UNIVERSITY OF CALIFORNIA

Medical Centers Report

15/16

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
15/16 Annual Financial Report

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Letter from the Executive Vice President

In a rapidly changing health care environment, UC Health is taking steps to stay ahead of the curve and build upon its leadership in patient care, education and research.

In the past year, the University of California's Board of Regents streamlined oversight of UC Health to promote the continued growth of UC's academic medical centers. By adding the expertise of new non-voting members to the Committee on Health Services and expanding the committee's authority, The Regents have paved the way for UC Health to be more nimble, efficient and strategic.

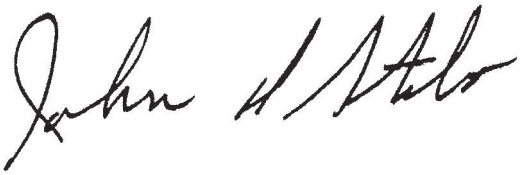
UC Health has made strides as a system to increase innovation and improve patient care by forging new partnerships, creating collaborations and enhancing facilities. In 2015, UCSF Medical Center at Mission Bay opened a 289-bed hospital complex that serves women, children and cancer patients. In fall 2016, UC San Diego is set to open the 245-bed Jacobs Medical Center to support highly specialized multidisciplinary services for women and infants, advanced surgery, and cancer care.

UC Health also is ramping up its Leveraging Scale for Value initiative, launched in 2014 to reduce costs and improve quality across UC's five self-supporting medical centers. The initiative saved more than $178 million in fiscal year 2015 and more than $380 million in fiscal year 2016.

UC Health's efforts are reflected in our strong showing in external rankings. All five UC medical centers were named among the nation's best hospitals by *U.S. News & World Report*, with two listed among the nation's top 10 hospitals: UCLA (No. 5) and UCSF (No. 7). In California, U.S. News ranked all five UC medical centers in the top 10, including the top two: UCLA (1), UCSF (2), UC Davis (5), UC San Diego (6) and UC Irvine (10).

UC medical centers also provide vital support for UC's medical schools, which train nearly half of all medical students in California. Overall, UC has the nation's largest health sciences instructional program, with 17 professional schools in seven fields on seven campuses — schools known for their excellence.

By working together as a system to serve the public, UC Health will continue to advance health in California and beyond.



JOHN D. STOBO
EXECUTIVE VICE PRESIDENT
UC HEALTH
UNIVERSITY OF CALIFORNIA

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

The following table presents certain historical utilization statistics for the primary and secondary service areas for the 12-month period ended December 31, 2015. Data for the 12-month period ended December 31, 2015, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	Sacramento, Placer, Yolo	83	2,089,742	68.3%	10.7%
Secondary	Alpine, Amador, Colusa, El Dorado, Nevada, Sierra, Sutter, Yuba	65	516,844	9.2%	5.6%

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 621-bed general acute care hospital with 32 operating rooms, the Davis Medical Center provides a full range of inpatient general acute and intensive care, and a full complement of ancillary, support and ambulatory services. These services are housed in about 4.9 million gross square feet of facilities, most of which are located on the 144-acre campus in the city of Sacramento. Ambulatory care is provided at the hospital-based clinics and at satellite clinics in Sacramento and in the surrounding communities of Auburn, Carmichael, Davis, Elk Grove, Folsom, Natomas, Rancho Cordova, Rocklin and Roseville.

The Davis Medical Center serves as a quaternary- and tertiary-care referral hospital for a 33-county 65,000-square-mile service area with a population of 6.3 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 Network is 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 1,540 faculty and contract physicians and approximately 880 residents and fellows, provides inpatient and outpatient medical services.

Significant events during the year are highlighted below:

The Davis Medical Center continues to maintain an outstanding local and national reputation

- The Davis Medical Center is the top-ranking hospital in the Sacramento metropolitan area, according to the results of the annual *U.S. News & World Report* (*USNWR*) "Best Hospitals" 2015-16 survey.
- The Davis Medical Center ranked as one of the nation's best hospitals for 2015-16 in 10 adult medical specialties, including cancer care; cardiology and heart surgery; ear, nose and throat; geriatrics; gynecology; nephrology; neurology and neurosurgery; orthopaedics; pulmonology; and urology, according to the annual *U.S. News & World Report* "Best Hospitals" 2015-16 survey. Less than 3 percent

of the nearly 5,000 hospitals that were analyzed for Best Hospitals 2015-16 were nationally ranked in even one specialty.

- *U.S. News & World Report* ranked the Davis Children's Hospital among the nation's top children's hospitals in five specialties in its 2015-16 rankings. The specialties include neonatology, diabetes and endocrinology and neurology and neurosurgery. Together with its longstanding partner Shriners Hospital for Children — Northern California, UC Davis Children's Hospital also ranked in orthopaedics and urology.
- With yet another "A" score for patient safety, the Davis Medical Center ranked among The Leapfrog Group's list of Top Hospitals for 2015, an elite distinction given for meeting tough national standards for safety and quality. The annual award is widely acknowledged as one of the most competitive awards a U.S. hospital can receive. UC Davis was one of 86 adult hospitals nationwide to receive it in 2015, the fourth consecutive year UC Davis placed on the list.
- For the fifth consecutive year, the nation's largest lesbian, gay, bisexual and transgender (LGBT) civil rights organization recognized the Davis Medical Center as a Leader in LGBT Healthcare Equality in 2015 for creating an inclusive and welcoming environment for LGBT patients and employees.
- UC Davis Health System also earned its fifth consecutive "Most Wired" designation in 2015, as one of the nation's top health leaders in information technology. The award is based on a national survey conducted by *Hospitals & Health Networks magazine*.

Regional outreach

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 Comprehensive Cancer Center, UC Davis Health System now has four regional Cancer Care Network partners located throughout California that bring advanced cancer care and the latest clinical research to patients in their local communities. Our telehealth program connects 31 specialties to 65 sites, enabling patients throughout California to receive direct clinical and specialty care without leaving their own communities. Leveraging its leadership in telehealth and using an integrated approach for simulation-based education and distance learning, the program serves as a model for regional population health.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HEALTH SYSTEM
UCDAVIS
HEALTH SYSTEM

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, 2014. Data for the 12-month period ended December 31, 2014, 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	85	1,744,920	65.0%	8.4%
Secondary	Los Angeles, Riverside, San Bernardino	80	1,486,582	15.8%	2.4%

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 the year 2016. The Irvine Medical Center serves as a major tertiary referral center for Orange County and is also the region's only Level I Trauma Center and Regional Burn Center. UC Irvine Douglas Hospital meets the seismic requirements of the state of California's SB 1953, Hospital Facilities Seismic Safety Act.

The Irvine Medical Center 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, Orange and Tustin Medical Group clinics, Family Health Centers at Anaheim and Santa Ana clinics, plus many other locations. 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 to better serve the community, attract a favorable payor mix and generate a stable financial environment.

Significant events during the year are highlighted below:

National recognition

For the 16th consecutive year, *U.S. News & World Report* has recognized UC Irvine Medical Center as one of the "America's Best Hospitals." The annual rankings recognize hospitals that excel in treating the most challenging patients, and this year includes two UC Irvine Health specialties among the top 50 nationally: 40th for orthopedics and 41st for ear, nose and throat.

UC Irvine Health clinical network expansion

Primary Care Expansion

- UC Irvine Health continues to expand its community-based primary care presence in FY 2016 with offices in Brea and Yorba Linda. The sites complement those opened in Orange and Tustin in FY 2015, more than doubling the UC Irvine Health primary care capacity.

Specialty Care Expansion

- UC Irvine Health continued to expand its specialty care services in the coastal region, opening UC Irvine Health Neurology — Newport with four neurologists that have decades of experience treating patients in Orange County.
- UC Irvine Health will support its clinical services in the Newport Beach area with UC Irvine Imaging Center — Newport, a state-of-the-art, American College of Radiology-certified imaging center that includes computed tomography, magnetic resonance imaging and positron emission tomography.
- In the Inland Empire, UC Irvine Health continues to deepen its affiliation with Corona Regional Medical Center to provide the region with convenient access to academic-based medicine. In FY 2016, UC Irvine Health opened a maternal-fetal medicine clinic to provide comprehensive care for women with high-risk pregnancies. This clinic builds on the long-standing relationship between Corona Regional's obstetrical and gynecological program and UC Irvine Health expertise in managing high-risk pregnancies. In addition, UC Irvine Health opened cardiology and gastroenterology clinics as part of the affiliation.

Major hospital projects

- The renovation of the H.H. Chao Comprehensive Digestive Disease Center is 50% complete, on schedule and on budget. The project will result in renovation of the first and second floors of the building and an expansion of all three floors totaling 14,100 square feet. A new elevator and exterior stairs are included to serve the expanded space. The project will provide a new entrance, waiting area, six interventional procedure rooms, 17 new pre/post procedure bays, nine additional exam rooms and a conference room. The CDDC is a regional leader in the delivery of interventional endoscopy treatments and diagnostic screening services for patients with a variety of digestive disorders. The anticipated completion date for this project is summer 2017.
- The Medical Center has completed a 1.4 megawatt (MW) fuel cell power plant that generates approximately 25 percent of the facility power needs. Heat produced by the plant is captured and used in a lithium bromide absorption chiller producing 200 tons of cooling for Douglas Hospital. The project was conceived and delivered in coordination with Dr. Samuelsen, Director of the National Fuel Cell Research Center at UCI. The project provides enhanced power reliability, reduces dependence on costly and inefficient power transmission, and supports the UC mandates relating to the reduction of the Medical Center's carbon footprint.
- The soon-completed UC Irvine Health Strategic Plan will provide better access to our patients as well as guide the growth of UC Irvine Health over the next 10 years and beyond. All proposed capital projects are currently being evaluated and prioritized. The Strategic Plan responds to the changing health care environment as it relates to enhancing the patient experience and the establishment of a new model of care for ambulatory services.
- Three large infrastructure projects have been approved. These are the new central chiller plant, the new electrical plant and the increased emergency power for acute care. The projects will be delivered utilizing the proven design-build method and contracts are expected to be awarded by January, 2017. All three projects will reduce energy consumption, reduce carbon emissions and will provide reliable utilities to the Medical Center.

IS/QUEST (Quality, Excellence and Safety through Technology)

During 2016, Information Services (IS) had implemented the following projects:

- Integration of applications and solutions with the Electronic Medical Record (EMR)
- Implementation of the EMR for additional practices
- Preparation for compliance to ICD 10 requirements beginning October 1, 2015
- Focus on upgrade of both infrastructure and applications to meet the needs of UCI Health
- Develop clinical informatics tools for improved patient care
- Enhance the privacy and security of UCI Health's IS environment

These activities position the Medical Center and Ambulatory Practices to deliver world-class health care to our patient population.


UC Irvine

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

The following table presents certain historical utilization statistics for the primary and secondary service areas for the 12-month period ended December 31, 2015. Data for the 12-month period ended December 31, 2015, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	Los Angeles, Ventura, Kern	403	7,439,519	75.9%	4.4%
Secondary	Los Angeles, Kern, Orange, Riverside, San Bernardino, San Luis Obispo, Santa Barbara and Ventura	836	12,759,100	20.4%	0.7%

The University of California, Los Angeles Medical Center

The UCLA Medical Center is the hospital component of the UCLA Health System, which also includes the UCLA Faculty Practice Group (FPG), which is responsible for the clinical care of UCLA Health System patients.

The UCLA Medical Center operates licensed-bed facilities at the 456-bed Ronald Reagan UCLA Medical Center (RRUMC) in Westwood, the 265-bed Santa Monica-UCLA Medical Center and Orthopaedic Hospital (SMH) in Santa Monica and the 74-bed Resnick Neuropsychiatric Hospital at UCLA (RNPH) in Westwood. The financial statements also include the activities of the UCLA Tiverton House, a 100-room hotel facility for patients and their families.

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

The 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 RRUMC then 466-bed and RNPH 74-bed state-of-the-art replacement hospital opened for patient care. The replacement hospital meets the seismic requirements of 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 including Level I trauma care, regional neonatal and pediatric intensive care units, neurosurgery/neurology and organ transplantation.

SMH also serves the University's teaching and research missions while meeting the health care needs of Los Angeles' west side community.

RNPH is one of the leading centers for comprehensive patient care, research and education in the fields of mental and developmental disabilities and offers a full range of treatment options for patients 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:

Appointment of new President of UCLA Health, CEO of UCLA Hospital System and Associate Vice Chancellor of Health Sciences

Johnese Spisso was appointed President of UCLA Health, Chief Executive Officer of the UCLA Hospital System and Associate Vice Chancellor for UCLA Health Sciences in February 2016. Prior to her appointment, Ms. Spisso spent 22 years at UW Medicine, in Seattle, Washington, where

she served in progressive leadership roles and in 2007 was Chief Health System Officer for the UW Medicine and Vice President of Medical Affairs for the University of Washington. She is a graduate of St. Francis School of Nursing, holds a bachelor's degree in Health Sciences from Chapman College and holds a Master's Degree in Health Care Administration and Public Administration from the University of San Francisco. She serves on the executive boards of Vizient, Vizient AMC Networks Board of Managers, AAMC Council of Teaching Hospitals and America's Essential Hospitals.

