuarial valuation was $7.6 billion or 80.0 percent funded. Total funding policy contributions in the July 1, 2014 actuarial valuation represents 29.0 percent of covered compensation in July 2013. Member contributions for the employees in the new benefit tier are 7.0 percent, and the employer rate is uniform across all members. On July 1, 2014, employer contributions increased to 14.0 percent and employee contributions to 8.0 percent. In July 2014, The Regents authorized additional contributions of $700 million to UCRP, representing the difference between the contribution rates and the funding requirements, to improve the Plan's funded status. The additional $700 million contribution to UCRP is projected to result in a 95.0 percent funded status by July 1, 2042.

Currently, the University does not pre-fund retiree health benefits and provides for benefits on a pay-as-you-go basis. The unfunded liability for the campuses and Medical Centers as of the July 1, 2013 actuarial valuation was $13.2 billion. The Regents approved a new eligibility formula for the Retiree Health Plan for all employees hired on or after July 1, 2013, and non-grandfathered members, that is based on a graduated formula using both a member's age and years of Retirement Plan service credit upon retirement, subject to collective bargaining for represented members.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information provided by the Medical Centers and CHRCO, 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 and CHRCO 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.



Independent Auditors' Report

THE BOARD OF REGENTS
UNIVERSITY OF CALIFORNIA

We have audited the accompanying financial statements of the University of California – Davis Medical Center, University of California – Irvine Medical Center, University of California – Los Angeles Medical Center, University of California – San Diego Medical Center, and the University of California – San Francisco Medical Center (individually referred to as medical centers), each of which is a division of the University of California (the University), which comprise the statements of net position as of June 30, 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements for each medical center. We have also audited the accompanying financial statements of Children's Hospital & Research Center Oakland (CHRCO), a discretely presented component unit of the University, which comprise the statement of net position as of June 30, 2014, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management of the University and CHRCO are responsible for the preparation and fair presentation of their respective financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on the respective financial statements for each medical center and CHRCO 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 audits to obtain reasonable assurance about whether the financial statements for each medical center and CHRCO are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of California – Davis Medical Center, University of California – Irvine Medical Center, University of California – Los Angeles Medical Center, University of California – San Diego Medical Center, University of California – San Francisco Medical Center, and Children's Hospital & Research Center Oakland as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Division Financial Statements

As discussed in Note 1, the financial statements for each medical center are intended to present the financial position, changes in financial position, and cash flows of only that portion of the University that is attributable to the transactions of each medical center. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2014, and the changes in its financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Adoption of New Accounting Pronouncement

As discussed in the significant accounting policies Note to the financial statements, in 2014 the University (including the medical centers) and CHRCO adopted Governmental Accounting Standards Board (GASB) Statement No. 65, Items Previously Reported as Assets and Liabilities and GASB Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 24 to 42 and the schedules of the Medical Centers' proportionate share of net pension liability, changes in net pension liability for the CHRCO pension plan, net pension liability for the CHRCO pension plan and employer contributions for the CHRCO pension plan on pages 89 to 91 be presented to supplement the respective basic financial statements. Such information, although not a part of the respective basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the respective basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic individual financial statements, and other knowledge we obtained during our audits of the respective basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

ORANGE COUNTY, CALIFORNIA
DECEMBER 8, 2014

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF NET POSITION

At June 30, 2014 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO*	TOTAL *(memorandum only)*
ASSETS							
Current assets							
Cash	$ 298,005	$272,032	$ 821,098	$ 254,660	$ 495,361	$ 11,674	$ 2,152,830
Short-term investments						10,695	10,695
Net patient accounts receivable	225,159	133,120	303,492	236,829	325,730	68,258	1,292,588
Other receivables	7,721	29,340	11,594	11,914	8,737	26,938	96,244
Third-party payor settlements, net	28,134		40,204	54,679	2,407		125,424
Inventory	24,295	16,664	29,177	18,856	29,964	4,857	123,813
Prepaid expenses and other assets	26,089	9,275	24,619	11,409	31,851	7,321	110,564
Total current assets	**609,403**	**460,431**	**1,230,184**	**588,347**	**894,050**	**129,743**	**3,912,158**
Restricted assets:							
Cash restricted for hospital construction		3,232	3,036	216,687	6,744		229,699
Donor funds			12,669		9,959	53,353	75,981
Capital assets, net	1,044,562	734,373	1,871,926	1,117,283	1,913,427	283,632	6,965,203
Investments in joint ventures	20,638			13,531			34,169
Investments						158,518	158,518
Other assets			29,898	1,594		5,986	37,478
Total assets	**1,674,603**	**1,198,036**	**3,147,713**	**1,937,442**	**2,824,180**	**631,232**	**11,413,206**
DEFERRED OUTFLOWS OF RESOURCES	**251,415**	**124,238**	**329,765**	**139,639**	**256,587**	**5,445**	**1,107,089**
LIABILITIES							
Current liabilities							
Accounts payable and accrued expenses	40,521	25,511	96,924	82,202	157,413	32,242	434,813
Accrued salaries and benefits	124,526	64,865	154,692	67,719	83,158	31,076	526,036
Third-party payor settlements, net	48,312	121,827	14,360	2,535	23,490	1,654	212,178
Current portion of long-term debt and financing obligations	32,599	17,096	11,344	14,941	6,935	1,198	84,113
Other current liabilities	13,477	2,360	30,687		12,374	16,773	75,671
Total current liabilities	**259,435**	**231,659**	**308,007**	**167,397**	**283,370**	**82,943**	**1,332,811**
Long-term debt and financing obligations, net of current portion	323,879	285,473	820,828	677,705	837,536		2,945,421
Pension obligations	468,810	235,813	513,936	271,458	523,452	11,212	2,024,681
Notes payable to campus			75,000				75,000
Pension payable to University	131,565	65,783	145,519	77,743	147,512		568,122
Interest rate swap agreements			53,521		10,862		64,383
Self insurance						16,091	16,091
Other noncurrent liabilities				4,000		64,624	68,624
Total liabilities	**1,183,689**	**818,728**	**1,916,811**	**1,198,303**	**1,802,732**	**174,870**	**7,095,133**
DEFERRED INFLOWS OF RESOURCES	**418,123**	**214,356**	**457,905**	**262,977**	**495,366**	**30,653**	**1,879,380**
NET POSITION							
Net Investment in capital assets	697,588	431,649	1,042,789	634,869	1,075,700	224,314	4,106,909
Restricted: Nonexpendable endowments and gifts			337			24,152	24,489
Restricted: Expendable capital projects and other		3,232	12,333		9,959	29,201	54,725
Unrestricted	(373,382)	(145,691)	47,303	(19,068)	(302,990)	153,487	(640,341)
Total net position	**$ 324,206**	**$289,190**	**$1,102,762**	**$ 615,801**	**$ 782,669**	**$431,154**	**$ 3,545,782**

See accompanying notes to financial statements.
**CHRCO is a discretely presented component unit of the University of California.*

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2014 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO*	TOTAL *(memorandum only)*
Net patient service revenue	$1,559,516	$861,988	$1,914,604	$1,228,648	$2,308,685	$357,823	$8,231,264
Other operating revenue:							
Clinical teaching support		8,727	13,467				22,194
Grants and contracts						49,503	49,503
Other	26,142	18,060	59,966	64,216	81,588	20,850	270,822
Total other operating revenue	**26,142**	**26,787**	**73,433**	**64,216**	**81,588**	**70,353**	**342,519**
Total operating revenue	**1,585,658**	**888,775**	**1,988,037**	**1,292,864**	**2,390,273**	**428,176**	**8,573,783**
Operating expenses:							
Salaries and wages	666,731	337,195	804,060	426,274	819,158	228,001	3,281,419
Retiree health and other employee benefits	171,066	92,501	194,241	133,120	176,489	57,951	825,368
Pension benefits	98,554	50,486	111,890	53,515	98,636	5,703	418,784
Professional services	129,434	4,725	39,497	44,336	41,955	43,846	303,793
Medical supplies	234,856	115,701	246,120	254,660	336,272	41,628	1,229,237
Other supplies and purchased services	107,605	141,709	331,584	171,854	573,660	48,269	1,374,681
Depreciation and amortization	85,928	65,366	126,069	56,149	98,523	29,940	461,975
Insurance	8,545	4,158	11,361	6,040	6,638	3,260	40,002
Other	26,193				79,538	25,408	131,139
Total operating expenses	**1,528,912**	**811,841**	**1,864,822**	**1,145,948**	**2,230,869**	**484,006**	**8,066,398**
Income (loss) from operations	**56,746**	**76,934**	**123,215**	**146,916**	**159,404**	**(55,830)**	**507,385**
Non-operating revenues (expenses):							
Hospital Fee Program grants		9	217				226
Investment income	4,102	3,137	14,944	3,833	12,572	23,787	62,375
Build America Bonds federal interest subsidies		3,308	3,068	2,351	15,273		24,000
Private gifts, net						8,966	8,966
Net appreciation in fair value of investments						2,734	2,734
Interest expense	(17,918)	(16,910)	(40,940)	(7,901)	(4,685)	(1,444)	(89,798)
Gain (loss) on disposal of capital assets	(980)	(484)	(369)	(1,093)	(760)		(3,686)
Gain on investment derivative			2,982				2,982
Other	5,035					(7,569)	(2,534)
Total net non-operating revenues (expenses)	**(9,761)**	**(10,940)**	**(20,098)**	**(2,810)**	**22,400**	**26,474**	**5,265**
Income (loss) before other changes in net position	**46,985**	**65,994**	**103,117**	**144,106**	**181,804**	**(29,356)**	**512,650**
Other changes in net position:							
Donated assets			7,592	13,701	254,529	7,525	283,347
Contributions for building programs	944	36,339		3,529		34,103	74,915
Transfers (to) from University, net	(5,077)	(546)		(8,530)			(14,153)
Changes in allocation for pension payable to University	(29)	44	(4,759)	(645)	8,973		3,584
Health system support	(38,256)	(60,386)	(117,082)	(57,007)	(61,279)		(334,010)
Total other changes in net position	**(42,418)**	**(24,549)**	**(114,249)**	**(48,952)**	**202,223**	**41,628**	**13,683**
Increase (decrease) in net position	**4,567**	**41,445**	**(11,132)**	**95,154**	**384,027**	**12,272**	**526,333**
Net position - beginning of year							
Beginning of year, as previously reported	1,081,724	629,431	1,927,153	985,016	1,322,592		5,945,916
Cumulative effect of accounting and reporting entity changes	(762,085)	(381,686)	(813,259)	(464,369)	(923,950)	418,882	(2,926,467)
Beginning of year, as restated	319,639	247,745	1,113,894	520,647	398,642	418,882	3,019,449
Net position - end of year	**$ 324,206**	**$289,190**	**$1,102,762**	**$ 615,801**	**$ 782,669**	**$431,154**	**$3,545,782**

See accompanying notes to financial statements.
**CHRCO is a discretely presented component unit of the University of California.*