UCLA Health Sciences continues to maintain its outstanding national reputation

- UCLA Health hospitals in Westwood and Santa Monica were named to *U.S. News & World Report's* (USNWR) rankings list: the Best Hospitals 2016–17 Honor Roll. The hospitals ranked No. 5 in the U.S. and No. 1 in both Los Angeles and California. UCLA ranked in 15 specialty areas including: cancer at UCLA's Jonsson Comprehensive Cancer Center (5); cardiology and heart surgery (12); diabetes and endocrinology (27); ear, nose and throat (4); gastroenterology and gastrointestinal surgery (5); geriatrics (2); gynecology (10); nephrology (7); neurology and neurosurgery (8); ophthalmology at Stein and Doheny Eye Institutes (5); orthopaedics (18); psychiatry at RNPH (7); pulmonology (9); rheumatology (7); and urology (3).
- RRUMC has been named to *Becker's Hospital Review* as one of the "100 Great Hospitals in America 2016."
- Mattel Children's Hospital UCLA has been recognized as one of the nation's best pediatric hospitals by USNWR and is among a select group of hospitals to be ranked in all 10 of the specialty areas reviewed in the magazine's 2015-16 "Best Children's Hospitals" survey.
- UCLA Medical Center achieved acknowledgement for being among the "Most Wired" health systems in the country for the fourth consecutive year in a 2016 survey by Hospitals and Health Networks magazine.
- DGSOM ranks No. 6 in the nation among best medical schools for primary care in the USNWR 2017 annual survey of the best graduate schools in the U.S. In the overall ranking of the nation's best medical schools for research, DGSOM ranks No. 14.
- DGSOM is ranked No. 4 among medical schools in the U.S. for training African-American students in the USNWR for 2015-2016.
- UCLA Health hospitals were recognized as "Leaders in LGBT Healthcare Equality" as part of the Human Rights Campaign Foundation's Healthcare Equality Index 2015/2016.
- The Commission on the Magnet Recognition Program re-certified RRUMC and designated SMH as Magnet facilities — this is the highest honor an organization can receive for nursing excellence.
- The UCLA Liver Transplant Program performed its 6,000th liver transplant on June 30, 2016.

UCLA Medical Center continues to work on strategic initiatives

UCLA Health System's strategic activities are focused on increasing tertiary/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 System, promotes increased market presence, rationalizes care by better utilizing lower-cost clinical settings, secures alignments that fuel additional clinical growth and provides partners with access to a large and vibrant academic community. As UCLA Health System 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 System is securing primary and specialty care capacity at strategically located sites and access to a convenient, user-friendly acute care site.

- UCLA Health System continued to upgrade its infrastructure in support of faculty research, patient care and physician training.
  - In July 2015, the new Connie Frank Kidney Transplant Center opened.
  - In April 2016, the Stuart House building opened on the Santa Monica Campus. The Stuart House is an exemplary public-private partnership that houses a multi-agency team within a child-friendly facility to respond immediately when children report sexual abuse, expedite criminal investigations and implement timely protective actions.
- UCLA and the Jonsson Comprehensive Cancer Center are collaborating with many of the country's leading scientists, clinicians and industry partners to accelerate the development of breakthrough immune therapies capable of turning cancer into a curable disease through the Parker Institute for Cancer Immunotherapy Center at UCLA.
- UCLA Health continues to develop a comprehensive continuum of care network for our patients and has entered separate joint ventures to (1) provide home health services, and (2) build an ambulatory surgery center in the San Fernando Valley.
- UCLA Health played a key role in the reopening of Martin Luther King Jr. Community Hospital, as part of our commitment to address healthcare disparities in Los Angeles.

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

The following table presents certain historical utilization statistics for the primary and secondary service areas for the 12-month period ended December 31, 2015. Data for the 12-month period ended December 31, 2015, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	San Diego	77	1,409,736	54.5%	14.9%
Secondary	San Diego	95	1,782,717	30.5%	5.7%

The University of California, San Diego Medical Center

UC San Diego Health maintains a two-campus strategy, integrating research, teaching and clinical care at locations in Hillcrest and La Jolla. Each medical complex supports acute inpatient care and a spectrum of outpatient primary and specialty medical and surgical services, including ambulatory and emergency patient care.

Its three hospitals operate under one license with a current combined capacity of 563 beds: UC San Diego Medical Center in Hillcrest (390 beds), Thornton Hospital in La Jolla (119 beds) and Sulpizio Cardiovascular Center in La Jolla (54 beds). The completion of Jacobs Medical Center, which is connected to Thornton Hospital, will add another 245 licensed beds.

UC San Diego Medical Center in Hillcrest, established in 1966, currently serves as the principal clinical teaching site for the UC San Diego School of Medicine and the focal point for community service missions. It houses several specialty care centers that allow the urban campus to serve as a major tertiary and quaternary referral center for San Diego, Riverside and Imperial counties. These care centers include the area's only Regional Burn Center, a Comprehensive Stroke Center and one of only two Level I Trauma Centers in the county. The campus is also home to the Owen Clinic, which ranks among the nation's top HIV care programs, as well as inpatient psychiatric care.

The La Jolla campus, located on the eastern portion of the main university campus, is home to Thornton Hospital, a general medical and surgical facility that opened in 1993, and Moores Cancer Center, the primary site for outpatient oncology care and the region's only National Cancer Institute-designed Comprehensive Cancer Care Center, with nearly 350 medical and radiation oncologists, surgeons and researchers. The La Jolla campus also includes Shiley Eye Institute, a multi-specialty vision center with the region's only facility dedicated to children, as well as Sulpizio Cardiovascular Center, the region's first comprehensive cardiovascular center and the global leader in pulmonary thromboendarterectomy (PTE), an operation for removing blood clots from the pulmonary arteries to treat chronic pulmonary hypertension. The PTE operation was first performed at UC San Diego Health and is now systematically employed at select health care centers around the world.

Ambulatory care is provided at both campuses, as well as in the surrounding communities of Chula Vista, Encinitas, Kearny Mesa, Scripps Ranch and Vista.

As the region's only academic health system, these combined sites enable UC San Diego Health to provide a continuum of care and attract the volume and diversity of patients needed to achieve its tripartite mission of clinical, research and education excellence.

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

UC San Diego Health was ranked the No. 1 health care system in San Diego in *U.S. News & World Report's* 2016-17 "Best Hospitals" guidebook for the sixth consecutive year.

In the same report, it ranked among the nation's best in eight adult medical and surgical specialties. Specialties listed in the top 50 nationally include: Cancer (No. 35); Cardiology and Heart Surgery (No. 31); Geriatrics (No. 28); Nephrology (No. 24); Neurology & Neurosurgery (No. 37); Orthopedics (No. 28); Pulmonology (No. 11) and Urology (No. 49). Only three percent of the more than 4,660 hospitals included in the analysis ranked in even one specialty. UC San Diego Health also achieved the highest rating possible in five procedures/conditions, including chronic obstructive pulmonary disease (COPD), colon cancer surgery, heart failure, hip replacement and lung cancer surgery.

In recognition of its strong history of innovation, quality patient care, clinical advancement and forward-thinking research, *Becker's Hospital Review* named UC San Diego Health one of the "100 Great Hospitals in America" in 2016.

It also received an "A" for hospital safety in April 2016 from the Leapfrog Group. The A grade reflects overall performance in keeping patients safe from preventable harm and medical errors. Only five local medical facilities received the top grade.

In addition, for the third year in a row, Healthgrades awarded UC San Diego Health with a "Distinguished Hospital Award for Clinical Excellence," placing it among the top 5 percent of U.S. hospitals delivering superior care to the Medicare population based on clinical outcomes.

UC San Diego Health maintains its Magnet hospital status from the American Nurses Credentialing Center (ANCC), considered among the highest recognitions for nursing excellence, initially awarded in 2011 for a four-year period. Recertification is in process for 2016-20.

Strategic growth to meet the region's demand for specialty care

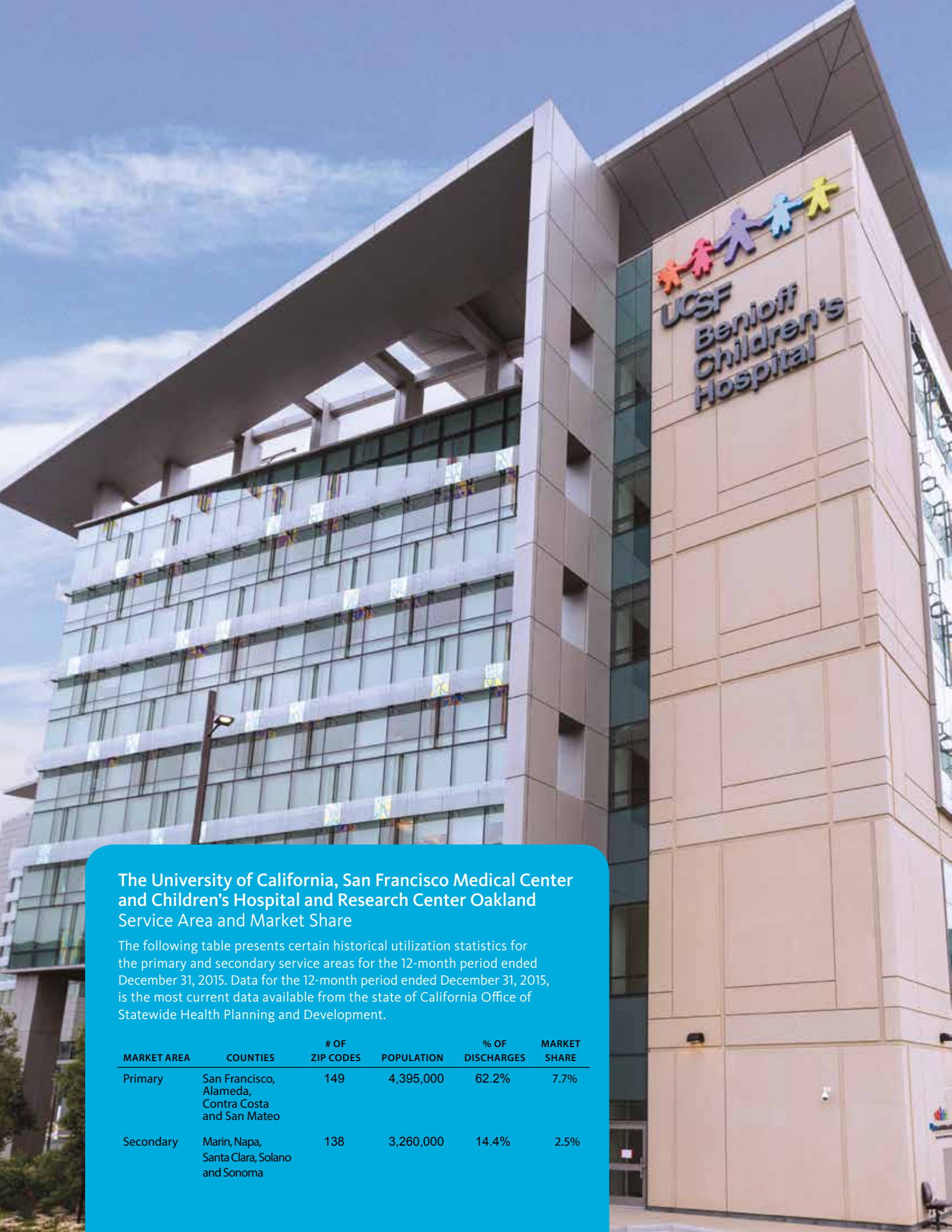
UC San Diego Health is in the midst of a historic expansion to fulfill its potential as a regional referral center for complex specialty care and investigational therapies.

In 2016, the seven-story, 359,000-square-foot Altman Clinical and Translational Research Institute was completed, establishing the physical space, biomedical infrastructure and support staff to accelerate the delivery of new discoveries to patients in need. The institute, located on the La Jolla campus and connected to Jacobs Medical Center, will help develop and manage more than 100 clinical trials each year.

Construction of the 10-story, 245-bed Jacobs Medical Center, which will serve as the clinical centerpiece of the La Jolla campus expansion, is also nearing completion. The hospital's clinical focus will be to provide advanced surgical, complex oncological, and high-risk obstetric and neonatal care.

Among the facility's highlights are a 4-OR intraoperative imaging suite with a dedicated MRI machine and CT scanner for the most complex brain and spine surgeries; a Level III Neonatal Intensive Care Unit with 52 private rooms for neonates, and a specially designed blood and marrow transplant unit with a full-floor aseptic air filtration and pressurization system that will give patients freedom of movement during their stay. The completion of Jacobs Medical Center will nearly double its ability to offer inpatient care to patients with various forms of cancer.

Because many procedures that once required hospitalization can now be performed on an outpatient basis, construction is underway for a 3-story, 156,000-square-foot Outpatient Pavilion to accommodate hospital-licensed services and programs in support of Jacobs Medical Center and other UC San Diego Health care centers. Services and programs to be housed within the Outpatient Pavilion, targeted for completion in 2017, include a breast health center, stem cell center, apheresis center, musculoskeletal center, urology center, radiology services and pain management clinic.



The University of California, San Francisco Medical Center and Children's Hospital and Research Center Oakland
Service Area and Market Share

The following table presents certain historical utilization statistics for the primary and secondary service areas for the 12-month period ended December 31, 2015. Data for the 12-month period ended December 31, 2015, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	San Francisco, Alameda, Contra Costa and San Mateo	149	4,395,000	62.2%	7.7%
Secondary	Marin, Napa, Santa Clara, Solano and Sonoma	138	3,260,000	14.4%	2.5%

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

The UCSF Medical Center, also referred to as UCSF Health, is comprised of the hospitals of UCSF Medical Center, the UCSF Faculty Clinical Practices, Langley Porter Psychiatric Hospital and Clinics and UCSF Benioff Children's Hospital Oakland. UCSF 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.

UCSF Medical Center in San Francisco is licensed to provide inpatient care at Moffitt-Long Hospital on the 107-acre Parnassus campus and at UCSF Benioff Children's Hospital in San Francisco's Mission Bay neighborhood. UCSF Medical Center also provides outpatient hospital care at the hospital sites and UCSF Mount Zion, and physician clinical care at those hospitals and other locations primarily in San Francisco. It also has a national cancer institute designated as a National Comprehensive Cancer Network Member Institution. The UCSF Medical Center in San Francisco is licensed to operate 1,019 beds.

UCSF 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 practices are recorded in net patient service revenue; the direct expenses of non-physician staff and non-labor expenses are included in operating expenses.

Effective January 1, 2014, UCSF Medical Center became 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 BCHO hospital is one of only five ACS Pediatric Level I Trauma Centers in the state, and has one of the largest pediatric intensive care units in Northern California. UCSF BCHO has 190 licensed beds and more than 500 physicians in 43 specialties.