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF CASH FLOWS

For the year ended June 30, 2014 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO*	TOTAL *(memorandum only)*
Cash flows from operating activities:							
Receipts from patients and third-party payors	$1,564,294	$898,260	$1,982,400	$1,186,595	$2,309,363	$375,273	$8,316,185
Payments to employees	(658,666)	(332,009)	(794,535)	(443,322)	(814,287)	(196,996)	(3,239,815)
Payments to suppliers	(499,642)	(256,961)	(621,087)	(467,469)	(1,017,738)	(171,868)	(3,034,765)
Payments for benefits	(241,465)	(128,662)	(271,000)	(151,882)	(269,685)	(97,882)	(1,160,576)
Other receipts (payments)	16,703	42,687	62,006	72,619	80,250	76,321	350,586
Net cash provided (used) by operating activities	**181,224**	**223,315**	**357,784**	**196,541**	**287,903**	**(15,152)**	**1,231,615**
Cash flows from noncapital financing activities:							
Health system support	(38,256)	(60,386)	(117,082)	(57,007)	(61,279)		(334,010)
Grants from (to) the Hospital Fee Program	(484)	9	217				(258)
Transfers (to) from University	(11,666)	(546)		(8,530)			(20,742)
Gifts received for other than capital purposes						8,731	8,731
Other non-operating receipts						463	463
Net cash provided (used) by noncapital financing activities	**(50,406)**	**(60,923)**	**(116,865)**	**(65,537)**	**(61,279)**	**9,194**	**(345,816)**
Cash flows from capital and related financing activities:							
Contributions for building program	944			3,529		34,103	38,576
Proceeds from financing obligations and other borrowings			29,994	444,523	525	58,120	533,162
Build America Bonds federal interest subsidies		3,308	3,068	2,351	15,273		24,000
Capital gifts and grants						9,372	9,372
Proceeds from sale of capital assets	16			87	63	232	398
Purchases of capital assets	(51,414)	(36,983)	(92,898)	(261,912)	(343,473)	(70,411)	(857,091)
Principal paid on long-term debt and financing obligations	(34,434)	(19,055)	(41,559)	(15,431)	(47,030)	(66,651)	(224,160)
Interest paid on long-term debt and financing obligations	(16,446)	(17,383)	(41,310)	(32,279)	(50,718)	(2,988)	(161,124)
Donated assets			7,591	13,701	254,529		275,821
Net cash provided (used) by capital and related financing activities	**(101,334)**	**(70,113)**	**(135,114)**	**154,569**	**(170,831)**	**(38,223)**	**(361,046)**
Cash flows from investing activities:							
Interest income received	4,102	3,137	14,944	3,833	12,572	3,650	42,238
Distributions from (contributions to) investments in joint ventures, net	9,800			(3,731)			6,069
Proceeds from sales and maturities of investments						129,923	129,923
Purchase of investments						(126,954)	(126,954)
Investment income, net of investment expenses						15,884	15,884
Change in restricted assets		17,786	(394)	(216,567)	13,510		(185,665)
Other non-operating expenses	10						10
Net cash provided (used) by investing activities	**13,912**	**20,923**	**14,550**	**(216,465)**	**26,082**	**22,503**	**(118,495)**
Net increase (decrease) in cash	**43,396**	**113,202**	**120,355**	**69,108**	**81,875**	**(21,678)**	**406,258**
Cash - beginning of year	254,609	158,830	700,743	185,552	413,486	33,352	1,746,572
Cash - end of year	**$ 298,005**	**$272,032**	**$ 821,098**	**$ 254,660**	**$ 495,361**	**$ 11,674**	**$2,152,830**

See accompanying notes to financial statements.
**CHRCO is a discretely presented component unit of the University of California.*

STATEMENTS OF CASH FLOWS *continued*

For the year ended June 30, 2014 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO*	TOTAL *(memorandum only)*
Reconciliation of income (loss) from operations to net cash provided by (used) operating activities:							
Income from operations	$ 56,746	$ 76,934	$123,215	$146,916	$159,404	$(55,830)	$ 507,385
Adjustments to reconcile income from operations to net cash provided by operating activities:							
Depreciation and amortization expense	85,928	65,366	126,069	56,149	98,523	29,940	461,975
Provision for doubtful accounts	90,236	26,703	41,086	90,105	62,546	7,973	318,649
Impairment of capital assets	2,119						2,119
Changes in operating assets and liabilities:							
Patient accounts receivable	(100,333)	(51,510)	(9,225)	(155,184)	(63,699)	(20,156)	(400,107)
Other receivables	(5,649)	20,924	(65)	(1,523)	(8,426)	26,659	31,920
Inventory	(3,084)	(622)	(4,070)	(85)	388	(389)	(7,862)
Prepaid expenses and other assets	(6,210)	422	(7,198)	(1,046)	3,377	(521)	(11,176)
Accounts payable and accrued expenses	6,495	5,374	6,317	19,871	9,581	(556)	47,082
Accrued salaries and benefits	18,437	7,162	16,298	8,242	10,311	(227)	60,223
Third-party payor settlements	14,875	61,079	16,781	23,026	1,831	1,875	119,467
Other liabilities	(874)	(866)	20,218	607	342	5,784	25,211
Pension benefits	22,538	12,349	28,358	9,463	13,725	(9,704)	76,729
Net cash provided (used) by operating activities	**$181,224**	**$223,315**	**$357,784**	**$196,541**	**$287,903**	**$(15,152)**	**$1,231,615**
Supplemental noncash activities information:							
Payables for property and equipment	$5,837	$1,216	$7,229	$6,455	$18,153	$1,345	$40,235
Capital assets acquired through capital lease obligations				2,345			2,345
Bond retirements					(497)		(497)
Amortization of bond premium	845	183	371	591	21		2,011
Property and equipment transfers from (to) the University	(229)	36,339					36,110
Change in fair value of interest rate swaps			(4,873)		273		(4,600)
Other borrowings from conversion of interest rate swap to hedging derivative			14,025				14,025
Refinancing of University and Campus payable with long-term debt	22,375	7,530	94,808	92,712			217,425
Advances from University	(6,560)			(33,188)			(39,748)

See accompanying notes to financial statements.
**CHRCO is a discretely presented component unit of the University of California*

UNIVERSITY OF CALIFORNIA MEDICAL CENTER POOLED GROUP

Notes to Financial Statements

Year ended June 30, 2014

1. ORGANIZATION

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

On January 1, 2014, The Regents became the sole corporate and voting member of Children's Hospital & Research Center Oakland ("CHRCO"), an existing legally separate private 501(c)(3) corporation. A Board of Directors comprised primarily of independent directors serves as the governing body of CHRCO. Certain corporate powers are reserved to The Regents, including the power to appoint and remove directors and to approve CHRCO's strategic plan and budget. Children's Hospital & Research Center Foundation, a nonprofit public benefit corporation, is organized and operated for the purpose of supporting CHRCO. San Francisco provides certain management services for CHRCO. Since the University has the ability to impose its will on CHRCO, as the sole corporate and voting member, under accounting requirements, CHRCO, combined with its foundation, is a discretely presented component unit of the University of California. Financial information for CHRCO is presented to retroactively apply this change in accounting entity.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Medical Centers have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable statements of the Governmental Accounting Standards Board ("GASB"). The proprietary fund method of accounting is followed and uses the economic resources measurement focus and the accrual basis of accounting.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities,* effective for the Medical Centers' fiscal year beginning July 1, 2013. This Statement reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the Medical Centers' fiscal year beginning July 1, 2014. The Medical Centers have elected to early implement this Statement, effective July 1, 2013. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the Medical Centers to their employees. This Statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* effective for the Medical Centers' fiscal year beginning July 1, 2014. The Medical Centers have elected to early implement this Statement, effective July 1, 2013. This Statement establishes standards for accounting and financial reporting of government combinations and disposals of government operations. Government combinations include mergers, acquisitions and transfers of operations of government or nongovernment entities to a continuing government. The Statement includes guidance for measuring the assets and liabilities that are acquired in a combination, either with or without consideration. The provisions of this Statement are applicable on a prospective basis to combinations that occur after the effective date.

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

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective for the Medical Centers' fiscal year beginning July 1, 2014. This Statement addresses an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to the implementation of that Statement by employers and nonemployer contributing entities.

Implementation of Statements Nos. 66, 69, 70 and 71 had no effect on the Medical Centers' net position or changes in net position for the years ended June 30, 2014. To implement Statement No. 65, the Medical Centers reclassified losses on debt

refundings to deferred outflows and wrote-off unamortized bond issuance costs as of July 1, 2013. To implement Statement No. 68, the Medical Centers recorded their pro rata share of the University's net pension liability. The CHRCO financial data is presented in accordance with the new accounting standards described above. The cumulative effect of adopting Statements Nos. 65 and 68 as well as the change in reporting entity related to CHRCO on the Medical Centers' opening net position as of July 1, 2013 were as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	CHRCO	TOTAL
Cumulative Effect of:							
Adoption of Statement No. 65	$ (2,228)	$ (2,277)	$ (5,258)	$ (1,938)	$ (7,103)		$ (18,804)
Adoption of Statement No. 68	(759,857)	(379,409)	(808,001)	(462,431)	(916,847)		(3,326,545)
Change in reporting entity						$418,882	418,882
Total	**$(762,085)**	**$(381,686)**	**$(813,259)**	**$(464,369)**	**$(923,950)**	**$418,882**	**$(2,926,467)**

The significant accounting policies of the University are as follows:

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

Substantially all of the Medical Centers' cash is deposited into the STIP, and all Medical Center deposits into the STIP are considered demand deposits. Unrealized gains and losses associated with the fluctuation in the fair value of the investments included in the STIP (and predominately held to maturity) are not recorded by each operating entity but are absorbed by the University, as the manager of the pool. 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 2013-2014 annual report of the University.

CHRCO includes certain investments in highly liquid debt instruments with original maturities of three months or less as cash and cash equivalents.

Investments. Investments are recorded at fair value. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Certain securities may be valued on a basis of a price provided by a single source. Investments in registered investment companies are valued based upon the reported net asset value of those companies.

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

Prepaid Expenses and Other Assets. The Medical Centers' and CHRCO's prepaid expenses are primarily prepayments for pharmaceuticals and medical supplies, rent, equipment and maintenance contracts.

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

The Medical Centers and CHRCO have been named the irrevocable beneficiary for several charitable remainder trusts for which the Medical Centers and CHRCO are not the trustee. Upon maturity of each trust, the remainder of the trust corpus will be transferred to the Medical Centers or CHRCO. 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 and CHRCO recognize contribution revenue when all eligibility requirements have been met.

Capital Assets. The Medical Centers' and CHRCO's 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 10 to 40 years and 5 to 20 years for equipment. The range of estimated useful lives for CHRCO is 5 to 35 years for land improvements and buildings and 2 to 10 years for equipment. University guidelines mandate that land purchased with the Medical Centers' funds is recorded as an asset of the Medical Centers. Land utilized by the Medical Centers but purchased with other sources of funds is recorded as an asset of the University. Significant additions, replacements, major repairs and renovations to infrastructure and buildings are generally capitalized by the Medical Centers if the cost exceeds $35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations. Equipment with a cost in excess of $5,000 and a useful life of more than one year is capitalized. Incremental costs, including salaries and employee benefits, directly related to the acquisition, development and installation of major software projects are included in the cost of the capital assets. Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned on tax-exempt borrowings during the temporary investment of project-related borrowings.

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

Interest Rate Swap Agreements. The Medical Centers have entered into interest rate swap agreements to limit the exposure of their variable rate debt to changes in market interest rates. These derivative financial instruments are agreements that involve the exchange with a counterparty of fixed- and variable-rate interest payments periodically over the life of the agreement without exchange of the underlying notional principal amounts. The difference to be paid or received is recognized over the life of the agreements as an adjustment to interest expense.

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

At the time of pricing certain interest rate swaps, the fixed rate of the swaps was off-market such that the Medical Centers received an up-front payment. As such, the swaps are composed of a derivative instrument, an at-the-market swap, and a companion instrument, a borrowing, represented by the up-front payment. The unamortized amount of the borrowing is included in the current and noncurrent portion of debt and amortized as interest expense over the term of the bonds.

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 accompany 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. The Medical Centers and CHRCO classify gains on retirement of debt as deferred inflows of resources and losses as deferred outflows of resources and recognize gains and losses as a component of interest expense over the remaining life of the old debt, or the new debt, whichever is shorter.

The Medical Centers classify an increase in the fair value of the hedging derivatives as deferred inflows of resources, and a decrease 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.

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 and CHRCO classify net position resulting from transactions with purpose restrictions as restricted net assets until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable — Net position subject to externally imposed restrictions that must be retained in perpetuity by the Medical Centers and CHRCO.

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

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

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

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. 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 prudence prescribed by the California Prudent Management of Institutional Funds Act. Income and gains on permanently restricted net position that are available for expenditure are $7.6 million as of June 30, 2014.

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

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

The Medical Centers and CHRCO estimate and recognize a provision for doubtful accounts and the allowance for doubtful 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. CHRCO's operating expenses relate to patient care and research 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, proceeds from the Federal Emergency Management Agency, 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.

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

The UCRHBT provides retiree health benefits to retired employees of the Medical Centers. Contributions from the Medical Centers to the UCRHBT are effectively made to a 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. As a result, the Medical Centers' required contributions are recognized as an expense in the statements of revenues, expenses and changes in net position.

Pension Obligations. 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. Pension obligations include 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.

Pension obligations also include the net pension liability for the Retirement Plan for Children's Hospital & Research Center at Oakland ("CHRCO Plan"). The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The fiduciary net position and changes in net position have been measured consistent with the accounting policies used by the CHRCO Plan. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for pension benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

Pension Payable to University. Additional deposits in UCRP have been made using University resources to make up the gap between the approved contribution rates and the required contributions based on The Regents' funding policy. These deposits, carried as internal loans by the University, are being repaid by the Medical Centers, plus accrued interest, over a thirty-year period through a supplemental pension assessment. The Medical Centers' share of these 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 assets.

Charity Care. The Medical Centers and CHRCO provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as net patient service revenue. The Medical Centers also provide services to other indigent patients under publicly sponsored programs, which may reimburse at amounts less than the cost of the services provided to the recipients. Additionally, UC Davis Medical Center, UC Irvine Medical Center and UC San Diego Medical Center serve as county hospitals within their respective metropolitan area and, as a result, serve patients without insurance who have not completed the formal process of applying for charity but are considered indigent and are reported as charity care recipients. The difference between the cost of services provided to these indigent persons and the expected reimbursement is included in the estimated cost of charity care.

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

Certain 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 and CHRCO accrue annual leave for employees at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked.

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

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

2. INVESTMENTS

The composition of investments, by investment type at June 30, 2014, is as follows:

(in thousands of dollars)	CHRCO
Equity securities:	
Domestic	$ 33,330
Equity securities	**33,330**
Fixed- or variable-income securities:	
U.S. government guaranteed:	
U.S. Treasury bills, notes and bonds	14,055
U.S. government guaranteed	**14,055**
Other U.S. dollar denominated:	
Corporate bonds	24,823
U.S. agencies - asset-backed securities	6,987
Corporate - asset-backed securities	35,717
Supranational/foreign	6,933
Other	46
Other U.S. dollar denominated	**74,506**
Commingled funds:	
U.S. equity funds	2,861
Non-U.S. equity funds	81,311
U.S. bond funds	942
Non-U.S. bond funds	184
Money market funds	3,266
Commingled funds	**88,564**
Publicly traded real estate investment trusts	1,218
Total investments	**211,673**
Less: Current portion	(10,695)
Noncurrent portion	**$200,978**

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial 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.

Credit Risk

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

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

Certain fixed-income securities, primarily 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 fixed- or variable-income securities at June 30, 2014 is as follows:

(in thousands of dollars)	CHRCO
Fixed- or variable-income securities:	
U.S. government guaranteed	$14,055
Other U.S. dollar denominated:	
AAA	33,888
AA	16,237
A	15,993
BBB	7,357
Not rated	1,031
Commingled funds:	
U.S. bond funds: Not rated	942
Non-U.S. bond funds: Not rated	184
Money market funds: Not rated	3,266

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

Interest Rate Risk

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

The effective durations for fixed- or variable-income securities at June 30, 2014 are as follows:

	CHRCO
Fixed or variable income securities:	
U.S. government guaranteed	2.3
U.S. Treasury bills, notes and bonds	2.4
Corporate bonds	2.8
U.S. agencies - asset-backed securities	1.6
Corporate - asset-backed securities	2.7
Supranational/foreign	4.3

CHRCO considers the effective durations for money market funds to be zero.

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

At June 30, 2014, the fair values of such investments are as follows:

(in thousands of dollars)	CHRCO
Mortgage-backed securities	$ 2,239
Collateralized mortgage obligations	9,222
Other asset-backed securities	28,627
Callable bonds	4,921
Total	**$45,009**

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

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

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

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

At June 30, 2014, the effective durations for these securities are as follows:

	CHRCO
Mortgage-backed securities	3.3
Collateralized mortgage obligations	2.2
Other asset-backed securities	3.9
Callable bonds	3.8

Foreign Currency Risk. At June 30, 2014, CHRCO is subject to foreign currency risk as a result of holding various currency denominations in the following investments:

(in thousands of dollars)	CHRCO
Commingled funds:	
Various currency denominations:	
Non-U.S. equity funds	$80,973
Non-U.S. bond funds	184
Total exposure to foreign currency risk	**$81,157**

3. NET PATIENT SERVICE REVENUE

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

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

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

The Medical Centers and CHRCO 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' and CHRCO's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Centers have received final notices from the Medicare fiscal intermediary through June 30, 2003, for UC Davis Medical Center; through June 30, 2007, for UC Irvine Medical Center; through June 30, 2007, for Ronald Reagan UCLA Medical Center; through June 30, 2010, for the Santa Monica

Hospital; through June 30, 2013, for the Resnick Neuropsychiatric Hospital; through June 30, 2007, for UCSD Medical Center; through June 30, 2002, for the UCSF Medical Center; and through June 30, 2011, for the Children's Hospital and Research Center at Oakland. The fiscal intermediary is in the process of conducting their audits of the subsequent cost reports. The results of these audits have yet to be finalized and any amounts due to or from Medicare have not been determined. Estimated receivables and payables related to all open cost reporting periods are included on the statements of net position as third-party payor settlements.

Medi-Cal. The Medicaid program is referred to as Medi-Cal in California. Medi-Cal fee-for-service ("FFS") inpatient hospital payments are made in accordance with the federal Medicaid hospital financing waiver and legislation enacted by the state of California. The Waiver Program was enacted in two five-year phases, the first covering 2006 through 2010 and the second covering 2011 through 2015. The total payments made to the Medical Centers will include a combination of Medi-Cal inpatient FFS payments, Medi-Cal Disproportionate Share Hospital ("DSH") payments and the Safety Net Care Pool ("SNCP"). Effective November 2011, the Medical Centers are also eligible to receive incentive payments designed to encourage delivery system innovation in connection with federal health care reform. The Medical Centers are reimbursed at tentative settlement amounts with final settlement of such items determined after submission of annual filings and audit thereof by the state. Certain payments under the Waiver Program are based on allocation of pooled funds amongst all participating public hospitals in the state and are subject to change based on the audit results of the other participating public hospitals. The Medical Centers have received final settlement for 2006. The state is in the process of conducting their audits of the subsequent years of the Waiver Program. The results of these audits have yet to be finalized and any amounts due to or from Medi-Cal have not been determined. Estimated receivables and payables related to all Waiver Program reporting periods are included on 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 (CCS) provider. Inpatient services are reimbursed by All Patient Refined Diagnosis Related Group (APR DRG), a per-case rate based upon acuity. Outpatient services are paid via fee schedules. In addition, CHRCO is the recipient of Medi-Cal funds under various state of California programs, in particular the Private Hospital Supplemental Fund and DSH. The state of California funds eligible hospitals based upon the total pool of funding available and a formula for distribution. The legislative funding is subject to retroactive reductions and potential future elimination.

Assembly Bill 1383. State of California Assembly Bill 1383 of 2009, as amended by AB 1653 on September 8, 2010, and extended through 2013, established a series of Medicaid supplemental payments funded through a Quality Assurance Fee and a Hospital Fee Program, which are imposed on certain California hospitals. The effective date of the Hospital Fee Program was April 1, 2009, through December 31, 2013, and was predicated, in part, on the enhanced Federal Medicaid Assistance Percentage contained in the American Reinvestment and Recovery Act ("ARRA"). The Hospital Fee Program was extended for three years starting on January 1, 2014 with SB 239. As of June 30, 2014, SB 239 is subject to approval from Centers of Medicare and Medicaid Services; therefore, no revenue was recognized after December 31, 2013. 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 paid $14 million in Quality Assurance Fees for the year ended June 30, 2014. 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. For the year that ended June 30, 2014, the Medical Centers recorded revenue of:

(in thousands of dollars)	
Davis	$ 8,370
Irvine	1,800
Los Angeles	9,254
San Diego	9,647
San Francisco	16,564
Total	**$45,635**

Senate Bill 1732. State of California Senate Bill 1732 provides for supplemental Medi-Cal reimbursement to disproportionate share hospitals for costs (i.e., principal and interest) of qualified patient care capital construction. For the year ended June 30, 2014, the Medical Centers applied for and received additional revenue related to the reimbursement of costs for certain debt-financed construction projects based on the Medical Center's Medi-Cal utilization rate, as follows:

(in thousands of dollars)	
Davis	$7,939
San Diego	1,777
Total	**$9,716**

Other. The Medical Centers and CHRCO have entered into agreements with numerous nongovernment third-party payors to provide patient care to beneficiaries under a variety of payment arrangements. These include arrangements with:

- Commercial insurance companies that reimburse the Medical Centers and CHRCO 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 and CHRCO 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 and CHRCO on a per-member-per-month basis, regardless of whether services are actually rendered. The Medical Centers and CHRCO 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 and CHRCO share in any surplus associated with health care utilization as defined in the related contracts. Additionally, the Medical Centers and CHRCO 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 and CHRCO for certain indigent patients covered under county contracts.
- CHRCO receives Measure A and trauma funding from Alameda County, which is leveraged with state matching funds. CHRCO received $7.1 million under these programs for the year ended June 30, 2014.