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

UCSF Health continues to maintain an outstanding local and national reputation

- *U.S. News & World Report* ranked UCSF Medical Center seventh in the country in its 2016–17 survey and awarded an Honor Roll status for exceptional performance in 15 medical specialties, including eight in the top ten.
- UCSF Benioff Children's Hospitals are nationally recognized by U.S. News & World Report in all ranked 10 specialties.
- The UCSF School of Medicine was ranked third in the nation by *U.S. News & World Report* in its survey for 2016-17 best medical schools for both its primary care training and its

research training — the only medical school in the country ranked in the top five in both categories.

- UCSF is designated as a Magnet hospital by the American Nurses Credentialing Center (ANCC) which recognizes organizations for quality patient care, nursing excellence and innovations in nursing.
- UCSF Medical Center was named one of HealthCare's Most Wired hospitals in 2016 by *Hospitals and Health Networks* magazine in recognition of the focus on security and patient engagement through information technology.
- UCSF Medical Center became the only institution in the country to receive a perfect score on the national LGBT Healthcare Equality Index (HEI) for seven consecutive years. The HEI annually invites health care facilities nationwide to complete a survey describing how they provide equitable, inclusive care for lesbian, gay, bisexual and transgender (LGBT) patients and their families.

UCSF Health continues to focus on strategic initiatives and network expansion to meet its mission and community needs

- UCSF Medical Center continued to implement 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.
  - Creating a high value system of care for regional populations of patients through a new Accountable Care Organization (ACO) network.
  - Expansion of regional tertiary care services and other destination programs.
  - Continued implementation of a culture of continuous process improvement.
- Construction was completed on the UCSF Mission Bay hospital and opened for patients in February, 2015. The Mission Bay facility includes a 289-bed inpatient building (comprised of the UCSF Benioff Children's Hospital, the Betty Irene Moore Women's Hospital and the Bakar Cancer Hospital), an outpatient building with a helipad (the Ron Conway Family Gateway Medical Building), and an energy center. The facility, totaling 878,000 square feet, was awarded a LEED Gold certification in recognition of the environmental standards used in its construction.
- Construction began on Phase I of the BCHO Master Plan in October, 2015. The Master Plan Phase 1 includes building a Center for Advanced Outpatient Care, reorienting the Oakland campus into distinct inpatient and outpatient zones, renovates critical care and surgical units, and addresses California seismic compliance standards.
- Canopy Health, the Bay Area-wide health care network being developed by UCSF Health, John Muir Health and three physician groups, has grown to include more than 4,000 physicians and 12 hospitals throughout the San Francisco Bay Area. The breadth of the Canopy Health network will enable patients to have in-network access to a full continuum of care, through close connections between primary care providers, community hospitals, medical groups (facilities and practitioners) and academic medical centers.

UCSF Health: Commitment to the Community

- UCSF Benioff Children's Hospital has announced a joint venture agreement with St. Joseph Health, Santa Rosa Memorial Hospital, to enhance and expand neonatal and pediatric services in the North Bay. This partnership represents the latest investment in enhanced collaboration with community health care providers across UCSF Health. These include affiliations with Marin General Hospital, John Muir Health, Washington Hospital Healthcare System, Community Regional Medical Center in Fresno, Community Hospital of the Monterey Peninsula and Natividad Medical Center in Salinas.
- 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 2016 to identify key health priorities in its primary service area. These priorities are important components in the Health System Strategic Plan mentioned above and are included in future goals for UCSF Medical Center.
- UCSF Health provided more than $187 million in uncompensated or undercompensated care in 2016.
- 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 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.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Management's Discussion and Analysis *(Unaudited)*

INTRODUCTION

The objective of Management's Discussion and Analysis is to help readers better understand the UC Medical Centers' financial position and operating activities for the year ended June 30, 2016, with selected comparative information for the years ended June 30, 2015 and 2014. 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 (2014, 2015, 2016 etc.) in this discussion refer to the fiscal years ended June 30.

OVERVIEW

The University of California, Medical Centers (the "Medical Centers") are operating units of the University of California (the "University"), a California public corporation under Article IX, Section 9 of the California Constitution. The University is administered by The Regents of the University of California ("The Regents") of which, under the formation documents of the University, administrative authority with respect to the Medical Centers is vested in the President of the University. The Medical Centers consist of the University of California, Davis Medical Center ("UC Davis Medical Center" or "Davis"), the University of California, Irvine Medical Center ("UC Irvine Medical Center" or "Irvine"), the University of California, Los Angeles Medical Center ("UCLA Medical Center" or "Los Angeles"), the University of California, San Diego Medical Center ("UCSD Medical Center" or "San Diego") and the University of California, San Francisco Medical Center ("UCSF Medical Center" or "San Francisco"), each of which provides educational and clinical opportunities for students in the University's Schools of Medicine ("Schools of Medicine") and offers a comprehensive array of medical services including tertiary and quaternary care services. The San Francisco Medical Center's financial statements include Children's Hospital & Research Center Oakland ("CHRCO"), a blended component unit of the University of California. The Regents are the sole corporate and voting member of CHRCO, a private, not-for-profit 501(c)(3) corporation. San Francisco provides certain management services for CHRCO. The San Francisco Medical Center's financial statements also include the activities of the UCSF Medical Group.

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

OPERATING STATISTICS

The following table presents utilization statistics for the Medical Centers:

(shown in fiscal year)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
Licensed beds						
2016	621	411	795	563	1,276	3,666
2015	621	411	805	563	1,266	3,666
2014	619	411	805	563	910	3,308
Admissions						
2016	33,002	20,777	41,282	28,713	43,456	167,230
2015	32,292	20,226	42,345	28,185	41,934	164,982
2014	30,471	19,287	42,142	27,650	39,231	158,781
Average daily census						
2016	502	338	744	476	719	2,779
2015	483	317	738	451	675	2,664
2014	473	295	733	446	627	2,574
Discharges						
2016	32,955	20,872	41,263	28,719	43,310	167,119
2015	32,222	20,234	42,303	28,043	41,907	164,709
2014	30,736	19,311	42,117	27,899	39,073	159,136
Average length of stay						
2016	5.6	5.9	6.6	6.1	6.1	6.1
2015	5.4	5.7	6.4	5.9	5.9	5.9
2014	5.7	5.6	6.4	5.8	5.9	5.9
Patient days						
2016	183,667	123,557	272,191	174,101	262,430	1,015,946
2015	176,180	115,793	269,368	164,526	246,351	972,218
2014	172,756	107,782	267,506	162,651	228,735	939,430
Case mix index[1]						
2016	1.80	1.81	1.99	1.91	1.96	
2015	1.73	1.77	1.88	1.82	1.87	
2014	1.67	1.77	1.95	1.69	1.84	
Outpatient visits						
2016	995,688	751,629	806,359	777,452	1,531,435	4,862,563
2015	1,005,292	666,183	766,640	710,398	1,360,770	4,509,283
2014	995,987	592,526	706,325	655,921	1,198,389	4,149,148

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

Licensed Beds

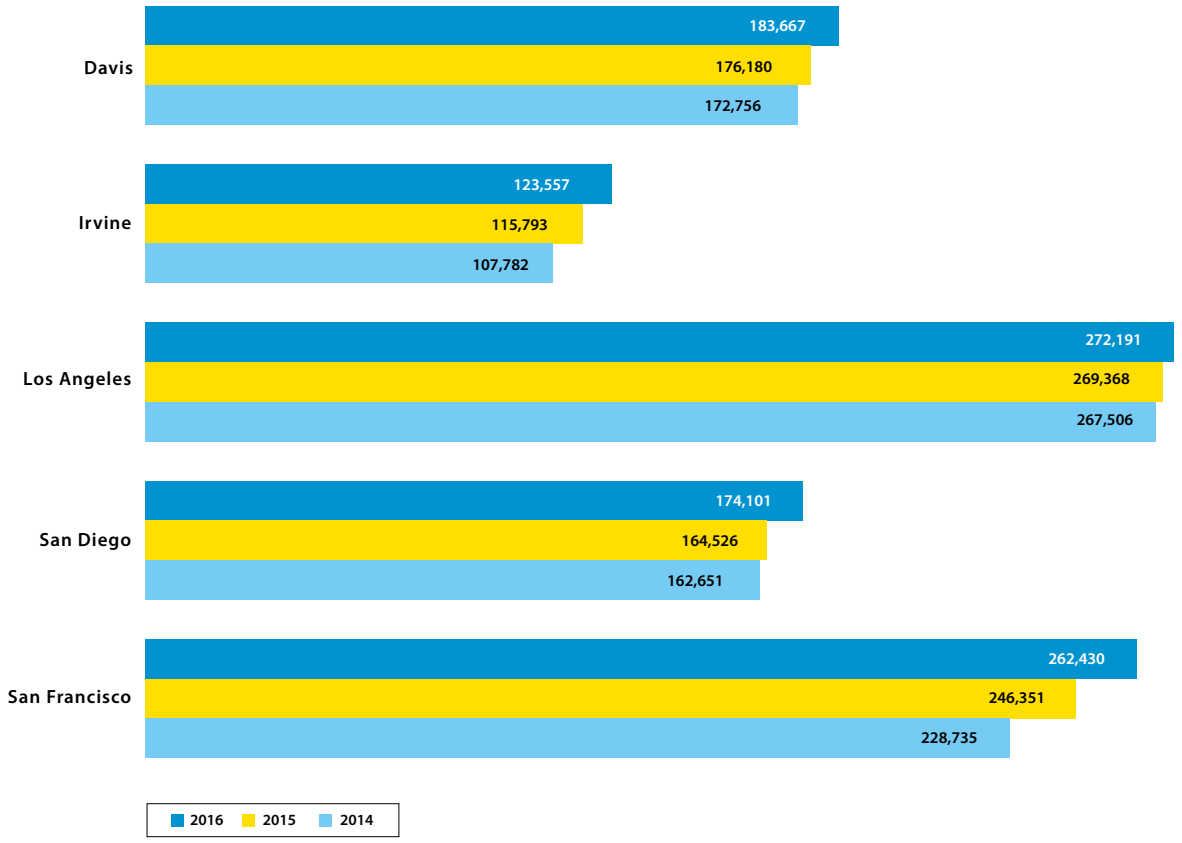
Licensed beds changed as follows:

Increased (decreased)

	2016	2015	
Davis		2	
Irvine			No change.
Los Angeles	(10)		Licensed beds decreased by ten NICU beds as part of the annual licensing with the state in 2016.
San Diego			No change in licensed beds in the last two fiscal years.
San Francisco	10	356	Licensed beds increased in 2015 due to the opening of the Mission Bay hospital in February, 2015. Additional general acute beds were added in 2016.

Admissions and Patient Days

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



Admissions and patient days changed in 2016 as follows:

Increased (decreased)

	Admissions		Patient Days		
Davis	710	2.2%	7,487	4.2%	Admissions and patient days have increased due to an increase in the acuity of patients being seen in the emergency room requiring admission.
Irvine	551	2.7%	7,764	6.7%	Admissions and patient days increased due to increased acuity of patients at ICU-Infant Special Care and surgery.
Los Angeles	(1,063)	(2.5%)	2,823	1.0%	Lower inpatient admissions and higher Medi-cal HMO and Covered CA patient days.
San Diego	528	1.9%	9,575	5.8%	Admissions and patient days increased due to an increase in emergency room visits, with patient days also reflecting increased patient acuity with longer length of stays.
San Francisco	1,522	3.6%	16,079	6.5%	Admissions and patient days increased due to the full year of operations of the Mission Bay hospital that had been opened for only five months in the previous year.

Admissions and patient days changed in 2015 as follows:

Increased (decreased)

	Admissions		Patient Days		
Davis	1,821	6.0%	3,424	2.0%	Admissions and patient days have increased due to an increase in the acuity of patients being seen in the emergency room requiring admission.
Irvine	939	4.9%	8,011	7.4%	Higher patient days due to increase in psychiatric services.
Los Angeles	203	0.5%	1,862	0.7%	Growth in Medi-Cal patient days.
San Diego	535	1.9%	1,875	1.2%	The growth in admissions and patient days reflects admissions resulting from an increase in emergency room visits.
San Francisco	2,703	6.9%	17,616	7.7%	Admissions and patient days increased due to the opening of the Mission Bay hospital in February 2015.

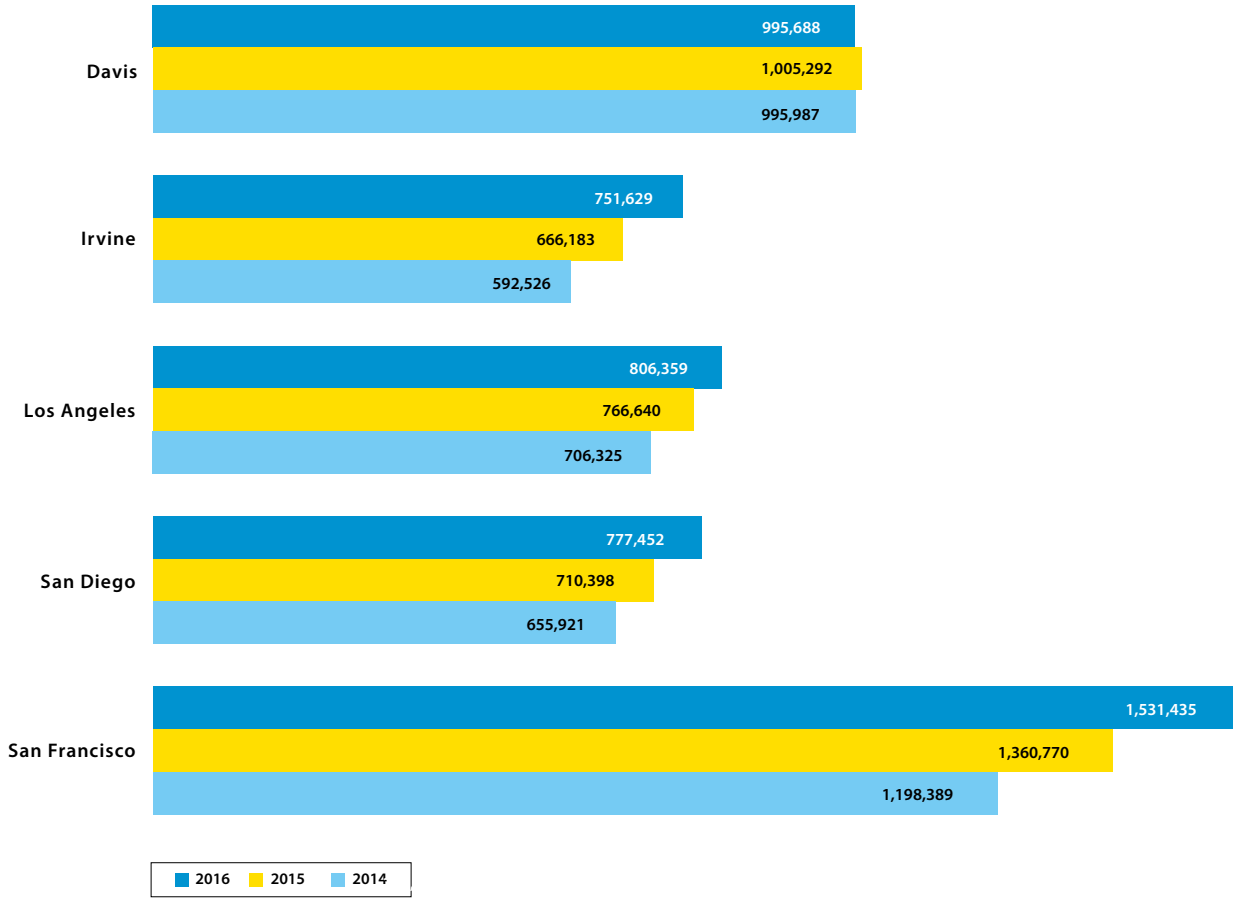
Outpatient Visits

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

(shown in fiscal year)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2016						
Hospital clinics	455,050	656,274	727,264	700,456	1,407,805	3,946,849
Primary care network	456,511	46,219				502,730
Home health and hospice	22,848				22,459	45,307
Emergency visits	61,279	49,136	79,095	76,996	101,171	367,677
Total	**995,688**	**751,629**	**806,359**	**777,452**	**1,531,435**	**4,862,563**
2015						
Hospital clinics	445,872	595,299	693,355	636,118	1,241,799	3,612,443
Primary care network	480,050	22,469				502,519
Home health and hospice	18,267				19,742	38,009
Emergency visits	61,103	48,415	73,285	74,280	99,229	356,312
Total	**1,005,292**	**666,183**	**766,640**	**710,398**	**1,360,770**	**4,509,283**
2014						
Hospital clinics	443,415	547,468	640,012	587,576	1,092,831	3,311,302
Primary care network	482,930					482,930
Home health and hospice	19,616				18,746	38,362
Emergency visits	50,026	45,058	66,313	68,345	86,812	316,554
Total	**995,987**	**592,526**	**706,325**	**655,921**	**1,198,389**	**4,149,148**

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



Total outpatient visits changed in 2016 as follows:

Increased (decreased)			
Davis	(9,604)	(1.0%)	Visits decreased due to lack of physician staffing.
Irvine	85,446	12.8%	Overall hospital based visits and off-site visits increased due to expansion of primary care and specialty care services in communities.
Los Angeles	39,719	5.2%	Outpatient visits increased due to the expansion of outpatient programs and clinical outreach efforts.
San Diego	67,054	9.4%	Emergency room visits increased 3.7% primarily due to expanded Medi-Cal coverage through the Affordable Care Act (ACA). Clinic visits increased 11.9% due to clinic expansion, scheduling improvements and expansion of Medi-Cal through the ACA.
San Francisco	170,665	12.5%	Outpatient visits increased due to the growth of the pediatric emergency room opened in conjunction with the new Mission Bay hospital operating for a full year in 2016.

Total outpatient visits changed in 2015 as follows:

Increased (decreased)			
Davis	9,305	0.9%	Expansion of the Medi-Cal population through the ACA has caused an increase in the number of patients being seen.
Irvine	73,657	12.4%	Increase is due to expansion of outpatient primary and specialty care services.
Los Angeles	60,315	8.5%	Outpatient visits increased due to process improvement in clinical operations increasing access to same-day appointments.
San Diego	54,477	8.3%	Emergency room visits increased 8.8% overall. Clinic visits increased 8% due to operating efficiencies including scheduling improvements.
San Francisco	162,381	13.5%	Outpatient visits increased due to the growth of the pediatric emergency room opened in conjunction with the new Mission Bay hospital and the growth of other outpatient programs as enhancing efficiency and improving scheduling access during the year.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

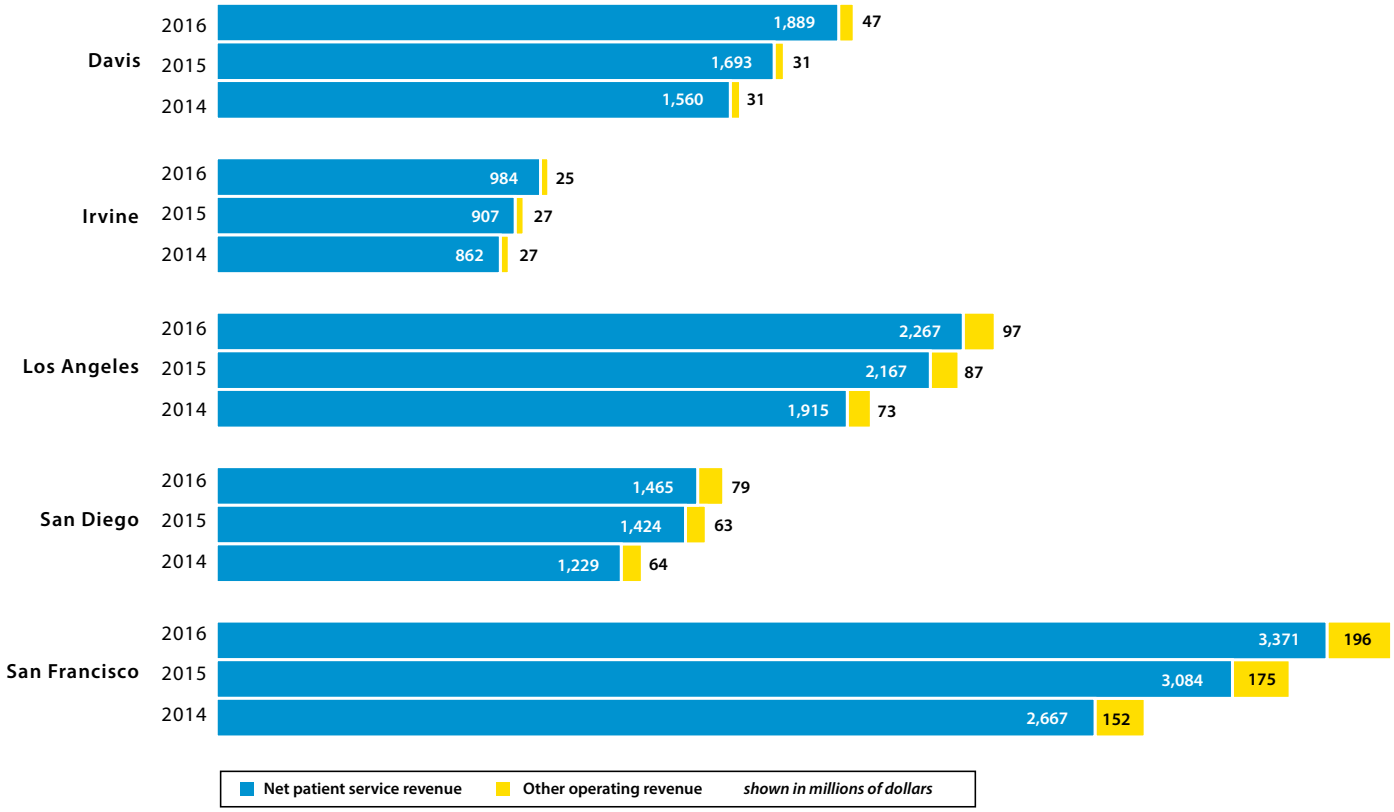
(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2016						
Net patient service revenue	$1,888,702	$984,161	$2,266,980	$1,465,431	$3,370,854	$9,976,128
Other operating revenue	46,572	25,490	97,058	79,227	196,463	444,810
Total operating revenue	1,935,274	1,009,651	2,364,038	1,544,658	3,567,317	10,420,938
Total operating expenses	1,876,514	987,619	2,229,829	1,443,180	3,687,557	10,224,699
Income (loss) from operations	58,760	22,032	134,209	101,478	(120,240)	196,239
Total net non-operating revenues (expenses)	(461)	(20,450)	(24,398)	16	(15,663)	(60,956)
Income (loss) before other changes in net position	58,299	1,582	109,811	101,494	(135,903)	135,283
Other changes in net position	(49,060)	(60,492)	(170,042)	(48,663)	(20,939)	(349,196)
Increase (decrease) in net position	9,239	(58,910)	(60,231)	52,831	(156,842)	(213,913)
Beginning of year	332,469	295,287	1,202,976	729,110	1,358,617	3,918,459
Net position - end of year	**$341,708**	**$236,377**	**$1,142,745**	**$781,941**	**$1,201,775**	**$3,704,546**
2015						
Net patient service revenue	$1,693,445	$906,595	$2,167,150	$1,423,546	$3,084,035	$9,274,771
Other operating revenue	30,521	26,569	86,716	63,095	174,963	381,864
Total operating revenue	1,723,966	933,164	2,253,866	1,486,641	3,258,998	9,656,635
Total operating expenses	1,672,090	864,442	2,018,617	1,292,221	3,157,717	9,005,087
Income from operations	51,876	68,722	235,249	194,420	101,281	651,548
Total net non-operating revenues (expenses)	(5,262)	(5,170)	(11,833)	2,789	28,812	9,336
Income before other changes in net position	46,614	63,552	223,416	197,209	130,093	660,884
Other changes in net position	(38,351)	(57,455)	(123,202)	(83,900)	14,701	(288,207)
Increase in net position	8,263	6,097	100,214	113,309	144,794	372,677
Beginning of year, as restated	324,206	289,190	1,102,762	615,801	1,213,823	3,545,782
Net position - end of year	**$332,469**	**$295,287**	**$1,202,976**	**$729,110**	**$1,358,617**	**$3,918,459**
2014						
Net patient service revenue	$1,559,516	$861,988	$1,914,604	$1,228,648	$2,666,508	$8,231,264
Other operating revenue	30,711	26,787	73,433	64,216	151,941	347,088
Total operating revenue	1,590,227	888,775	1,988,037	1,292,864	2,818,449	8,578,352
Total operating expenses	1,533,481	811,841	1,864,822	1,145,948	2,714,875	8,070,967
Income from operations	56,746	76,934	123,215	146,916	103,574	507,385
Total net non-operating revenues (expenses)	(9,761)	(10,940)	(20,098)	(2,810)	48,874	5,265
Income before other changes in net position	46,985	65,994	103,117	144,106	152,448	512,650
Other changes in net position	(42,418)	(24,549)	(114,249)	(48,952)	243,851	13,683
Increase (decrease) in net position	**4,567**	**41,445**	**(11,132)**	**95,154**	**396,299**	**526,333**
Net position - beginning of year:						
Beginning of year, as previously reported	319,639	247,745	1,113,894	520,647	398,642	2,600,567
Cumulative effect of accounting and reporting entity changes					418,882	418,882
Beginning of year, as restated	319,639	247,745	1,113,894	520,647	817,524	3,019,449
Net position - end of year	**$324,206**	**$289,190**	**$1,102,762**	**$615,801**	**$1,213,823**	**$3,545,782**

Revenues

Patient service revenue depends on inpatient occupancy levels, the volume of outpatient visits, the complexity of care provided and the charges or negotiated payment rates for services provided. Patient service revenues are net of bad debts and estimated allowances from contractual arrangements with Medicare, Medi-Cal and other third-party commercial payors and have been estimated based on the terms of reimbursement for contracts currently in effect. Other operating revenue consisted primarily of clinical teaching support funds, grants and contract revenues and other non-patient services such as contributions, cafeteria and campus revenues.