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, 2014 are as follows:

	MEDICARE	MEDI-CAL
Davis	20.9%	16.6%
Irvine	21.1%	22.5%
Los Angeles	16.5%	7.2%
San Diego	18.3%	11.2%
San Francisco	13.5%	7.2%
CHRCO	0.2%	61.6%

For the year that ended June 30, 2014, 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)	
Davis	$21,209
Irvine	(27,260)
Los Angeles	13,028
San Diego	26,157
San Francisco	56,976
CHRCO	(51)
Total	**$90,059**

For the year that ended June 30, 2014, net patient accounts receivable and net patient service revenues are presented net of doubtful accounts as follows:

	PATIENT ACCOUNTS RECEIVABLE ALLOWANCE	PATIENT SERVICE REVENUE ALLOWANCE
Davis	$ 52,141	$ 90,236
Irvine	37,668	26,703
Los Angeles	72,080	41,086
San Diego	60,451	90,105
San Francisco	21,370	62,546
CHRCO	12,702	7,973
Total	**$256,412**	**$318,649**

Net patient service revenue by major payors for the year ended June 30, 2014 is as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	CHRCO	TOTAL
Medicare (non-risk)	$ 369,689	$217,655	$ 439,069	$ 259,442	$ 460,253	$ 1,722	$1,747,830
Medicare (risk)			36,773		1,553		38,326
Medi-Cal (non-risk)	302,902	213,918	153,316	213,175	195,317	198,733	1,277,361
Contract (discounted or per diem)	727,415	427,036	1,270,427	722,486	1,614,784	149,920	4,912,068
Contract (capitated)	138,286				3,992		142,278
County	17,185	1,937		30,194	14,119	4,070	67,505
Non-sponsored/self-pay	4,039	1,442	15,019	3,351	18,667	3,378	45,896
Total	**$1,559,516**	**$861,988**	**$1,914,604**	**$1,228,648**	**$2,308,685**	**$357,823**	**$8,231,264**

4. CHARITY CARE

Information related to the Medical Centers' and CHRCO's charity care, as defined within the policy footnote, for the years ended June 30, 2014 is as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	CHRCO	TOTAL
Charity care at established rates	$134,601	$89,887	$27,686	$97,592	$56,672	$79,848	$486,286
Estimated cost of charity care	25,661	17,828	11,110	28,246	13,998	36,126	132,969
Estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs	218,726	58,212	69,580	19,457	98,785	15,311	480,071

Included within the table above are estimated cost of charity care for self-pay patients presumed to qualify for charity care in the amounts of $6,047 for UC Davis Medical Center, $12,574 for UC Irvine Medical Center, and $24,009 for UC San Diego Medical Center.

5. RESTRICTED ASSETS, DONOR FUNDS

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

The composition of restricted assets as of June 30, 2014 is as follows:

(in thousands of dollars)

	LOS ANGELES	SAN FRANCISCO	CHRCO	TOTAL
STIP and Cash	$ 3,371	$9,959	$10,893	$24,223
General Endowment Pool	8,477			8,477
Mutual funds	30		42,460	42,490
Charitable remainder trusts	791			791
Total	**$12,669**	**$9,959**	**$53,353**	**$75,981**

Donor restricted funds at June 30, 2014 are available for the following purposes:

(in thousands of dollars)

	LOS ANGELES	SAN FRANCISCO	CHRCO	TOTAL
Capital projects	$ 1,107	$3,174	$ 2,284	$ 6,565
Endowments	337		24,120	24,457
Operations	11,225	6,785	26,949	44,959
Total	**$12,669**	**$9,959**	**$53,353**	**$75,981**

Gifts and pledges are included in the financial statements of the University and transferred to the Medical Centers and CHRCO when used. Additional gift funds and pledges received by the related campus or foundation but not used by the Medical Centers and CHRCO as of June 30, 2014 are not included in the financial statements of the Medical Centers and CHRCO.

6. CAPITAL ASSETS

The Medical Centers' and CHRCO's capital asset activity for the year ended June 30 is as follows:

(in thousands of dollars)

DAVIS	2013	ADDITIONS	DISPOSALS	2014
ORIGINAL COST				
Land	$ 36,675			$ 36,675
Buildings and improvements	1,305,713	$ 9,341		1,315,054
Equipment	406,250	64,521	$(37,205)	433,566
Construction in progress	41,263	(17,499)	(2,048)	21,716
Capital assets, at cost	**$1,789,901**	**$56,363**	**$(39,253)**	**$1,807,011**

	2013	DEPRECIATION	DISPOSALS	2014
ACCUMULATED DEPRECIATION				
Buildings and improvements	$ 438,823	$40,221		$ 479,044
Equipment	273,351	45,707	$(35,653)	283,405
Accumulated depreciation	**$ 712,174**	**$85,928**	**$(35,653)**	**$ 762,449**
Capital assets, net	**$1,077,727**			**$1,044,562**

(in thousands of dollars)

IRVINE	2013	ADDITIONS	DISPOSALS	2014
ORIGINAL COST				
Land	$ 12,418			$ 12,418
Buildings and improvements	779,336	$40,835		820,171
Equipment	281,304	28,140	$(6,877)	302,567
Construction in progress	12,837	5,270		18,107
Capital assets, at cost	**$1,085,895**	**$74,245**	**$(6,877)**	**$1,153,263**

	2013	DEPRECIATION	DISPOSALS	2014
ACCUMULATED DEPRECIATION				
Buildings and improvements	$ 216,039	$30,005		$ 246,044
Equipment	143,878	35,361	$(6,393)	172,846
Accumulated depreciation	**$ 359,917**	**$65,366**	**$(6,393)**	**$ 418,890**
Capital assets, net	**$ 725,978**			**$ 734,373**

(in thousands of dollars)

LOS ANGELES	2013	ADDITIONS	DISPOSALS	2014
ORIGINAL COST				
Land	$ 51,924			$ 51,924
Buildings and improvements	1,837,352	$ 7,843		1,845,195
Equipment	603,099	78,948	$(9,385)	672,662
Construction in progress	67,497			67,497
Capital assets, at cost	**$2,559,872**	**$86,791**	**$(9,385)**	**$2,637,278**

	2013	DEPRECIATION	DISPOSALS	2014
ACCUMULATED DEPRECIATION				
Buildings and improvements	$ 341,266	$ 50,765	$ (27)	$ 392,004
Equipment	307,033	75,304	(8,989)	373,348
Accumulated depreciation	**$ 648,299**	**$126,069**	**$(9,016)**	**$ 765,352**
Capital assets, net	**$1,911,573**			**$1,871,926**

(in thousands of dollars)

SAN DIEGO	2013	ADDITIONS	DISPOSALS	2014
ORIGINAL COST				
Land	$ 8,641			$ 8,641
Buildings and improvements	765,371	$ 25,473		790,844
Equipment	263,818	22,128	$(7,323)	278,623
Construction in progress	270,938	218,579	(437)	489,080
Capital assets, at cost	**$1,308,768**	**$266,180**	**$(7,760)**	**$1,567,188**

	2013	DEPRECIATION	DISPOSALS	2014
ACCUMULATED DEPRECIATION				
Buildings and improvements	$ 258,909	$27,304		$ 286,213
Equipment	140,991	28,845	$(6,144)	163,692
Accumulated depreciation	**$ 399,900**	**$56,149**	**$(6,144)**	**$ 449,905**
Capital assets, net	**$ 908,868**			**$1,117,283**

(in thousands of dollars)

SAN FRANCISCO	2013	ADDITIONS	DISPOSALS	2014
ORIGINAL COST				
Land	$ 118,836	$ 29		$ 118,865
Buildings and improvements	997,684	30,155		1,027,839
Equipment	545,687	16,423	$(35,774)	526,336
Construction in progress	836,337	335,859	(179)	1,172,017
Capital assets, at cost	**$2,498,544**	**$382,466**	**$(35,953)**	**$2,845,057**

	2013	DEPRECIATION	DISPOSALS	2014
ACCUMULATED DEPRECIATION				
Buildings and improvements	$ 576,701	$ 42,853		$ 619,554
Equipment	291,536	55,670	$(35,130)	312,076
Accumulated depreciation	**$ 868,237**	**$ 98,523**	**$(35,130)**	**$ 931,630**
Capital assets, net	**$1,630,307**			**$1,913,427**

(in thousands of dollars)

CHRCO	2013	ADDITIONS	DISPOSALS	2014
ORIGINAL COST				
Land	$ 16,290			$ 16,290
Buildings and improvements	255,317	$ 15,320	$ (70)	270,567
Equipment	141,973	104,947	(4,191)	242,729
Construction in progress	74,215	(48,332)		25,883
Capital assets, at cost	**$487,795**	**$ 71,935**	**$ (4,261)**	**$555,469**

	2013	DEPRECIATION	DISPOSALS	2014
ACCUMULATED DEPRECIATION				
Buildings and improvements	$142,483	$ 7,940	$ (50)	$150,373
Equipment	103,439	22,000	(3,975)	121,464
Accumulated depreciation	**$245,922**	**$ 29,940**	**$(4,025)**	**$271,837**
Capital assets, net	**$241,873**			**$283,632**

(in thousands of dollars)

TOTAL	2013	ADDITIONS	DISPOSALS	2014
ORIGINAL COST				
Land	$ 244,784	$ 29		$ 244,813
Buildings and improvements	5,940,773	128,967	$ (70)	6,069,670
Equipment	2,242,131	315,107	(100,755)	2,456,483
Construction in progress	1,303,087	493,877	(2,664)	1,794,300
Capital assets, at cost	**$9,730,775**	**$ 937,980**	**$(103,489)**	**$10,565,266**

	2013	DEPRECIATION	DISPOSALS	2014
ACCUMULATED DEPRECIATION				
Buildings and improvements	$ 1,974,221	$ 199,088	$ (77)	$ 2,173,232
Equipment	1,260,228	262,887	(96,284)	1,426,831
Accumulated depreciation	**$3,234,449**	**$ 461,975**	**$ (96,361)**	**$ 3,600,063**
Capital assets, net	**$6,496,326**			**$ 6,965,203**

Equipment under financing obligations and related accumulated amortization at June 30, 2014 were as follows:

(in millions of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
Equipment under financing obligations	$85	$64	$71	$46	$8	$274
Accumulated amortization	(44)	(46)	(9)	(24)	(3)	(126)
Total	**$41**	**$18**	**$62**	**$22**	**$5**	**$148**

The Medical Centers are making seismic improvements in order to be in compliance with Senate Bill 1953, the Hospital Facilities Seismic Safety Act. The University has acquired certain facilities and equipment to make seismic improvements under financing obligations with 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.

Each Medical Center and CHRCO is eligible for $69.0 million of grant funding from the Children's Hospital Bond Act of 2004 and 2008 for capital expenditures that support pediatric services. Grant funds are received upon approval of qualifying capital expenditures and are reported as contributions for building programs on the statements of revenues, expenses and changes in net position. CHRCO recorded $34.1 million in funds from the Children's Hospital Bond act of 2008 for the year ended June 30, 2014.

7. PAYABLES TO UNIVERSITY AND CAMPUS

The UCLA Medical Center has an internal line of credit in the amount of $75.0 million from the UCLA campus Chancellor reported as a note payable to the campus. The line of credit is due in June 2024 and accrued interest at the STIP rate of an annual average of 1.6 percent for the year ended June 30, 2014. As of June 30, 2014, $75.0 million was outstanding. Effective July 1, 2011, the campus has agreed to waive periodic interest payments for an undetermined time period and no interest expense has been recorded on the line of credit for the year ended June 30, 2014.