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



Revenues for 2016 as compared to 2015 are as follows:

Increased (decreased) in millions of dollars

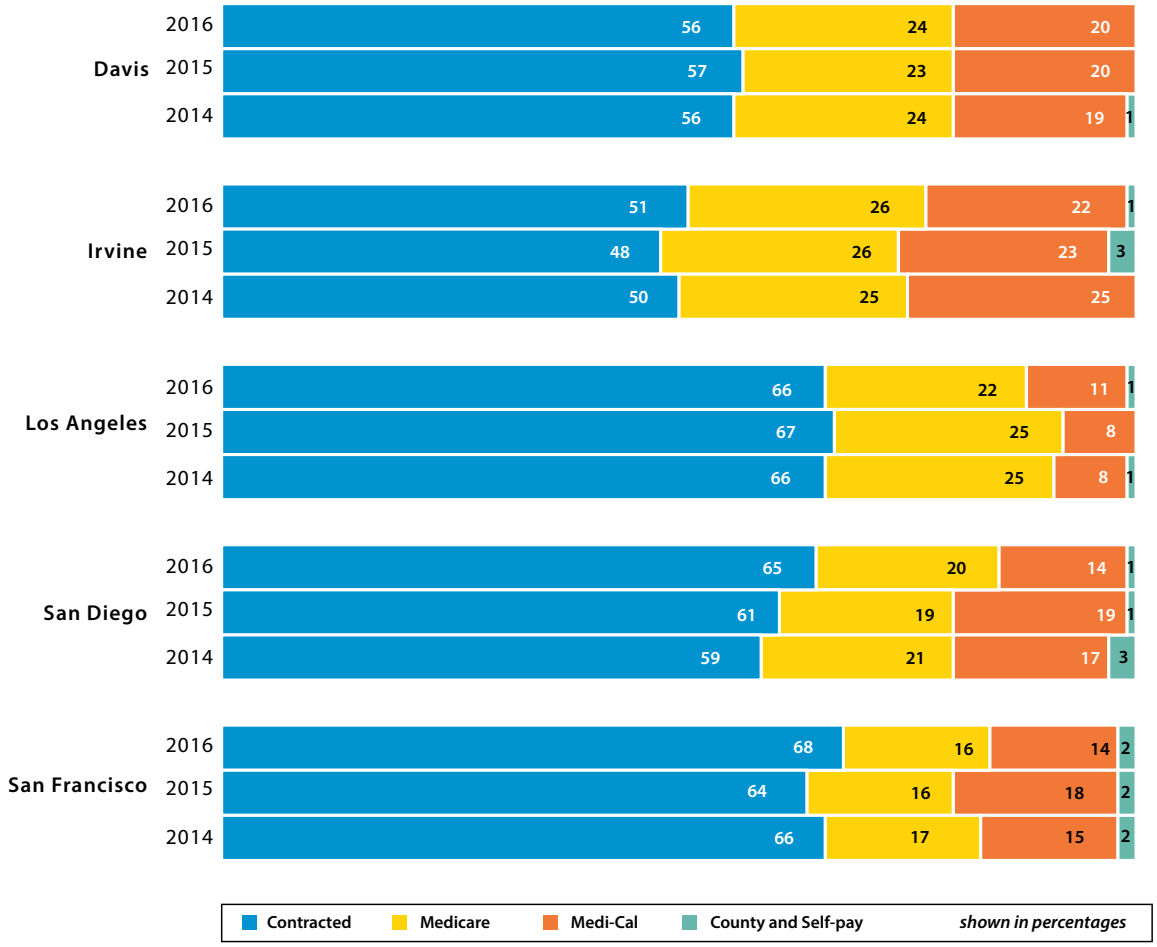
	Total Operating Revenue		Net Patient Service Revenue		
Davis	$211.3	12.3%	$195.3	11.5%	Higher patient volumes, increased complexity of cases, continued growth in speciality pharmacy program, as well as several contractual arrangements with other providers contributed to the increase in net patient service revenue.
Irvine	76.5	8.3%	77.6	8.6%	Increase due to the increased patient volume, patient days and outpatient visits.
Los Angeles	110.2	4.9%	99.8	4.6%	The increase is due to an increase in third-party settlements, higher inpatient volume and additional supplemental funding.
San Diego	58.0	3.9%	41.9	2.9%	The increase is due to higher patient volume, increased complexity of cases and contract price increases, offset partially by reduced disproportionate share (DSH) revenue from the Medi-Cal waiver program.
San Francisco	308.3	9.5%	286.8	9.4%	Increase is primarily due to higher patient volumes with the operation for a full year of the Mission Bay hospital that had been open for only five months in 2015.

Revenues for 2015 as compared to 2014 are as follows:

Increased (decreased) in millions of dollars

	Total Operating Revenue		Net Patient Service Revenue		
Davis	$133.7	8.4%	$133.9	8.6%	Growth in our specialty pharmacy program and continued growth in Medi-Cal under the Affordable Care Act, contributed to increases in Net Patient Service Revenue and Total Operating Revenue.
Irvine	44.4	5.0%	44.6	5.2%	Increase in managed care patient volume and patient days.
Los Angeles	265.8	13.4%	252.5	13.2%	The increase is due to additional supplemental funding, a reduction in bad debt provision and additional revenue received for positive settlements with the government regarding Medicare claims.
San Diego	193.8	15.0%	194.9	15.9%	The increase is due to higher patient volume, an increased complexity of cases, a reduction of uninsured patients under the Affordable Care Act and contract price increases. Additionally, there were successful efforts in FY 2015 to improve the revenue cycle process that resulted in increased cash collection and higher net patient revenue.
San Francisco	440.5	15.6%	417.5	15.7%	Increase is primarily due to higher patient volumes with the opening of the Mission Bay hospital in February 2015.

The most common payment arrangement for inpatient services is a prospectively determined per-diem rate or case rate. The most common payment arrangement for outpatient care is a prospective payment system that uses ambulatory payment classifications. The following chart illustrates the percentage of net patient service revenue by payor:



Payor mix changed in 2016 as follows:

Davis	Payor mix was stable during the year.
Irvine	Payor mix revenue changed with increase in Contract revenue and decrease in self pay.
Los Angeles	Payor mix changed primarily with an increase in Medi-Cal and decrease in Contracts due to continued Medi-Cal expansion as a result of the Affordable Care Act. All other payors remained relatively consistent with prior year.
San Diego	Overall growth in contracted plan increased and Medi-Cal increased.
San Francisco	Lower revenues from the California Quality Assurance Fee Program reduced the Medi-Cal percentage. Contract mix increased slightly as rate increases for commercial payors was higher than for government payors.

Payor mix changed in 2015 as follows:

Davis	Payor mix was relatively stable during the year with a slight increase in Medi-Cal due to the continued expansion of Medi-Cal coverage or patients receiving coverage under a qualified ACA plan.
Irvine	Increase in Medicare and non-sponsored/self pay and outpatient visits.
Los Angeles	Contract revenue increased in relationship to volume growth and Medicare increased due to settlement with the program.
San Diego	Payor mix changed considerably in 2015 primarily due to a shift of uninsured and county patients into the Medi-Cal program, which increased the Medi-Cal percentage, as well as into commercial managed care plans, which increased the Contracts percentage.
San Francisco	Contract mix increased slightly as rate increases for commercial payors was higher than for government payors.

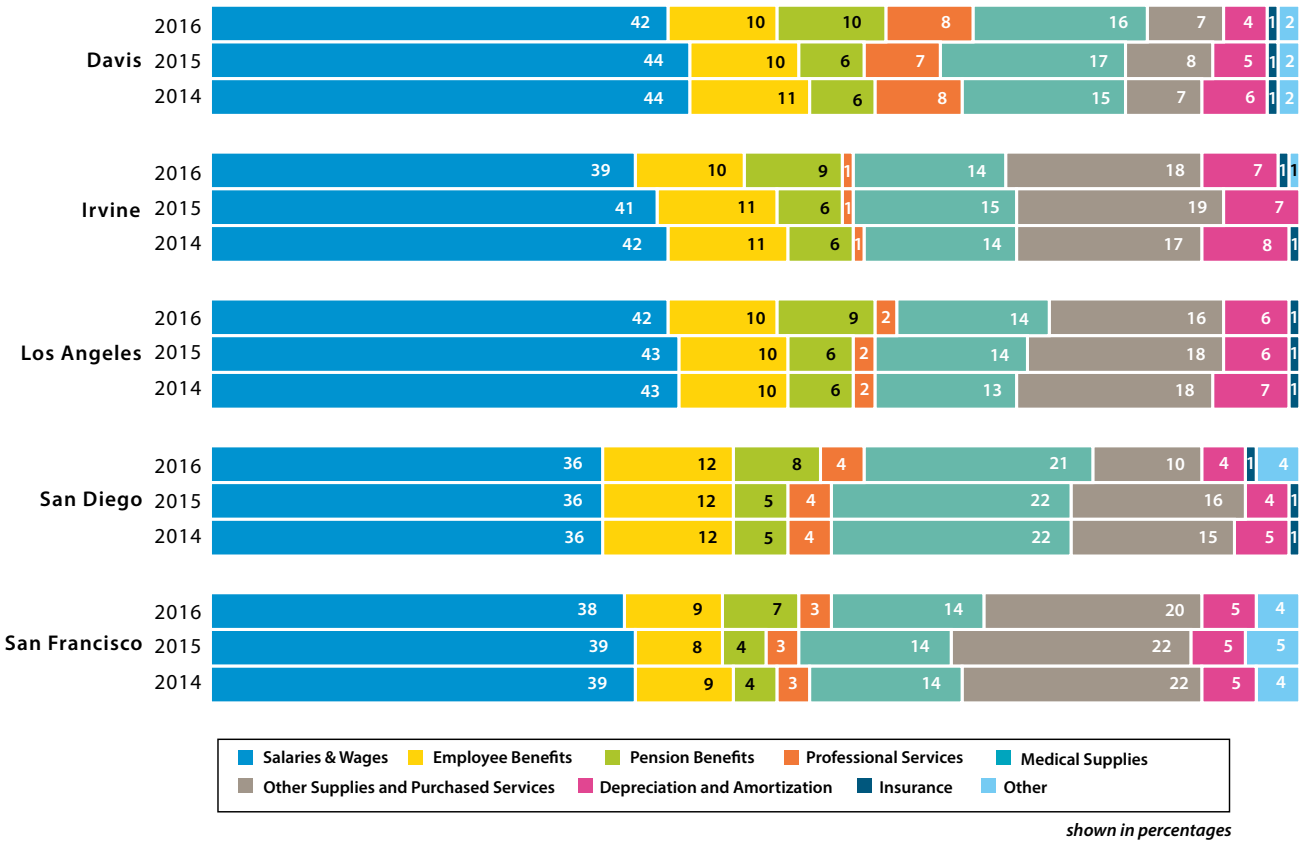
Operating Expenses

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2016						
Salaries and wages	$790,079	$382,825	$924,643	$528,171	$1,389,825	$4,015,543
Retiree health and other employee benefits	187,390	100,691	227,219	166,638	323,953	1,005,891
Pension benefits	185,667	91,575	211,154	119,576	247,971	855,943
Professional services	144,427	5,246	44,725	51,058	113,135	358,591
Medical supplies	304,773	142,439	310,153	307,050	505,000	1,569,415
Other supplies and purchased services	138,183	173,784	365,440	141,382	733,950	1,552,739
Depreciation and amortization	79,291	68,706	134,100	58,391	205,146	545,634
Insurance	9,925	5,878	12,395	8,205	11,333	47,736
Other	36,779	16,475		62,709	157,244	273,207
Total	**$1,876,514**	**$987,619**	**$2,229,829**	**$1,443,180**	**$3,687,557**	**$10,224,699**
2015						
Salaries and wages	$729,881	$352,214	$864,458	$470,206	$1,220,698	$3,637,457
Retiree health and other employee benefits	175,260	94,299	207,030	150,780	266,477	893,846
Pension benefits	107,907	52,646	126,325	67,052	139,806	493,736
Professional services	118,536	4,536	40,720	47,151	94,845	305,788
Medical supplies	283,794	129,044	275,594	290,038	438,488	1,416,958
Other supplies and purchased services	134,006	171,282	361,884	202,518	673,305	1,542,995
Depreciation and amortization	85,078	57,710	130,946	56,647	164,916	495,297
Insurance	8,852	2,711	11,660	7,829	9,408	40,460
Other	28,776				149,774	178,550
Total	**$1,672,090**	**$864,442**	**$2,018,617**	**$1,292,221**	**$ 3,157,717**	**$9,005,087**
2014						
Salaries and wages	$671,300	$337,195	$804,060	$426,274	$1,045,682	$3,284,511
Retiree health and other employee benefits	171,066	92,501	194,241	133,120	234,440	825,368
Pension benefits	98,554	50,486	111,890	53,515	104,339	418,784
Professional services	118,412	4,725	39,497	44,336	85,801	292,771
Medical supplies	238,011	115,701	246,120	254,660	377,900	1,232,392
Other supplies and purchased services	115,472	141,709	331,584	171,854	621,929	1,382,548
Depreciation and amortization	85,928	65,366	126,069	56,149	128,463	461,975
Insurance	8,545	4,158	11,361	6,040	9,898	40,002
Other	26,193				106,423	132,616
Total	**$1,533,481**	**$811,841**	**$1,864,822**	**$1,145,948**	**$2,714,875**	**$8,070,967**

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



Total operating expenses changed in 2016 as follows:

Increased (decreased) in millions of dollars			
Davis	$204.4	12.2%	Increases in salaries and benefit costs including pension, along with higher supply costs contributed to the increase in operating expenses.
Irvine	123.2	14.2%	Increases in salaries and employee benefits, pension benefits, and medical supplies due to volume increases and wage rate increases.
Los Angeles	211.2	10.5%	Increases in salaries and employee benefits, pension benefits, and medical supplies due to volume increases and wage rate increases.
San Diego	151.0	11.7%	Overall expenses reflect higher patient volume, scheduled increases for employees and inflation. Pension expense was much higher in 2016. There were also pre-opening and transition expenses in the fourth quarter in many expense categories related to the Jacobs Medical Center.
San Francisco	529.8	16.8%	Increase is primarily due to the operation for a full year of the Mission Bay hospital that had been open for only five months in 2015 and an increase in pension costs.

Total operating expenses changed in 2015 as follows:

Increased (decreased) in millions of dollars			
Davis	$138.6	9.0%	Increases in salaries and benefit costs along with higher pharmaceutical costs and the expansion of the Medical Center's specialty pharmacy program contributed to the increase in operating expenses.
Irvine	52.6	6.5%	Increases in salaries and benefits, partly offset by decrease in pension expenses; Increases in supplies and purchased services and reduction in depreciation expenses.
Los Angeles	153.8	8.2%	Increases in salary and employee benefits, pension benefits, medical supplies, other supplies and purchased services due to volume increases, wage rate increases and an increase in depreciation expense.
San Diego	146.3	12.8%	Increases in salaries and employee benefits, medical supplies (primarily pharmaceuticals), and purchased services reflect higher patient volume, scheduled increases for employees and inflation. Pension expense was higher in 2015.
San Francisco	442.8	16.3%	Higher operating costs due to the opening of the Mission Bay facility in February 2015 and higher costs for the California Quality Assurance Fees.