Advances from the University, financed through the University's commercial paper program, were made to the Medical Centers to finance capital projects and refund certain Medical Center Pooled Revenue Bonds. CHRCO received advances from the University to defease long-term debt. The advances are due on demand from the Medical Centers when the University refinances the advances into long-term bonds. The advances are due from CHRCO based on a repayment schedule or upon refinancing into long-term bonds, whichever is earlier. Principal payments between $2.2 million and $2.7 million per year for the next twenty-four years are due to the University from CHRCO based on the repayment schedule. The payables are reported as other current liabilities by the Medical Centers on the statements of net position. CHRCO reported $2.2 million as other current liabilities and $55.9 million as other non-current liabilities as of June 30, 2014. Total advances from the University outstanding as of June 30 are as follows:

(in thousands of dollars)

	PAYABLES TO UNIVERSITY
Los Angeles	$ 78
CHRCO	58,120
Total	**$58,198**

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 25.7 million of 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 a derivative instrument, an at-the-market swap, and a companion instrument, a borrowing, represented by the up-front payment. The unamortized amount of the borrowing was $42.1 million at June 30, 2014.

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	
		CLASSIFICATION	2014	CLASSIFICATION	2014
Los Angeles	124,775	Other noncurrent liabilities	$(35,966)	Deferred (inflows)/outflows	$(1,343)
	24,250	Other noncurrent liabilities	(8,400)	Deferred (inflows)/outflows	(1,671)
	25,750	Other noncurrent liabilities	(9,155)	Deferred (inflows)/outflows	(1,859)
		Other noncurrent liabilities		Increase (decrease) upon hedge termination	2,610
San Francisco	77,220	Other noncurrent liabilities	(10,862)	Deferred (inflows)/outflows	273

Because swap rates have changed since the execution of the swap, financial institutions have estimated the fair value using quoted market prices when available or a forecast of expected discounted future net cash flows. The fair value of the interest

rate swap is the estimated amount the Medical Centers would have either (paid) or received if the swap agreement was terminated on June 30, 2014.

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
LOS ANGELES					
Pay fixed 4.550 percent; receive 67 percent of 3-Month LIBOR* + 0.61 percent	31,610	2008	2030	None	A2/A
Pay fixed 4.625 percent; receive 67 percent of 3-Month LIBOR* + 0.67 percent	38,670	2008	2037	None	A2/A
Pay fixed 4.6935 percent; receive 67 percent of 3-Month LIBOR* + 0.74 percent	54,495	2008	2043	None	A2/A
Pay fixed 4.741 percent; receive 67 percent of 3-Month LIBOR* + 0.79 percent	24,250	2013	2045	None	A2/A
Pay fixed 4.741 percent; receive 67 percent of 3-Month LIBOR* + 0.79 percent	25,750	2013	2047	None	A2/A
SAN FRANCISCO					
Pay fixed 3.5897 percent; receive 58 percent of 1-Month LIBOR* + 0.48 percent	77,220	2007	2032	None	A2/A

** London Interbank Offered Rate (LIBOR)*

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

There are no collateral requirements related to the swaps held by the UCSF Medical Center. Depending on the fair value of all of the swap contracts, the University, on behalf of the UCLA Medical Center, may be entitled to receive collateral from the counterparty to the extent that the positive fair value exceeds $15.0 million, or be obligated to provide collateral to the counterparty if the negative fair value of the swap exceeds $125.0 million or the cash and investments held by all five of the University's Medical Centers fall below $250.0 million.

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 149.1 million since the variable rate the UCLA Medical Center pays to the bond holders matches the variable rate payments received from the swap counterparty.

In connection with one of the UCLA Medical Center swaps, and the UCSF Medical Center swap, there is a risk that the basis for the variable payment received will not match the variable payment on the bonds that expose the UCLA Medical Center and the UCSF Medical Center to basis risk whenever the interest rates on the bonds are reset. The interest rate on the bonds are a tax-exempt interest rate, while the basis of the variable receipt on the interest rate swap is taxable. Tax-exempt interest rates can change without a corresponding change in the LIBOR rate due to factors affecting the tax-exempt market, which do not have a similar effect on the taxable market. For example, the swaps expose the UCSF Medical Center to risk if reductions in the federal personal income tax cause the relationship between the variable interest rate on the bonds to be greater than 58.0 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 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 swap 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' and CHRCO's outstanding debt at June 30, 2014 is as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	CHRCO	TOTAL
University of California Medical Center Pooled Revenue Bonds:							
2007 Series A	$ 61,804	$ 59,830	$237,720	$ 18,287	$ 41,854		$ 419,495
2007 Series B*					77,220		77,220
2007 Series C-1			6,485				6,485
2007 Series C-2*			149,025				149,025
2008 Series D	236,545						236,545
2009 Series E		59,220	2,680	13,360	1,435		76,695
2009 Series F Build America Bonds		155,855	143,320	110,355	19,620		429,150
2010 Series G & I			14,415	26,450			40,865
2010 Series H Build America Bonds					700,000		700,000
2013 Series J	19,710	6,405	86,930	500,395	525		613,965
2013 Series K*			31,300				31,300
University of California Hospital Revenue Bonds 2004 (University of California, Los Angeles Medical Center, Series A and B)			47,265				47,265
Financing obligations	31,440	17,835	64,820	19,260	3,154	$1,198	137,707
Other borrowings			42,152				42,152
Total bonds	**349,499**	**299,145**	**826,112**	**688,107**	**843,808**	**1,198**	**3,007,869**
Unamortized bond premium	6,979	3,424	6,060	4,539	663		21,665
Total debt and financing obligations	**356,478**	**302,569**	**832,172**	**692,646**	**844,471**	**1,198**	**3,029,534**
Less: Amounts due within one year	(32,599)	(17,096)	(11,344)	(14,941)	(6,935)	(1,198)	(84,113)
Noncurrent portion of debt and financing obligations	**$323,879**	**$285,473**	**$820,828**	**$677,705**	**$837,536**		**$2,945,421**

**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 A	4.5 percent to 5.0 percent	Semi-annually	Through 2047
2007 Series B	0.04 percent	Monthly	Through 2032
2007 Series C-1	4.0 percent to 4.4 percent	Semi-annually	Through 2022
2007 Series C-2	0.9 percent	Quarterly	Through 2045
2008 Series D	3.5 percent to 5.3 percent	Semi-annually	Through 2027
2009 Series E	3.0 percent to 5.5 percent	Semi-annually	Through 2038
2009 Series F Build America Bonds	4.3 percent, after 35 percent federal subsidy	Semi-annually	Through 2049
2010 Series G & I	2.9 percent to 5.8 percent	Semi-annually	Through 2025
2010 Series H Build America Bonds	4.2 percent, after 35 percent federal subsidy	Semi-annually	Through 2048
University of California Hospital Revenue Bonds 2004 (University of California, Los Angeles Medical Center, Series A and B)	4.0 percent to 5.5 percent	Semi-annually	Through 2039
2013 Series J	2.0 percent to 5.3 percent	Semi-annually	Through 2048
2013 Series K	0.04 percent	Monthly	Beginning 2045 through 2047
Financing obligations (primarily for computer and medical equipment, collateralized by underlying equipment)	Fixed interest rates of 1.1 percent to 6.0 percent	Monthly, Quarterly	Through 2042

Total interest expense and interest capitalized during the year ended June 30, 2014 are as follows:

(in thousands of dollars)

	INTEREST EXPENSE	INTEREST CAPITALIZED
Davis	$17,918	$ 136
Irvine	16,910	290
Los Angeles	40,940	
San Diego	7,901	23,788
San Francisco	4,685	47,958
CHRCO	1,444	1,544
Total	**$ 89,798**	**$73,716**

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, 2014			
Long-term debt and financing obligations at June 30, 2013	$320,803	$48,579	$369,382
New obligations	22,375		22,375
Principal payments and bond retirements	(17,295)	(17,139)	(34,434)
Amortization of bond premium	(845)		(845)
Long-term debt and financing obligations at June 30, 2014	**325,038**	**31,440**	**356,478**
Less: Current portion of long-term debt and financing obligations	(18,598)	(14,001)	(32,599)
Noncurrent portion of long-term debt and financing obligations at June 30, 2014	**$306,440**	**$17,439**	**$323,879**

(in thousands of dollars)

IRVINE	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2014			
Long-term debt and financing obligations at June 30, 2013	$284,932	$29,345	$314,277
New obligations	7,530		7,530
Principal payments and bond retirements	(7,545)	(11,510)	(19,055)
Amortization of bond premium	(183)		(183)
Long-term debt and financing obligations at June 30, 2014	**284,734**	**17,835**	**302,569**
Less: Current portion of long-term debt and financing obligations	(7,895)	(9,201)	(17,096)
Noncurrent portion of long-term debt and financing obligations at June 30, 2014	**$276,839**	**$ 8,634**	**$285,473**

(in thousands of dollars)

LOS ANGELES	REVENUE BONDS	FINANCING OBLIGATIONS	OTHER BORROWINGS	TOTAL
Year ended June 30, 2014				
Long-term debt and financing obligations at June 30, 2013	$638,856	$67,312	$29,107	$735,275
New obligations	124,170	632	14,025	138,827
Principal payments and bond retirements	(37,455)	(3,124)	(980)	(41,559)
Amortization of bond premium	(371)			(371)
Long-term debt and financing obligations at June 30, 2014	**725,200**	**64,820**	**42,152**	**832,172**
Less: Current portion of long-term debt and financing obligations	(9,626)	(651)	(1,067)	(11,344)
Noncurrent portion of long-term debt and financing obligations at June 30, 2014	**$715,574**	**$64,169**	**$41,085**	**$820,828**

(in thousands of dollars)

SAN DIEGO	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2014			
Long-term debt and financing obligations at June 30, 2013	$177,045	$27,576	$204,621
New obligations	501,702	2,345	504,047
Principal payments and bond retirements	(4,770)	(10,661)	(15,431)
Amortization of bond premium	(591)		(591)
Long-term debt and financing obligations at June 30, 2014	**673,386**	**19,260**	**692,646**
Less: Current portion of long-term debt and financing obligations	(5,591)	(9,350)	(14,941)
Noncurrent portion of long-term debt and financing obligations at June 30, 2014	**$667,795**	**$9,910**	**$677,705**

(in thousands of dollars)

SAN FRANCISCO	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2014			
Long-term debt and financing obligations at June 30, 2013	$844,433	$46,067	$890,500
New obligations	525		525
Principal payments and bond retirements	(3,620)	(42,913)	(46,533)
Amortization of bond premium	(21)		(21)
Long-term debt and financing obligations at June 30, 2014	**841,317**	**3,154**	**844,471**
Less: Current portion of long-term debt and financing obligations	(3,781)	(3,154)	(6,935)
Noncurrent portion of long-term debt and financing obligations at June 30, 2014	**$837,536**		**$837,536**

(in thousands of dollars)

CHRCO	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2014		
Long-term debt and financing obligations at June 30, 2013	$65,736	$65,736
New obligations		
Principal payments and bond retirements	(64,538)	(64,538)
Amortization of bond premium		
Current portion of debt and financing obligations at June 30, 2014	**$ 1,198**	**$ 1,198**

(in thousands of dollars)

TOTAL	REVENUE BONDS	FINANCING OBLIGATIONS	OTHER BORROWINGS	TOTAL
Year ended June 30, 2014				
Long-term debt and financing obligations at June 30, 2013	$2,266,069	$284,615	$ 29,107	$2,579,791
New obligations	656,302	2,977	14,025	673,304
Principal payments and bond retirements	(70,685)	(149,885)	(980)	(221,550)
Amortization of bond premium	(2,011)			(2,011)
Long-term debt and financing obligations at June 30, 2014	**2,849,675**	**137,707**	**42,152**	**3,029,534**
Less: Current portion of long-term debt and financing obligations	(45,491)	(37,555)	(1,067)	(84,113)
Noncurrent portion of long-term debt and financing obligations at June 30, 2014	**$2,804,184**	**$100,152**	**$ 41,085**	**$2,945,421**

In August 2013, tax-exempt Medical Center Pooled Revenue Bonds totaling $649.9 million, including $618.6 million fixed-rate bonds and $31.3 million variable-rate demand bonds, were issued to finance and refinance certain facilities and projects of the Medical Centers. Proceeds, including a bond premium of $6.3 million, were used to pay for project construction, issuance costs and refund $28.3 million of outstanding Medical Center Revenue Bonds. The fixed-rate bonds mature at various dates through 2048 and the variable-rate bonds mature in 2047. The interest rates on the variable-rate demand bonds reset weekly and an interest rate swap, previously classified as an investment derivative, is being used to limit exposure to changes in market interest rates. In the event of a failed remarketing, the variable-rate demand bonds can be put back to The Regents for tender. The tax-exempt bonds have a stated weighted average interest rate of 5.0 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. The refinancing and refunding of previously outstanding Medical Center Revenue Bonds resulted in cash flow savings of $5.1 million and an economic gain of $3.6 million.