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 higher pension costs and other operational initiatives as follows:

	2016	2015	2014	
Davis	60.1%	58.8%	59.2%	Salary and employee benefits have increased year over year, and have slightly outpaced the increase in total operating revenues.
Irvine	57.0%	53.5%	54.0%	Salaries and benefits increased due to full-time equivalent (FTE) increase, pay rate increases and higher pension expenses.
Los Angeles	57.7%	53.1%	55.8%	Salaries and benefits increased due to significant growth in the pension expense in fiscal year 2016.
San Diego	52.7%	46.3%	47.4%	Increase in pension expense and salaries for transition employees for Jacobs Medical Center, while total operating revenues were relatively lower due to reduced disproportionate share revenue from the Medi-Cal waiver program.
San Francisco	55.0%	49.9%	49.2%	Increase due to an increase of full year staffing needs connected with the opening of the Mission Bay facility and an increase of pension expense.

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

Increased (decreased) in millions of dollars

	2016						2015					
	Salaries and Wages		FTEs		Rate Changes		Salaries and Wages		FTEs		Rate Changes	
Davis	$60.2	8.2%	278	3.7%	$33.1	4.4%	$58.6	8.7%	146	2.0%	$45.3	6.6%
Irvine	30.6	8.7%	187	4.3%	14.7	4.2%	15.0	4.5%	84	1.9%	8.9	2.6%
Los Angeles	60.2	7.0%	353	4.0%	24.5	2.8%	60.4	7.5%	210	2.4%	39.7	4.9%
San Diego	58.0	12.3%	365	7.1%	24.7	5.2%	43.9	10.3%	363	7.4%	12.4	2.9%
San Francisco	169.1	13.9%	867	8.0%	71.1	5.4%	175.0	16.7%	1,286	13.5%	33.6	2.8%

Health and welfare costs increased in 2016 and 2015 due to higher pension costs and insurance premiums. Employee benefits, which include pension and health and welfare costs, changed as follows:

Increased (decreased) in millions of dollars

	2016						2015					
	Employee Benefits		Pension		Health and Welfare		Employee Benefits		Pension		Health and Welfare	
Davis	$89.9	31.7%	$77.8	72.1%	$12.1	6.9%	$13.5	5.0%	$9.4	9.5%	$4.2	2.5%
Irvine	45.3	30.8%	38.9	73.9%	6.4	6.8%	4.0	2.8%	2.2	4.3%	1.8	1.9%
Los Angeles	105.0	31.5%	84.8	67.2%	20.2	9.8%	27.2	8.9%	14.4	12.9%	12.8	6.6%
San Diego	68.4	31.4%	52.5	78.3%	15.9	10.5%	31.2	16.7%	13.5	25.3%	17.7	13.3%
San Francisco	165.6	40.8%	108.2	77.4%	57.5	21.6%	67.5	19.9%	35.5	34.0%	32.0	13.7%

Substantially all full-time employees of the Medical Centers participate in the University of California Retirement Plan (UCRP). The University has a financial responsibility for pension benefits associated with its defined benefit plans. Pension expense is allocated to the Medical Centers based on their proportionate share of covered compensation for the fiscal year.

The Medical Centers are required to contribute at a rate set by The Regents. Employer contribution rates were 14.0 percent, 14.0 percent and 12.0 percent in 2016, 2015 and 2014, respectively, of covered compensation. Pension expenses were higher in 2016 due to significantly lower than expected investment returns. Pension expenses were higher in 2015 due to lower than expected investment returns and assumption changes. Assumption changes, which increased the pension expenses, were based on an experience study.

Pension expense and contributions for the Medical Centers related to UCRP were as follows:

Increased (decreased) in millions of dollars

	2016		2015		2014	
	Medical Center Pension Expense	Pension Contributions	Medical Center Pension Expense	Pension Contributions	Medical Center Pension Expense	Pension Contributions
Davis	$185,667	$95,435	$107,907	$88,693	$98,554	$72,105
Irvine	90,499	46,628	52,646	43,466	50,486	36,306
Los Angeles	211,154	105,103	126,325	98,329	111,890	79,216
San Diego	119,576	60,001	67,052	54,326	53,515	41,793
San Francisco	226,586	124,681	129,462	110,021	98,636	80,467
Total	**$833,482**	**$431,848**	**$483,392**	**$394,835**	**$413,081**	**$309,887**

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 2016 as follows:

Increased (decreased) in millions of dollars

Davis	$25.9	21.8%	Increased costs related to external labor, consulting and professional network costs for physician services.
Irvine	0.7	15.7%	Slight increase in medical director fees.
Los Angeles	4.0	9.8%	Higher costs related to consulting and management fees for information technology and revenue cycle projects.
San Diego	3.9	8.3%	Professional services for physician fees increased.
San Francisco	18.3	19.3%	Increase due to higher physician fees and consulting for strategic initiatives.

Professional services changed in 2015 as follows:

Increased (decreased) in millions of dollars

Davis	$0.1	0.1%	Professional services costs remained flat year over year.
Irvine	(0.2)	(4.0%)	Slight decrease in medical director fees.
Los Angeles	1.2	3.1%	Increase due to higher physician fees.
San Diego	2.8	6.3%	Professional services for physician fees were higher.
San Francisco	9.0	10.5%	Increase due to strategic planning initiatives.

Medical Supplies

Medical supply costs fluctuate with patient volumes. Medical supplies are also subject to significant inflationary pressures due to escalating pharmaceutical costs and continued innovation in implants, prosthetics and other medical supplies. The Medical Centers have ongoing initiatives to control supply utilization and to negotiate competitive pricing.

Medical supply expenses, including pharmaceuticals, changed in 2016 as follows:

Increased (decreased) in millions of dollars

Davis	$21.0	7.4%	Overall supply costs increase an average of 3%, as well as a 4% increase in inpatient volume.
Irvine	13.4	10.4%	Higher pharmaceutical expenses due to increase in inpatient and expansion in oncology areas.
Los Angeles	34.6	12.5%	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	17.0	5.9%	Increase was due to higher patient volume and expansion in oncology services.
San Francisco	66.5	15.2%	Increase due to higher patient volumes and an increase of higher cost pharmaceuticals.

Medical supply expenses, including pharmaceuticals, changed in 2015 as follows:

Increased (decreased) in millions of dollars			
Davis	$45.8	19.2%	Increased pharmaceutical costs associated with the specialty pharmacy practice which utilizes higher cost pharmaceuticals. The Medical Center also placed in service new or upgraded medical equipment which utilize higher cost disposables.
Irvine	13.3	11.5%	Increase was due to higher patient volume and expansion in oncology services.
Los Angeles	29.5	12.0%	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	35.4	13.9%	Higher inpatient volume, surgery cases, infusion treatments and specialty services resulted in increased costs for pharmaceuticals.
San Francisco	60.6	16.0%	Increase due to higher patient volumes and an increase of higher cost pharmaceuticals for specialty services. Additional costs also incurred in connection with the opening of the new Mission Bay facility in February, 2015.

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 2016 as follows:

Increased (decreased) in millions of dollars			
Davis	$4.2	3.1%	Increase is due to higher repair and maintenance costs.
Irvine	2.5	1.5%	Overall slight increase due to increase in residents and non-medical supplies, offset by decrease in purchased services and other expenses.
Los Angeles	3.6	1.0%	Increase in repair and maintenance costs, blood costs and collection services costs. Additionally, purchased services increased as a result of more transplant cases.
San Diego	(61.1)	(30.2%)	The decrease was partly due to process improvements that resulted in lower purchased services expense in the revenue cycle area, and partly due to a regrouping of expenses in FY 2016.
San Francisco	60.6	9.0%	Increase due to externally purchased medical services.

Other supplies and purchased services changed in 2015 as follows:

Increased (decreased) in millions of dollars			
Davis	$18.5	16.1%	Other supplies and purchased services have increased due to an increase in external expenses for capitated members, non-capitalizable purchases and increases in equipment repairs, as well as additional consulting fees.
Irvine	29.6	20.9%	Primarily due to increase in temporary labor, purchased services and other expenses associated with the primary and specialty care clinic expansion.
Los Angeles	30.3	9.1%	Increase in repair and maintenance costs, blood costs, recruiting and marketing costs. Additionally, purchased services increased as a result of more transplant cases.
San Diego	30.7	17.8%	Increase is primarily for purchased services to assist in process improvements in the revenue cycle and in other key areas, and for maintenance costs.
San Francisco	51.4	8.3%	Increase due to the opening of the new Mission Bay facility in February, 2015.

Depreciation and Amortization

Depreciation and amortization expense changed in 2016 as follows:

Increased (decreased) in millions of dollars			
Davis	$(5.8)	(6.8%)	Deferred capital maintenance resulted in lower depreciation expense.
Irvine	11.0	19.1%	Increase was due to projects completed and additions of equipment versus write off in prior year.
Los Angeles	3.2	2.4%	Increase due to completed projects and new equipment that were capitalized during the year.
San Diego	1.7	3.1%	Increase due to completed projects and new equipment that were capitalized, net of assets that became fully depreciated during the year.
San Francisco	40.2	24.4%	Increase due to the full year of depreciation for the Mission Bay facility that was placed in service February, 2015.

Depreciation and amortization expense changed in 2015 as follows:

Increased (decreased) in millions of dollars

Davis	$(0.9)	(1.0%)	Depreciation and amortization are consistent with the prior year.
Irvine	(7.7)	(11.7%)	Decrease was due to less capital investments and more equipment disposals during the year.
Los Angeles	4.9	3.9%	Increase due to completed projects and new equipment that were capitalized during the year.
San Diego	0.5	0.9%	Increase due to completed projects and new equipment that were capitalized, net of assets that became fully depreciated during the year.
San Francisco	36.5	28.4%	Increase due to the opening of the new Mission Bay facility in February, 2015.

Insurance

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

Income (Loss) from Operations

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

(in millions of dollars)

	2016		2015		2014	
	Income (loss) from Operations	Operating Margin	Income from Operations	Operating Margin	Income from Operations	Operating Margin
Davis	$58.8	3.0%	$51.9	3.0%	$56.7	3.6%
Irvine	22.0	2.2%	68.7	7.4%	76.9	8.7%
Los Angeles	134.2	5.7%	235.2	10.4%	123.2	6.2%
San Diego	101.5	6.6%	194.4	13.1%	146.9	11.4%
San Francisco	(120.2)	(3.4%)	101.3	3.1%	103.6	3.7%
Total	**$196.3**		**$651.5**		**$507.3**	

In 2016, due to pressures in the health care market, revenue growth related to the higher volumes was outpaced by the growth in expenses at the medical centers. Additionally, lower than expected returns on the UCRP plan portfolio resulted in higher pension expenses by over $350 million in 2016. In 2015, operating margins for the Medical Centers generally increased due to higher volumes, more favorable contracted rates and efficiency initiatives. Increases are offset by pension benefits cost and investments in operating initiatives, such as investments in electronic medical records and opening new facilities; which include certain costs that are reporting as operating expenses during the start-up and implementation periods.

Non-Operating Revenues (Expenses)

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
Total net non-operating revenues (expenses):						
2016	$(461)	$(20,450)	$(24,398)	$16	$(15,663)	$(60,956)
2015	(5,262)	(5,170)	(11,833)	2,789	28,812	9,336
2014	(9,761)	(10,940)	(20,098)	(2,810)	48,874	5,265

Total net non-operating revenues (expenses) improved (declined) in 2016 as follows:

Change in millions of dollars			
Davis	$4.8	91.2%	Interest expense was lower in 2016 due to a reduction in equipment financing obligations; interest income increased due to higher cash balances; and receipt balances from the Quality Assurance Fee Program were higher than last year.
Irvine	(15.3)	(295.6%)	Decrease in Hospital Fee Program grants and increase in the overall expenses in the clinical network operations.
Los Angeles	(12.6)	(106.2%)	Decrease in revenue from the California Quality Assurance Fee Program, decrease in net appreciation of fair value for investments, and increase in loss on disposal of capital assets.
San Diego	(2.8)	(99.4%)	The decrease is primarily due to lower revenue from Hospital Fee Program grants offset partially by higher interest income that was earned on daily cash balances.
San Francisco	(44.5)	(154.4%)	Investment income was less than the prior year and interest expense increased as less total interest costs were capitalized during the year.

Total net non-operating revenues (expenses) improved (declined) in 2015 as follows:

Change in millions of dollars			
Davis	$4.5	46.1%	The increase in non-operating revenue is mainly due to increased revenue from the Quality Assurance Fee Program. Additionally, interest expense decreased due to a reduction of equipment financing obligations.
Irvine	5.8	52.7%	Increase in revenue from Hospital Fee Program grants.
Los Angeles	8.3	41.1%	Increase in revenue from the California Quality Assurance Fee Program, increase in net appreciation of fair value for investments and decrease in interest expense.
San Diego	5.6	199.3%	The increase is primarily due to Hospital Fee Program grants as well as to more interest income that was earned on daily cash balances, which were higher overall than in the prior year.
San Francisco	(20.1)	(41.0%)	Interest expense was greater as less total interest costs were capitalized during the year with the completion of the Mission Bay facility.

Income (Loss) Before Other Changes in Net Position

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2016	$58,299	$1,582	$109,811	$101,494	$(135,903)	$135,283
2015	46,614	63,552	223,416	197,209	130,093	660,884
2014	46,985	65,994	103,117	144,106	152,448	512,650

Changes in income(loss) before other changes in net position in 2016 were as follows:

Increased (decreased) in millions of dollars			
Davis	$11.7	25.1%	Improved operational performance offset by higher pension.
Irvine	(62.0)	(97.5%)	Increased inpatient revenue was offset by increase in operating expenses with significantly higher pension cost as well as increase in non-operating expenses.
Los Angeles	(113.6)	(50.8%)	The decrease is primarily due to significant growth in the pension expense in fiscal year 2016.
San Diego	(95.7)	(48.5%)	Even with growth in patient volume, several factors led to a reduction in income before other changes: higher pension expense, pre-opening and transition expenses in the fourth quarter related to the Jacobs Medical Center, and reduced disproportionate share hospital revenue from the Medi-Cal waiver program.
San Francisco	(266.0)	(204.5%)	Decrease due to higher pension costs, lower California Quality Assurance program revenues received and lower investment income.

Changes in income(loss) before other changes in net position in 2015 were as follows:

Increased (decreased) in millions of dollars			
Davis	$(0.4)	(0.8%)	Income before other changes is consistent with prior years.
Irvine	(2.4)	(3.7%)	The increase in patient revenue was outpaced by an increase in overall operating expenses due to the startup of the primary and specialty care clinic operations.
Los Angeles	120.3	116.7%	The increase is primarily due to growth in net patient service revenue attributed to increases from Contracts and the Medicare and Medi-Cal programs which outpaced increases in operating expenses.
San Diego	53.1	36.8%	Higher patient volume, the favorable shift in payor mix and revenue cycle process improvements resulted in operating revenues that outpaced increases in operating expenses.
San Francisco	(22.4)	(14.7%)	Decrease due to additional costs incurred related to the opening and operating of the new Mission Bay facility. Additional staffing and capital costs were incurred.

Other Changes in Net Position

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2016	$(49,060)	$(60,492)	$(170,042)	$(48,663)	$(20,939)	$(349,196)
2015	(38,351)	(57,455)	(123,202)	(83,900)	14,701	(288,207)
2014	(42,418)	(24,549)	(114,249)	(48,952)	243,851	13,683

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

Other changes in net position changed in 2016 as follows:

Increased (decreased) in millions of dollars			
Davis	$(10.7)	(27.9%)	The change is due to support for school of medicine as well as strategic initiatives related to UC Health.
Irvine	(3.0)	(5.3%)	Mainly due to increase in health system support to School of Medicine.
Los Angeles	(46.8)	(38.0%)	Payments for health system support, representing transfers to the School of Medicine in support of the overall strategic plan.
San Diego	35.2	42.0%	The change was primarily due to gifts received for construction of Jacobs Medical Center and to Century Bond funds for construction of the Outpatient Pavilion.
San Francisco	(35.6)	(242.4%)	Capital contributions received for the Mission Bay facility were lower than in the prior year and health system support increased.

Other changes in net position changed in 2015 as follows:

Increased (decreased) in millions of dollars			
Davis	$4.1	9.6%	Support from the Medical Center for the professional practice's electronic health record initiative increased which was offset by capital funding transfers received by the Medical Center.
Irvine	(32.9)	(134.0%)	Contributions for building program decreased by $35.6 million.
Los Angeles	(9.0)	(7.8%)	Payments for health system support, representing transfers to the School of Medicine in support of the overall strategic plan.
San Diego	(34.9)	(71.4%)	The change was primarily due to increased health system support transfers to the School of Medicine.
San Francisco	(229.2)	(94.0%)	Capital contributions received were lower than in the prior year and health system support increased.

STATEMENTS OF NET POSITION

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

(in thousands of dollars)

2016	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
Current assets:						
Cash	$464,908	$253,332	$903,617	$465,589	$450,701	$2,538,147
Patient accounts receivable, net	236,285	135,199	320,492	199,428	493,161	1,384,565
Other current assets	124,593	89,431	95,381	92,875	176,469	578,749
Total current assets	**825,786**	**477,962**	**1,319,490**	**757,892**	**1,120,331**	**4,501,461**
Restricted assets			14,038	24,015	61,546	99,599
Capital assets, net	1,004,073	718,179	1,813,446	1,471,118	2,381,726	7,388,542
Investments and other noncurrent assets	18,837		285,880	13,058	163,044	480,819
Total assets	**1,848,696**	**1,196,141**	**3,432,854**	**2,266,083**	**3,726,647**	**12,470,421**
Deferred outflows of resources	**329,360**	**157,583**	**445,456**	**216,217**	**542,005**	**1,690,621**
Liabilities:						
Current liabilities	374,616	240,452	421,741	234,871	510,171	1,781,851
Long-term debt	268,671	267,344	837,071	684,672	829,519	2,887,277
Net pension liability	895,967	456,616	990,520	564,996	1,237,418	4,145,517
Other noncurrent liabilities	212,198	102,884	398,707	158,108	371,515	1,243,412
Total liabilities	**1,751,452**	**1,067,296**	**2,648,039**	**1,642,647**	**2,948,623**	**10,058,057**
Deferred inflows of resources	**84,896**	**50,051**	**87,526**	**57,712**	**118,254**	**398,439**
Net position:						
Net investment in capital assets	701,366	446,355	959,252	749,527	1,475,111	4,331,611
Restricted			11,360		63,785	75,145
Unrestricted	(359,658)	(209,978)	172,133	32,414	(337,121)	(702,210)
Total net position	**$341,708**	**$236,377**	**$1,142,745**	**$781,941**	**$1,201,775**	**$3,704,546**

2015						
Current assets:						
Cash	$409,254	$282,757	$734,777	$402,045	$452,342	$2,281,175
Patient accounts receivable, net	239,997	125,697	312,585	202,929	453,002	1,334,210
Other current assets	85,532	88,308	81,487	122,828	154,420	532,575
Total current assets	**734,783**	**496,762**	**1,128,849**	**727,802**	**1,059,764**	**4,147,960**
Restricted assets			15,005	73,643	62,150	150,798
Capital assets, net	1,003,080	727,311	1,845,365	1,284,776	2,405,012	7,265,544
Investments and other noncurrent assets	21,540		286,550	8,518	165,694	482,302
Total assets	**1,759,403**	**1,224,073**	**3,275,769**	**2,094,739**	**3,692,620**	**12,046,604**
Deferred outflows of resources	**220,741**	**105,171**	**303,568**	**139,659**	**342,890**	**1,112,029**
Liabilities:						
Current liabilities	351,615	260,713	326,049	179,233	439,843	1,557,453
Long-term debt	294,564	271,824	810,389	693,410	833,600	2,903,787
Net pension liability	627,561	308,211	697,260	385,387	828,623	2,847,042
Other noncurrent liabilities	174,007	85,453	329,114	116,187	306,980	1,011,741
Total liabilities	**1,447,747**	**926,201**	**2,162,812**	**1,374,217**	**2,409,046**	**8,320,023**
Deferred inflows of resources	**199,928**	**107,756**	**213,549**	**131,071**	**267,847**	**920,151**
Net position:						
Net investment in capital assets	683,085	441,838	1,027,330	648,136	1,511,561	4,311,950
Restricted			12,213		64,263	76,476
Unrestricted	(350,616)	(146,551)	163,433	80,974	(217,207)	(469,967)
Total net position	**$332,469**	**$295,287**	**$1,202,976**	**$729,110**	**$1,358,617**	**$3,918,459**

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2014						
Current assets:						
Cash	$298,005	$272,032	$821,098	$254,660	$517,730	$2,163,525
Patient accounts receivable , net	225,159	133,120	303,492	236,829	393,988	1,292,588
Other current assets	86,239	55,279	105,594	96,858	105,919	449,889
Total current assets	**609,403**	**460,431**	**1,230,184**	**588,347**	**1,017,637**	**3,906,002**
Restricted assets		3,232	15,705	216,687	70,056	305,680
Capital assets, net	1,044,562	734,373	1,871,926	1,117,283	2,197,059	6,965,203
Investments and other noncurrent 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**	**3,449,256**	**11,407,050**
Deferred outflows of resources	**185,302**	**90,983**	**257,289**	**101,357**	**188,211**	**823,142**
Liabilities:						
Current liabilities	259,435	231,659	308,007	167,397	360,157	1,326,655
Long-term debt	323,879	285,473	820,828	677,705	837,536	2,945,421
Net pension liability	468,810	235,813	513,936	271,458	534,664	2,024,681
Other noncurrent liabilities	131,565	65,783	274,040	81,743	239,089	792,220
Total liabilities	**1,183,689**	**818,728**	**1,916,811**	**1,198,303**	**1,971,446**	**7,088,977**
Deferred inflows of resources	**352,010**	**181,101**	**385,429**	**224,695**	**452,198**	**1,595,433**
Net position:						
Net investment in capital assets	697,588	431,649	1,042,789	634,869	1,300,014	4,106,909
Restricted		3,232	12,670		63,312	79,214
Unrestricted	(373,382)	(145,691)	47,303	(19,068)	(149,503)	(640,341)
Total net position	**$324,206**	**$ 289,190**	**$1,102,762**	**$615,801**	**$1,213,823**	**$3,545,782**

Cash

Cash changed in 2016 as follows:

Increased (decreased) in millions of dollars

Davis	$55.7	13.6%	The increase is primarily due to cash provided by operations.
Irvine	(29.4)	(10.4%)	Decrease due to lower cash from operations, and increase in health system support.
Los Angeles	168.8	23.0%	Increase is due to higher patient accounts receivable cash collections, cash from third-party settlements and capital financing activities.
San Diego	63.5	15.8%	Cash from operations and cash from restricted assets more than offset expenditures for Jacobs Medical Center construction and for other capital assets.
San Francisco	(1.6)	(0.4%)	Slight change in cash due to cash provided by operations offset by capital purchases during the year.

Cash changed in 2015 as follows:

Increased (decreased) in millions of dollars

Davis	$111.2	37.3%	The increase is primarily due to cash provided by operations and lower capital expenditures.
Irvine	10.7	3.9%	Cash provided by operations exceeded cash used for capital and financing activities.
Los Angeles	(86.3)	(10.5%)	Decrease is due to investing a significant amount of cash in long-term investments.
San Diego	147.4	57.9%	The increase was primarily due to cash provided from operations including a reduction of 14.3% in net patient accounts receivable.
San Francisco	(65.4)	(12.6%)	Cash from operations was used to pay for construction and equipment related to the new Mission Bay facility.

Patient Accounts Receivable

Patient accounts receivable, net of estimated uncollectible accounts, changed in 2016 as follows:

Increased (decreased) in millions of dollars			
Davis	$(3.7)	(1.5%)	Improved cash collections contributed to the decrease in net patient accounts receivable.
Irvine	9.5	7.6%	Increase due to higher patient volumes.
Los Angeles	7.9	2.5%	Increase due to improved valuation of accounts from rate increases.
San Diego	(3.5)	(1.7%)	The decrease was due to continued revenue cycle process improvements during the year.
San Francisco	40.2	8.9%	Increase due to higher patient volumes connected with the opening for a full year of the Mission Bay facility.

Patient accounts receivable, net of estimated uncollectible accounts, changed in 2015 as follows:

Increased (decreased) in millions of dollars			
Davis	$14.8	6.6%	Net patient accounts receivable increased due to increases in volume and contracted price increases.
Irvine	(7.4)	(5.6%)	Decrease due to continued improvement in billing and collection.
Los Angeles	9.1	3.0%	Increase due to improved valuation of accounts from rate increases and improved timing of collecting accounts.
San Diego	(33.9)	(14.3%)	The decrease was primarily due to focused revenue cycle process improvements, as well as to increased familiarity with the new billing system that was implemented in the prior fiscal year.
San Francisco	59.0	15.0%	Increase due to higher patient volumes in the last half of the fiscal year in conjunction with the opening of the new hospital at Mission Bay.

Capital Assets

Net capital assets changed in 2016 as follows:

Increased (decreased) in millions of dollars			
Davis	$1.0	0.1%	Annual depreciation matched capital expenditures for the year.
Irvine	(9.1)	(1.3%)	Annual depreciation exceeded capital projects for the year.
Los Angeles	(31.9)	(1.7%)	Annual depreciation exceeded capital projects for the year.
San Diego	186.3	14.5%	This increase was primarily for construction costs of the Jacobs Medical Center as well as for equipment that will be used once it is opened.
San Francisco	(23.3)	(1.0%)	Depreciation increased due to the Mission Bay facility being placed in service and has exceeded spending on capital projects for the year.

Net capital assets changed in 2015 as follows:

Increased (decreased) in millions of dollars			
Davis	$(41.5)	(4.0%)	Annual depreciation exceeded capital projects for the year.
Irvine	(7.1)	(1.0%)	Decrease due to depreciation exceeding additions.
Los Angeles	(26.6)	(1.4%)	Annual depreciation exceeded capital projects for the year.
San Diego	167.5	15.0%	Primarily for construction costs of the Jacobs Medical Center. Funds for this construction were obtained from proceeds of a previous bond issue and from contributions.
San Francisco	208.0	9.5%	Construction costs for the development of the Mission Bay facility.

Long-term Debt

Long-term debt, including the current portion, changed in 2016 as follows:

Increased (decreased) in millions of dollars			
Davis	$(29.3)	(9.1%)	Debt service payments.
Irvine	(13.6)	(4.8%)	Debt service payments.
Los Angeles	36.0	4.4%	Increase due to new capital leases.
San Diego	(8.9)	(1.2%)	The decrease is due to debt service payments, net of one new equipment financing arrangement.
San Francisco	(3.9)	(0.5%)	Debt service payments.

Long-term debt, including the current portion, changed in 2015 as follows:

Increased (decreased) in millions of dollars			
Davis	$(32.6)	(9.1%)	Debt service payments.
Irvine	(17.3)	(5.7%)	Debt service payments.
Los Angeles	(11.3)	(1.4%)	Debt service payments.
San Diego	17.6	2.5%	The increase is due to three new equipment financing arrangements, net of debt service payments.
San Francisco	(6.9)	(0.8%)	Debt service payments.

Net Pension Liability

The University has a financial responsibility for pension benefits associated with its defined benefit plans. The net pension liability related to UCRP is allocated to the Medical Centers based on their proportionate share of covered compensation for the fiscal year.