CHRCO's long-term debts were defeased or retired with advances from the University's commercial paper program in June 2014.

The Medical Centers' Pooled Revenue Bonds are issued to finance the University's Medical Centers and are collateralized by a joint and several pledge of certain operating and non-operating revenues, as defined in the Indenture, of all five of the University's Medical Centers and CHRCO. The Medical Center Pooled Revenue Bond Indenture requires the Medical Centers to set rates, charges and fees each year sufficient for the Medical Centers' operating revenues to pay for the annual principal and interest on the bonds and sets forth requirements for certain other financial covenants. Pledged revenues for the Medical Centers for the year ended June 30, 2014 was $8.6 billion.

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

The Medical Center Pooled Revenue Bonds 2007 Series B and 2013 Series K totaling $77.2 million and $31.3 million, respectively, are variable-rate demand obligations subject to daily remarketing. The University has entered into a standby bond purchase agreement if a failed remarketing was to occur and the redemption of any of the 2007 Series B bonds is required. The standby bond purchase agreement is scheduled to terminate on June 30, 2015. 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 and specific Hospital Revenue Bonds. The pledge of the Medical Centers' revenues under the Medical Center Pooled Revenue Bonds is on parity with interest rate swap agreements and subordinate to the Hospital Revenue Bonds. The Medical Centers' obligations under the terms of the General Revenue Bonds are subordinate to the Medical Center Pooled Revenue Bonds.

The University has an internal working capital program that allows each Medical Center to receive internal advances. Advances may not exceed 60 percent of the Medical Center's accounts receivable for any working capital needs. Interest on any such advance is based upon the earnings rate on the STIP. Repayment of any advances made to the Medical Centers under the working capital program is not collateralized by a pledge of revenues. Currently, there are no advances to the Medical Centers. The University may cancel or change the terms of the working capital program at its sole discretion. However, the University has historically provided working capital advances under informal or formal programs for the Medical Centers.

Future Debt Service and Interest Rate Swaps

Future debt service payments for the Medical Centers' fixed- and variable-rate debt and net receipts or payments on associated hedging derivative interest rate swaps for each of the five fiscal years subsequent to June 30, 2014, and thereafter, are shown below. Although not a prediction by the Medical Centers of the future interest rate cost of the variable-rate bonds or the impact of the interest rate swaps, these amounts assume that current interest rates on variable-rate bonds and the current reference rates of the interest rate swaps will remain the same. As these rates vary, variable-rate bond interest payments and net interest rate swap payments will vary.

(in thousands of dollars)

DAVIS	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2015	$ 33,180	$14,377	$ 47,557	$ 31,791	$ 15,766
2016	32,833	10,512	43,345	28,553	14,792
2017	32,485	6,533	39,018	25,181	13,837
2018	31,595	623	32,218	19,350	12,868
2019	31,204		31,204	19,225	11,979
2020– 2024	148,686		148,686	103,845	44,841
2025 – 2029	89,707		89,707	70,440	19,267
2030 – 2034	21,674		21,674	10,910	10,764
2035 – 2039	21,672		21,672	13,680	7,992
2040 – 2044	21,039		21,039	16,495	4,544
2045 – 2049	10,949		10,949	10,029	920
Total future debt service	**475,024**	**32,045**	**507,069**	**$349,499**	**$157,570**
Less: Interest component of future payments	(156,965)	(605)	(157,570)		
Principal portion of future payments	318,059	31,440	349,499		
Adjusted by:					
Unamortized bond premium	6,979		6,979		
Total debt	**$325,038**	**$31,440**	**$356,478**		

(in thousands of dollars)

IRVINE	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2015	$ 24,017	$ 9,464	$ 33,481	$ 17,096	$ 16,385
2016	24,007	5,379	29,386	13,494	15,892
2017	17,039	2,780	19,819	4,325	15,494
2018	16,561	354	16,915	1,519	15,396
2019	16,568	295	16,863	1,536	15,327
2020– 2024	99,245		99,245	25,255	73,990
2025 – 2029	98,334		98,334	31,505	66,829
2030 – 2034	95,409		95,409	37,750	57,659
2035 – 2039	92,426		92,426	46,800	45,626
2040 – 2044	87,479		87,479	57,115	30,364
2045 – 2049	74,397		74,397	62,750	11,647
Total future debt service	**645,482**	**18,272**	**663,754**	**$299,145**	**$364,609**
Less: Interest component of future payments	(364,172)	(437)	(364,609)		
Principal portion of future payments	281,310	17,835	299,145		
Adjusted by:					
Unamortized bond premium	3,424		3,424		
Total debt	**$284,734**	**$17,835**	**$302,569**		

(in thousands of dollars)

LOS ANGELES	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2015	$ 45,825	$ 4,499	$ 50,324	$ 9,876	$ 40,448
2016	45,811	3,202	49,013	8,933	40,080
2017	45,813	3,331	49,144	9,474	39,670
2018	45,825	3,464	49,289	10,075	39,214
2019	46,649	3,602	50,251	11,548	38,703
2020– 2024	237,255	20,291	257,546	74,198	183,348
2025 – 2029	225,649	24,687	250,336	87,028	163,308
2030 – 2034	223,634	30,036	253,670	115,994	137,676
2035 – 2039	221,234	36,543	257,777	154,455	103,322
2040 – 2044	217,708	22,290	239,998	180,969	59,029
2045 – 2049	137,337		137,337	121,410	15,927
Total future debt service	**1,492,740**	**151,945**	**1,644,685**	**$783,960**	**$860,725**
Less: Interest component of future payments	(773,600)	(87,125)	(860,725)		
Principal portion of future payments	719,140	64,820	783,960		
Adjusted by:					
Unamortized bond premium	6,060		6,060		
Other borrowings	42,152		42,152		
Total debt	**$ 767,352**	**$64,820**	**$832,172**		

(in thousands of dollars)

SAN DIEGO	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2015	$ 40,197	$ 9,611	$ 49,808	$ 14,345	$ 35,463
2016	40,201	7,310	47,511	12,391	35,120
2017	40,189	2,722	42,911	8,104	34,807
2018	40,178		40,178	5,635	34,543
2019	40,181		40,181	5,920	34,261
2020– 2024	201,374		201,374	33,805	167,569
2025 – 2029	234,622		234,622	81,115	153,507
2030 – 2034	232,147		232,147	102,915	129,232
2035 – 2039	229,001		229,001	130,890	98,111
2040 – 2044	224,740		224,740	165,635	59,105
2045 – 2049	143,551		143,551	127,352	16,199
Total future debt service	**1,466,381**	**19,643**	**1,486,024**	**$688,107**	**$797,917**
Less: Interest component of future payments	(797,534)	(383)	(797,917)		
Principal portion of future payments	668,847	19,260	688,107		
Adjusted by:					
Unamortized bond premium	4,539		4,539		
Total debt	**$ 673,386**	**$19,260**	**$ 692,646**		

(in thousands of dollars)

SAN FRANCISCO	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2015	$ 54,655	$3,193	$ 57,848	$ 6,914	$ 50,934
2016	54,884		54,884	3,915	50,969
2017	55,094		55,094	4,060	51,034
2018	54,265		54,265	4,215	50,050
2019	54,461		54,461	4,375	50,086
2020– 2024	329,233		329,233	85,430	243,803
2025 – 2029	334,466		334,466	118,160	216,306
2030 – 2034	312,425		312,425	132,125	180,300
2035 – 2039	279,802		279,802	142,235	137,567
2040 – 2044	262,579		262,579	175,095	87,484
2045 – 2049	223,033		223,033	167,284	55,749
Total future debt service	**2,014,897**	**3,193**	**2,018,090**	**$843,808**	**$1,174,282**
Less: Interest component of future payments	(1,174,243)	(39)	(1,174,282)		
Principal portion of future payments	840,654	3,154	843,808		
Adjusted by:					
Unamortized bond premium	663		663		
Total debt	**$ 841,317**	**$3,154**	**$ 844,471**		

(in thousands of dollars)

CHRCO	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL
Year ending June 30			
2015	$1,198	$1,198	$1,198
Total future debt service	**1,198**	**1,198**	**$1,198**
Less: Interest component of future payments			
Principal portion of future payments	1,198	1,198	
Total debt	**$1,198**	**$1,198**	

(in thousands of dollars)

TOTAL	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2015	$ 197,874	$ 42,342	$ 240,216	$ 81,220	$ 158,996
2016	197,736	26,403	224,139	67,286	156,853
2017	190,620	15,366	205,986	51,144	154,842
2018	188,424	4,441	192,865	40,794	152,071
2019	189,063	3,897	192,960	42,604	150,356
2020– 2024	1,015,793	20,291	1,036,084	322,533	713,551
2025 – 2029	982,778	24,687	1,007,465	388,248	619,217
2030 – 2034	885,289	30,036	915,325	399,694	515,631
2035 – 2039	844,135	36,543	880,678	488,060	392,618
2040 – 2044	813,545	22,290	835,835	595,309	240,526
2045 – 2049	589,267		589,267	488,825	100,442
Total future debt service	**6,094,524**	**226,296**	**6,320,820**	**$2,965,717**	**$3,355,103**
Less: Interest component of future payments	(3,266,514)	(88,589)	(3,355,103)		
Principal portion of future payments	2,828,010	137,707	2,965,717		
Adjusted by:					
Unamortized bond premium	21,665		21,665		
Other borrowings	42,152		42,152		
Total debt	**$2,891,827**	**$137,707**	**$3,029,534**		

Additional information on the revenue bonds can be obtained from the 2013–2014 annual report of the University of California.

As rates vary, variable-rate bond interest payments and net swap payments will vary. Although not a prediction by the Medical Centers of the future interest cost of the variable-rate bonds or the impact of the interest rate swaps, using rates as of June 30, 2014, debt service requirements of the variable-rate debt and net swap payments are as follows:

(in thousands of dollars)

LOS ANGELES	VARIABLE-RATE BOND		INTEREST RATE SWAP, NET	TOTAL
	PRINCIPAL	INTEREST		
Year ending June 30				
2015		$ 1,152	$ 6,619	$ 7,771
2016		1,152	6,619	7,771
2017		1,152	6,619	7,771
2018		1,152	6,619	7,771
2019		1,152	6,619	7,771
2020-2024	$ 6,880	5,736	32,967	45,583
2025-2029	20,135	5,205	30,336	55,676
2030-2034	25,185	4,626	26,226	56,037
2035-2039	31,580	3,666	20,993	56,239
2040-2044	61,605	1,940	12,815	76,360
2045-2047	29,390	69	1,669	31,128
Total future debt service	**$174,775**	**$27,002**	**$158,101**	**$359,878**

(in thousands of dollars)

SAN FRANCISCO	VARIABLE-RATE BOND			
	PRINCIPAL	INTEREST	INTEREST RATE SWAP, NET	TOTAL
Year ending June 30				
2015	$ 3,110	$ 8	$ 2,324	$ 5,442
2016	3,230	7	2,230	5,467
2017	3,340	7	2,132	5,479
2018	3,465	7	2,031	5,503
2019	3,590	6	1,926	5,522
2020-2024	20,015	26	7,916	27,957
2025-2029	23,930	15	4,656	28,601
2030-2034	16,540	4	976	17,520
Total future debt service	**$77,220**	**$80**	**$24,191**	**$101,491**

(in thousands of dollars)

TOTAL	VARIABLE-RATE BOND			
	PRINCIPAL	INTEREST	INTEREST RATE SWAP, NET	TOTAL
Year ending June 30				
2015	$ 3,110	$ 1,160	$ 8,943	$ 13,213
2016	3,230	1,159	8,849	13,238
2017	3,340	1,159	8,751	13,250
2018	3,465	1,159	8,650	13,274
2019	3,590	1,158	8,545	13,293
2020-2024	26,895	5,762	40,883	73,540
2025-2029	44,065	5,220	34,992	84,277
2030-2034	41,725	4,630	27,202	73,557
2035-2039	31,580	3,666	20,993	56,239
2040-2044	61,605	1,940	12,815	76,360
2045-2047	29,390	69	1,669	31,128
Total future debt service	**$ 251,995**	**$27,082**	**$182,292**	**$ 461,369**

10. OPERATING LEASES

The Medical Centers and CHRCO lease certain buildings and equipment under agreements recorded as operating leases. The terms of the operating leases extend through the year 2043. Operating lease expense for the year ended June 30, 2014 was as follows:

(in thousands of dollars)	
Davis	$16,149
Irvine	2,430
Los Angeles	12,198
San Diego	9,623
San Francisco	33,050
CHRCO	5,217
Total	**$78,667**

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	CHRCO	TOTAL
Minimum Annual Lease Payments							
Year ending June 30							
2015	$ 16,834	$1,977	$ 11,560	$9,200	$18,775	$ 4,111	$ 62,457
2016	13,276	1,686	9,986	7,819	16,738	3,394	$52,899
2017	11,047	1,234	8,858	6,112	14,322	2,953	$44,526
2018	9,079	1,248	6,956	5,218	11,037	1,875	$35,413
2019	7,268	1,157	5,783	4,039	12,930	1,223	$32,400
2020-2043	18,671		20,165	10,102	6	13	$48,957
Total	**$76,175**	**$7,302**	**$63,308**	**$42,490**	**$73,808**	**$13,569**	**$276,652**

11. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The composition of deferred outflows of resources at June 30, 2014 is summarized as follows:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	CHRCO	TOTAL
Pension obligations	$236,074	$124,238	$276,244	$139,639	$244,731	$5,445	$1,026,371
Loss on debt refunding	15,341				994		16,335
Interest rate swap agreements			53,521		10,862		64,383
Total	**$251,415**	**$124,238**	**$329,765**	**$139,639**	**$256,587**	**$5,445**	**$1,107,089**

Deferred inflows of resources for June 30, 2014 are related to pension obligations.

12. RETIREE HEALTH PLANS

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

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

Participating University locations, such as the Medical Centers, are required to contribute at a rate assessed each year by the University. The contribution requirements are based upon projected pay-as-you-go financing requirements. The assessment rates were $3.24 and $1.80 per $100 of UCRP covered payroll effective July 1, 2013 and January 1, 2013, respectively. The Medical Centers' contributions for the year ended June 30, 2014 were as follows:

(in thousands of dollars)	
Davis	$19,239
Irvine	9,963
Los Angeles	22,225
San Diego	11,109
San Francisco	22,876
Total	**$85,412**

The actuarial value of UCRHBT assets and the actuarial accrued liability associated with the University's campuses and Medical Centers using the entry age normal cost method as of July 1, 2013, the date of the latest actuarial valuation, were $44.3 million and $13.2 billion, respectively. The net position held in trust for retiree health benefits on the UCRHBT's statement of plan fiduciary net position were $65.2 million at June 30, 2014. For the year ended June 30, 2014, combined contributions from the University's campuses and Medical Centers were $344.5 million, including an implicit subsidy of $85.2 million. The University's annual retiree health benefit expense for its campuses and Medical Centers was $1.2 billion for the year ended June 30, 2014. As a result of contributions that were less than the retiree health benefit expense, the University's obligation for retiree health benefits attributable to its campuses and Medical Centers totaling $8.2 billion at June 30, 2014, increased by $872.9 million for the year ended June 30, 2014.

Information related to plan assets and liabilities as they relate to individual campuses and Medical Centers is not readily available. Additional information on the retiree health plans can be obtained from the 2013–2014 annual reports of the University of California.

13. RETIREMENT PLANS

Substantially all full-time employees of the Medical Centers participate in the University of California Retirement System ("UCRS") that is administered by the University. The UCRS consists of The University of California Retirement Plan ("UCRP"), a single-employer defined benefit pension plan, and the University of California Retirement Savings Program ("UCRSP") that includes four defined contribution pension plans with several investment portfolios generally funded with employee non-elective and elective contributions. The Regents has the authority to establish and amend the benefit plans. Additional information on the retirement plans can be obtained from the 2013-2014 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, 2013, employee member and employer contributions were 6.5 percent and 12 percent, respectively. The member contribution rate for employees in the new benefit tier applicable to employees hired on or after July 1, 2013 is 7.0%, and the employer rate is uniform across all members. Effective July 1, 2014, employee member and employer contributions were 8.0 percent and 14.0 percent, respectively.

Employee contributions to UCRP are accounted for separately and currently accrue interest at 6.0 percent annually. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may also elect monthly retirement income or a lump sum equal to the present value of their accrued benefits.

Contributions were as follows during the year ended June 30, 2014:

(in thousands of dollars)

	MEDICAL CENTER	EMPLOYEE	TOTAL
Davis	$ 72,105	$ 39,081	$111,186
Irvine	36,306	19,666	55,972
Los Angeles	79,216	55,945	135,161
San Diego	41,793	22,638	64,431
San Francisco	80,467	36,034	116,501
Total	**$309,887**	**$173,364**	**$483,251**

Net Pension Liability. The Medical Centers' proportionate share of the net pension liability for UCRP as of June 30, 2014 is as follows:

(in thousands of dollars)

	Proportion of the net pension liability	Proportionate share of net pension liability
Davis	6.6%	$ 468,810
Irvine	3.3%	235,813
Los Angeles	7.3%	513,936
San Diego	3.9%	271,458
San Francisco	7.4%	523,452
Total	**28.5%**	**$ 2,013,469**

The Medical Centers' net pension liability was measured as of June 30, 2014 and was based upon rolling forward the results of the actuarial valuations as of July 1, 2013. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future. The Medical Centers' net pension liability was calculated using the following methods and assumptions:

Inflation	3.5 percent
Investment rate of return	7.5 percent
Projected salary increases	4.3 - 6.8 percent
Cost-of-living adjustments	2.0 percent

For active members, inactive members and healthy retirees, the RP-2000 Combined Healthy Mortality Table, projected with scale AA to 2025, with ages set back two years is used. For disabled members, rates are based on the RP-2000 Disabled Retiree Mortality Table, projected with Scale AA to 2025, with ages set back two years for males.

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 the July 1, 2013 valuation were based upon the results of an experience study conducted for the period July 1, 2006 through June 30, 2010.

The long-term expected investment rate of return assumption for UCRP was determined based on a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges 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 adopted by The Regents and by adding expected inflation. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption for each major asset class are as follows:

	Target allocation	Long-term expected real rate of return
Asset class		
U.S. Equity	23.0%	6.8%
Developed International Equity	24.0%	6.9%
Emerging Market Equity	5.0%	9.3%
Core Fixed Income	12.0%	1.5%
High Yield Bonds	2.5%	3.7%
Emerging Market Debt	2.5%	4.0%
TIPS	8.0%	1.3%
Real Estate	7.0%	5.4%
Private Equity	6.0%	10.4%
Absolute Return/Hedge Funds/Real Assets	10.0%	4.1%
Total	**100.0%**	

Discount Rate. The discount rate used to estimate the net pension liability as of June 30, 2014 was 7.5 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 contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are not included. UCRP was projected to have assets sufficient to make projected benefit payments for current members for all future years as of June 30, 2014.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption. The following presents the current-period net pension liability of the Medical Center calculated using the current-period discount rate assumption of 7.5 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 (6.5%)	Current Discount (7.5%)	1% Increase (8.5%)
Davis	$ 900,440	$ 468,810	$ 106,404
Irvine	452,924	235,813	53,521
Los Angeles	987,113	513,936	116,646
San Diego	521,388	271,458	61,612
San Francisco	1,005,391	523,452	118,805
Total	**$3,867,256**	**$2,013,469**	**$456,988**

Deferred Outflows of Resources and Deferred Inflows of Resources. Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2014:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
Deferred Outflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$ 32,257	$ 21,719	$ 52,810	$ 21,623	$ 17,159	$ 145,568
Changes of assumptions or other inputs	137,704	69,264	150,958	79,734	153,751	591,411
Net difference between projected and actual earnings on pension plan investments	66,113	33,255	72,476	38,282	73,821	283,947
Total	**$236,074**	**$124,238**	**$276,244**	**$139,639**	**$244,731**	**$1,020,926**
Deferred Inflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$ 1,630	$ 4,855	$ 1,317	$ 21,811	$ 30,328	$ 59,941
Changes of assumptions or other inputs	124,517	62,633	136,502	72,100	139,030	534,782
Net difference between projected and actual earnings on pension plan investments	264,893	133,244	290,392	153,383	295,769	1,137,681
Difference between expected and actual experience	27,083	13,624	29,694	15,683	30,239	116,323
Total	**$418,123**	**$214,356**	**$457,905**	**$262,977**	**$495,366**	**$ 1,848,727**

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
2015	$ (23,144)	$(10,631)	$ (21,353)	$ (16,993)	$ (37,436)	$(109,557)
2016	(23,145)	(10,632)	(21,355)	(16,993)	(37,433)	(109,558)
2017	(57,635)	(28,087)	(59,156)	(37,119)	(75,860)	(257,857)
2018	(77,157)	(40,477)	(80,275)	(51,262)	(94,614)	(343,785)
2019	(968)	(291)	478	(971)	(5,292)	(7,044)
Total	**$(182,049)**	**$(90,118)**	**$(181,661)**	**$(123,338)**	**$(250,635)**	**$(827,801)**

The UCRSP plans (DC Plan, Supplemental DC Plan, 403(b) Plan and 457(b) Plan) provide savings incentives and additional retirement security for all eligible employees. The DC Plan accepts both pre-tax and after-tax employee contributions. The Supplemental DC Plan accepts employer contributions on behalf of certain qualifying employees. The 403 (b) and 457(b) Plans accept pre-tax employee contributions and the Medical Centers may also make contributions on behalf of certain members of management. Benefits from the Plans are based on participants' mandatory and voluntary contributions, plus earnings, and are immediately vested.

Children's Hospital and Research Center at Oakland Pension Plan

CHRCO administers the CHRCO Pension Plan as the Sponsor and plan assets are held by Union Bank, N.A. (the Trustee). The CHRCO Pension Plan is a noncontributory defined benefit plan subject to the single employer defined benefit under ERISA rules that covers substantially all full-time employees if they work 1,000 hours or more in a twelve-month eligibility period.

The net pension liability for the plan was calculated based upon the following assumptions: 3.0 percent inflation, 7.2 percent investment rate of return, 3.5 percent projected salary increases and no cost-of-living adjustments.

Condensed financial information related to each plan in UCRS and the changes to pension liability for the CHRCO Pension Plan is as follows:

(in thousands of dollars)	**Children's Hospital & Research Center at Oakland Pension Plan**
CONDENSED STATEMENT OF PLAN FIDUCIARY NET POSITION	
Investments at fair value	$ 320,064
Total assets	**320,064**
Total liabilities	
Net position held in trust	**$320,064**
CONDENSED STATEMENT OF CHANGES IN PLANS' FIDUCIARY NET POSITION	
Contributions	$ 14,500
Investment and other income, net	48,704
Total additions	**63,204**
Benefit payment and participant withdrawals	6,994
Plan expense	**718**
Total deductions	**7,712**
Increase in net position held in trust	**55,492**
Net position held in trust	
Beginning of year	264,572
End of year	**$320,064**
CHANGES IN TOTAL PENSION LIABILITY	
Service cost	$ 9,274
Interest	22,453
Difference between expected and actual experience	2,487
Changes of benefit terms	142
Benefits paid, including refunds of employee contributions	(6,994)
Net change in total pension liability	**27,362**
Total pension liability	
Beginning of year	**303,914**
End of year	**$331,276**
Net pension liability, end of year	**$ 11,212**

Membership in the CHRCO Plan consisted of the following at June 30, 2014:

Retirees and beneficiaries receiving benefits	671
Inactive members entitled to, but not yet receiving benefits	1,033
Active members:	
Vested	1,820
Nonvested	286
Total active members	2,106
Total membership	**3,810**

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 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:

	PORTFOLIO PERCENTAGE	PROJECTED REAL RATE OF RETURN
Asset class		
U.S. Equity	58.5%	5.3%
Developed International Equity	9.4%	5.4%
Emerging Market Equity	8.5%	6.6%
Core Fixed Income	23.6%	2.4%
Total	**100.0%**	

Discount rate

The discount rate used to measure the total pension liability for the CHRCO Plan was 7.25%. To calculate the discount rate, the projection of cash flows into and out of the plan were used to determine whether there was sufficient cash available to make all projected future benefit payments of 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 current-period 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 ASSUMPTION (7.25%)	1% INCREASE (8.25%)
Net pension liability	$56,893	$11,212	$(26,643)

Deferred Outflows of Resources and Deferred Inflows of Resources

As of June 30, 2014, deferred outflows of resources of $5,445 represent the difference between expected and actual experience for the CHRCO Plan. As of June 30, 2014, deferred inflows of resources of $30,653 represents net difference between projected and actual earnings on pension plan investments for the CHRCO Plan.

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

(in thousands of dollars)	
Year Ending June 30	
2015	$ (7,192)
2016	(7,192)
2017	(7,192)
2018	(4,508)
2019	806
Thereafter	70
Total	**$25,208**

14. UNIVERSITY SELF-INSURANCE

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

Malpractice and general liability premiums are recorded as insurance expenses in the statements of revenues, expenses and changes in net position. Workers' compensation premiums, net of refunds, included as retiree health and other employee benefits in the statements of revenues, expenses and changes in net position for the year ended June 30, 2014 were as follows:

(in thousands of dollars)	
Davis	$ 6,270
Irvine	6,584
Los Angeles	13,339
San Diego	6,288
San Francisco	11,403
Total	**$43,884**

CHRCO's liabilities for medical malpractice, workers' compensation and health claims changed as follows for the year ended June 30, 2014:

(in thousands of dollars)	MEDICAL MALPRACTICE	WORKERS' COMPENSATION	EMPLOYEE HEALTH CARE	TOTAL
Year Ended June 30, 2014				
Balance at June 30, 2013	$4,078	$7,523	$ 1,872	$13,473
Claims incurred and changes in estimates	700	4,113	10,247	15,060
Claim payments	(159)	(2,295)	(9,988)	(12,442)
Liabilities at June 30, 2014	**$4,619**	**$9,341**	**$ 2,131**	**$16,091**
Discount rate	5.0%	5.0%	Undiscounted	

Changes in self-insurance for CHRCO for the year ended June 30, 2013 are as follows:

(in thousands of dollars)	MEDICAL MALPRACTICE	WORKERS' COMPENSATION	EMPLOYEE HEALTH CARE	TOTAL
Year Ended June 30, 2013				
Balance at June 30, 2012	$4,050	$5,229	$ 2,077	$11,356
Claims incurred and changes in estimates	244	4,993	9,919	15,156
Claim payments	(216)	(2,699)	(10,124)	(13,039)
Liabilities at June 30, 2013	**$4,078**	**$7,523**	**$ 1,872**	**$13,473**
Discount rate	5.0%	5.0%	Undiscounted	

CHRCO has two irrevocable letters of credit with a bank totaling $10.1 million as of June 30, 2014, which is security for the workers' compensation large dollar insurance deductible. No amounts were drawn on the letter of credit as of June 30, 2014.

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 year ended June 30, 2014 as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	CHRCO	TOTAL
Professional services	$52,324	$ 4,717	$ 4,726	$44,336		$1,469	$107,572
Insurance	8,545	4,158	11,334	6,040	$ 6,638		36,715
Salaries and employee benefits	6,270			24,522	2,489		33,281
Other supplies and purchased services	10,288	30,610	66,121	(8,023)	449,390	326	548,712
Administrative costs		(4,339)				7	(4,332)
Medical supplies			(902)	(1,314)	(3,211)		(5,427)
Interest income (expense), net	(4,102)	(3,137)	(11,376)	(2,656)	(12,572)		(33,843)
Total	**$73,325**	**$32,009**	**$69,903**	**$62,905**	**$442,734**	**$1,802**	**$682,678**

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

The payments made by the Medical Centers for the year ended June 30, 2014 were as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	CHRCO	TOTAL
2014							
Reported as operating expenses	$ 73,325	$32,009	$ 69,903	$ 62,905	$442,734	$1,802	$ 682,678
Reported as health system support	38,256	60,386	117,082	57,007	61,279		334,010
Total payments to the University	**$111,581**	**$92,395**	**$186,985**	**$ 119,912**	**$504,013**	**$1,802**	**$ 1,016,688**

16. FACULTY PRACTICES

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

(in thousands of dollars)

	UCSF MEDICAL CENTER HOSPITAL PRACTICE	UCSF FACULTY CLINICAL PRACTICES	TOTAL
Year ended June 30, 2014			
Operating revenues	$1,927,502	$462,771	$2,390,273
Operating expenses	(1,771,034)	(459,835)	(2,230,869)
Net non-operating income	22,400		22,400
Income before other changes in net position	**$ 178,868**	**$ 2,936**	**$ 181,804**

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 government review, interpretation and audits, as well as regulatory actions unknown and unasserted at this time.

The Medical Centers and CHRCO 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' and CHRCO's financial statements.

The Medical Centers and CHRCO have entered into various construction contracts. The remaining cost of these Medical Center and CHRCO projects, excluding interest, as of June 30, 2014 is estimated to be approximately:

(in thousands of dollars)	
Davis	$ 3,013
Los Angeles	9,688
San Diego	432,000
San Francisco	204,218
CHRCO	161,869
Total	**$810,788**

As of June 30, 2014, CHRCO had no amounts outstanding under its revolving credit facility for $25.0 million. The interest rate on the credit is 1.4 percent as of June 30, 2014 and the facility expires on August 31, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

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-employee payroll	Proportionate share of the net pension liability as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
DAVIS					
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%
2011	6.0%	426,833	473,978	90.1%	83.0%
IRVINE					
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%
2011	2.9%	206,762	229,599	90.1%	83.0%
LOS ANGELES					
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%
2011	6.4%	452,930	502,958	90.1%	83.0%
SAN DIEGO					
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%
2011	3.6%	257,198	285,607	90.1%	83.0%
SAN FRANCISCO					
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%
2011	7.5%	528,273	586,622	90.1%	83.0%
TOTAL					
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%
2011	26.4%	1,871,996	2,078,764	90.1%	83.0%

REQUIRED SUPPLEMENTARY INFORMATION

CHRCO

The schedule of changes in the net pension liability for the CHRCO pension plan for the year ended June 30, 2014 is:

(in thousands of dollars)	**JUNE 30, 2014**
TOTAL PENSION LIABILITY	
Service cost	$ 9,274
Interest on the total pension liability	22,453
Changes of benefit terms	142
Difference between expected and actual experience	2,487
Changes of assumptions or other inputs	
Benefits paid, including refunds of employee contributions	(6,994)
Other changes	
Net change in total pension liability	**27,362**
Total pension liability - beginning of year	303,914
Total pension liability - end of year	**331,276**
PLAN NET POSITION	
Contributions - employer	14,500
Contributions - member	
Net investment income	48,704
Benefits paid, including refunds of employee contributions	(6,994)
Administrative expense	(718)
Other changes	
Net change in plan net position	**55,492**
Total plan net position - beginning of year	264,572
Total plan net position - end of year	320,064
Net pension liability - end of year	**$ 11,212**

The schedule of net pension liability for the CHRCO pension plan as of June 30, 2014 is:

(in thousands of dollars)	**JUNE 30, 2014**
Total pension liability	$331,276
Plan net position	320,064
Net pension liability	**$ 11,212**
Ratio of plan net position to total pension liability	96.6%
Covered-employee payroll	$175,189
Net pension liability as a percentage of covered-employee payroll	6.4%

The schedule of employer contributions for the CHRCO pension plan for the year ended June 30, 2014 is:

(in thousands of dollars)	**JUNE 30, 2014**
Actuarially calculated employer contributions	$21,300
Contributions in relation to the actuarially calculated employer contribution	14,500
Annual contribution deficiency	**$ 6,800**
Covered-employee payroll	$175,189
Actual contributions as a percentage of covered-employee payroll	8.3%

Notes to Schedule

Valuation date:

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

Methods and assumptions used to determine contribution rates:

Actuarially determined contribution	The Plan is subject to funding requirements under . The contribution shown is the IRC Section 430 minimum contribution prior to offset by credit balances. For 2014, the amount shown is the most recent contribution estimate since the valuation will be completed in September 2014; the amount has been prorated for the number of months in the fiscal year.
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	Seven 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	3.00%.
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation.
Projected salary increases	3.5%, including inflation.
Mortality	RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with generational adjustments for mortality improvements based on Scale AA.

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