(in thousands of dollars)

	2016		2015		2014	
	Proportionate Share	Net Pension Liability	Proportionate Share	Net Pension Liability	Proportionate Share	Net Pension Liability
Davis	6.6%	$895,967	6.5%	$627,561	6.6%	$468,810
Irvine	3.2%	438,524	3.2%	308,211	3.3%	235,813
Los Angeles	7.3%	990,520	7.2%	697,260	7.3%	513,936
San Diego	4.1%	564,996	4.0%	385,387	3.9%	271,458
San Francisco	8.6%	1,171,002	8.1%	777,948	7.4%	523,452
Total	**29.8%**	**$4,061,009**	**29.0%**	**$2,796,367**	**28.5%**	**$2,013,469**

The changes in net pension liability have been primarily driven by the investment performance of the UCRP investment portfolio and changes in assumptions in 2015. UCRP's total investment rate of return was negative 2.0 percent in 2016, positive 4.5 percent in 2015 and positive 17.4 percent in 2014. The discount rate used to estimate the net pension liability was 7.25 percent for June 30, 2016 and 2015 and 7.5 percent as of June 30, 2014. Assumption changes in 2015 included lowering the expected rate of return and extending the mortality tables, which increased the net pension liability, offset by lowering the expected inflation rate.

CHRCO is the sponsor of a single employer defined benefit plan subject to Employee Retirement Income Security Act (ERISA) that covers substantially all full-time employees. The net pension liability for CHRCO is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The net pension liability for CHRCO was $66.4 million and $50.7 million as of June 30, 2016 and 2015, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Days Cash on Hand

Days cash on hand measures the average number of days' expenses the Medical Centers maintain in cash and unrestricted investments. The goal, set by the University of California Office of the President, is a minimum of 60 days.

Days cash on hand are as follows:

	2016	2015	2014
Davis	95	94	75
Irvine	101	128	133
Los Angeles	158	142	172
San Diego	123	119	85
San Francisco	64	75	94

Days of Revenue in Accounts Receivable

The days of revenue in accounts receivable measures the average number of days it takes to collect patient accounts receivable. Generally days of revenue in accounts receivable have increased when Medical Centers implemented new billing systems and have decreased as the Medical Centers have streamlined the billing processes. Days of revenue in accounts receivable are as follows:

	2016	2015	2014
Davis	46	52	53
Irvine	50	51	56
Los Angeles	52	53	58
San Diego	50	52	70
San Francisco	54	54	54

Debt Service Coverage

Debt service coverage ratio measures the amount of funds available to cover the principal and interest on long-term debt. Debt service coverage decreases as new debt is issued and increases with stronger operating results. Debt service coverage ratios are as follows:

	2016	2015	2014
Davis	3.5	3.1	2.9
Irvine	2.9	4.1	4.1
Los Angeles	5.6	7.7	5.0
San Diego	3.7	5.7	4.9
San Francisco	2.2	5.8	3.0

LOOKING FORWARD

Payments from Federal and State Health Care Programs

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

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

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

University of California Retirement and Other Post-Employment Benefit Plans

Effective July 1, 2016, UCRP was amended to provide a new tier of pension benefits applicable to eligible employees hired (or who become eligible), on or after July 1, 2016. The new tier would provide future UC employees a choice between two retirement benefits options (1) the current UCRP pension benefit capped at the California Public Employees' Pension Reform Act (PEPRA) salary limit (currently $117,020) plus a supplemental contribution for eligible employees to a defined contribution plan on pay up to the Internal Revenue Service limit (currently $265,000); or (2) A defined contribution benefit option for eligible employee pay up to the Internal Revenue Service limit (currently $265,000). Under the budget framework, the University will receive $438.0 million in one-time funds for UCRP as a result of making these benefit changes. The funds are being paid over three years, $96.0 million was received in 2016, and $171.0 million each year in 2017 and 2018.

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, 2016 actuarial valuation was $21 billion based upon using a discount rate of 2.85 percent. Currently, the Medical Centers do not report an obligation to the University of California Retiree Health Benefit Trust ("UCRHBT"); however, under under new accounting rules, the Medical Centers as a participant of UCRHBT will report its share of net retiree health benefit liability, deferred inflows of resources, deferred outflows of resources and retiree health benefit expense based on its proportionate share of covered compensation for the fiscal year in the future.

Cautionary Note Regarding Forward-Looking Statements

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

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


DAY

Report of Independent Auditors

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

We have audited the accompanying individual financial statements of the University of California - Davis Medical Center, University of California - Irvine Medical Center, University of California - Los Angeles Medical Center, University of California - San Diego Medical Center, and the University of California - San Francisco Medical Center (collectively referred to as the "University of California Medical Centers"), each of which is a department of the University of California (the "University"), which comprise the individual statements of net position as of June 30, 2016, and the related individual statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Individual Financial Statements

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

Auditors' Responsibility

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

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

Opinions

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the individual financial positions of the University of California - Davis Medical Center, 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 as of June 30, 2016, and their individual changes in financial position and their individual cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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

As discussed in Note 1 to the financial statements, the University of California Medical Centers changed the manner in which they present certain fair value hierarchy disclosures related to investments and the manner in which they account for certain components as blended components in fiscal 2016. Our opinions are not modified with respect to this matter.

Other Matters

2015 Financial Statements

The individual financial statements of the University of California Medical Centers as of June 30, 2015 and for the year then ended, prior to the retrospective application of the change in presentation of certain fair value hierarchy disclosures related to investments and the retrospective application of the change in accounting of components as blended components, as described in Note 1, were audited by other auditors whose report dated October 9, 2015 expressed an unmodified opinion on those financial statements.

We also have audited the adjustments to the 2015 individual financial statements of the University of California Medical Centers to retrospectively apply the change in presentation of certain fair value hierarchy disclosures related to investments and the change in accounting of components as blended components, as described in Note 1. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the individual 2015 financial statements of the University of California Medical Centers other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the individual 2015 financial statements of the University of California Medical Centers taken as a whole.

Required Supplementary Information

The accompanying management's discussion and analysis on pages 24 through 46, the schedules of the University of California Medical Centers' proportionate share of UCRP's net pension liability, the schedule of changes in the net pension liability for the CHRCO Pension Plan, the schedule of net pension liability for the CHRCO Pension Plan, the schedule of employer contributions for the CHRCO Pension Plan and related notes, and the schedule of Irvine's proportionate share of OCERS's net pension liability on pages 106 through 109 are required by accounting principles generally accepted in the United States of America to supplement the individual financial statements. Such information, although not a part of the individual financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the individual financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the individual financial statements, and other knowledge we obtained during our audit of the individual financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

SAN FRANCISCO, CALIFORNIA
OCTOBER 12, 2016

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF NET POSITION

At June 30, 2016 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
ASSETS						
Current assets						
Cash	$464,908	$253,332	$903,617	$465,589	$450,701	$2,538,147
Net patient accounts receivable	236,285	135,199	320,492	199,428	493,161	1,384,565
Other receivables	8,861	309	16,993	14,199	58,533	98,895
Third-party payor settlements, net	49,146	56,581	16,314	38,994	17,655	178,690
Inventory	28,180	18,717	30,381	24,321	49,319	150,918
Prepaid expenses and other assets	38,406	13,824	31,693	15,361	50,962	150,246
Total current assets	**825,786**	**477,962**	**1,319,490**	**757,892**	**1,120,331**	**4,501,461**
Restricted assets						
Deposits held for hospital construction			2,678	24,015	2,201	28,894
Donor funds			11,360		59,345	70,705
Capital assets, net	1,004,073	718,179	1,813,446	1,471,118	2,381,726	7,388,542
Investments in joint ventures	18,837		965	11,488	4,130	35,420
Investments			255,191		153,825	409,016
Other assets			29,724	1,570	5,089	36,383
Total assets	**1,848,696**	**1,196,141**	**3,432,854**	**2,266,083**	**3,726,647**	**12,470,421**
DEFERRED OUTFLOWS OF RESOURCES	**329,360**	**157,583**	**445,456**	**216,217**	**542,005**	**1,690,621**
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	63,098	31,736	143,484	110,835	202,035	551,188
Accrued salaries and benefits	104,026	54,794	143,522	62,989	179,799	545,130
Third-party payor settlements, net	149,953	148,116	18,408		77,145	393,622
Current portion of long-term debt and financing obligations	25,893	4,325	19,799	16,735	4,081	70,833
Other current liabilities	31,646	1,481	96,528	44,312	47,111	221,078
Total current liabilities	**374,616**	**240,452**	**421,741**	**234,871**	**510,171**	**1,781,851**
Long-term debt and financing obligations, net of current portion	268,671	267,344	837,071	684,672	829,519	2,887,277
Net pension liability	895,967	456,616	990,520	564,996	1,237,418	4,145,517
Notes payable to campus			75,000	23,347		98,347
Pension payable to University	212,198	102,884	234,704	131,820	276,499	958,105
Interest rate swap agreements			89,003		14,188	103,191
Self insurance					18,829	18,829
Other noncurrent liabilities				2,941	61,999	64,940
Total liabilities	**1,751,452**	**1,067,296**	**2,648,039**	**1,642,647**	**2,948,623**	**10,058,057**
DEFERRED INFLOWS OF RESOURCES	**84,896**	**50,051**	**87,526**	**57,712**	**118,254**	**398,439**
NET POSITION						
Net investment in capital assets	701,366	446,355	959,252	749,527	1,475,111	4,331,611
Restricted: Nonexpendable endowments and gifts			621		25,242	25,863
Restricted: Expendable capital projects and other			10,739		38,543	49,282
Unrestricted	(359,658)	(209,978)	172,133	32,414	(337,121)	(702,210)
Total net position	**$341,708**	**$236,377**	**$1,142,745**	**$781,941**	**$1,201,775**	**$3,704,546**

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF NET POSITION

At June 30, 2015 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
ASSETS						
Current assets						
Cash	$409,254	$282,757	$734,777	$402,045	$452,342	$2,281,175
Net patient accounts receivable	239,997	125,697	312,585	202,929	453,002	1,334,210
Other receivables	10,054	1,360	16,259	11,508	58,260	97,441
Third-party payor settlements, net	15,439	60,527	11,369	71,250	15,408	173,993
Inventory	25,531	16,219	29,424	24,207	44,582	139,963
Prepaid expenses and other assets	34,508	10,202	24,435	15,863	36,170	121,178
Total current assets	**734,783**	**496,762**	**1,128,849**	**727,802**	**1,059,764**	**4,147,960**
Restricted assets						
Deposits held for hospital construction			2,792	73,643		76,435
Donor funds			12,213		62,150	74,363
Capital assets, net	1,003,080	727,311	1,845,365	1,284,776	2,405,012	7,265,544
Investments in joint ventures	21,540		981	6,997	1,861	31,379
Investments			256,750		159,439	416,189
Other assets			28,819	1,521	4,394	34,734
Total assets	**1,759,403**	**1,224,073**	**3,275,769**	**2,094,739**	**3,692,620**	**12,046,604**
DEFERRED OUTFLOWS OF RESOURCES	**220,741**	**105,171**	**303,568**	**139,659**	**342,890**	**1,112,029**
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	49,926	31,382	118,529	80,458	197,239	477,534
Accrued salaries and benefits	127,931	69,329	168,350	72,856	152,572	591,038
Third-party payor settlements, net	124,925	145,016	9,503	9,046	59,244	347,734
Current portion of long-term debt and financing obligations	29,325	13,494	10,438	16,873	3,936	74,066
Other current liabilities	19,508	1,492	19,229		26,852	67,081
Total current liabilities	**351,615**	**260,713**	**326,049**	**179,233**	**439,843**	**1,557,453**
Long-term debt and financing obligations, net of current portion	294,564	271,824	810,389	693,410	833,600	2,903,787
Net pension liability	627,561	308,211	697,260	385,387	828,623	2,847,042
Notes payable to campus			75,000	5,468		80,468
Pension payable to University	174,007	85,453	193,338	106,869	215,716	775,383
Interest rate swap agreements			60,776		11,108	71,884
Self insurance					18,146	18,146
Other noncurrent liabilities				3,850	62,010	65,860
Total liabilities	**1,447,747**	**926,201**	**2,162,812**	**1,374,217**	**2,409,046**	**8,320,023**
DEFERRED INFLOWS OF RESOURCES	**199,928**	**107,756**	**213,549**	**131,071**	**267,847**	**920,151**
NET POSITION						
Net investment in capital assets	683,085	441,838	1,027,330	648,136	1,511,561	4,311,950
Restricted: Nonexpendable endowments and gifts			662		24,619	25,281
Restricted: Expendable capital projects and other			11,551		39,644	51,195
Unrestricted	(350,616)	(146,551)	163,433	80,974	(217,207)	(469,967)
Total net position	**$332,469**	**$295,287**	**$1,202,976**	**$729,110**	**$ 1,358,617**	**$3,918,459**

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2016 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
Net patient service revenue	$1,888,702	$984,161	$2,266,980	$1,465,431	$3,370,854	$9,976,128
Other operating revenue:						
Clinical teaching support		7,882	13,467			21,349
Grants and contracts					46,469	46,469
Other	46,572	17,608	83,591	79,227	149,994	376,992
Total other operating revenue	**46,572**	**25,490**	**97,058**	**79,227**	**196,463**	**444,810**
Total operating revenue	**1,935,274**	**1,009,651**	**2,364,038**	**1,544,658**	**3,567,317**	**10,420,938**
Operating expenses:						
Salaries and wages	790,079	382,825	924,643	528,171	1,389,825	4,015,543
Retiree health and other employee benefits	187,390	100,691	227,219	166,638	323,953	1,005,891
Pension benefits	185,667	91,575	211,154	119,576	247,971	855,943
Professional services	144,427	5,246	44,725	51,058	113,135	358,591
Medical supplies	304,773	142,439	310,153	307,050	505,000	1,569,415
Other supplies and purchased services	138,183	173,784	365,440	141,382	733,950	1,552,739
Depreciation and amortization	79,291	68,706	134,100	58,391	205,146	545,634
Insurance	9,925	5,878	12,395	8,205	11,333	47,736
Other	36,779	16,475		62,709	157,244	273,207
Total operating expenses	**1,876,514**	**987,619**	**2,229,829**	**1,443,180**	**3,687,557**	**10,224,699**
Income (loss) from operations	**58,760**	**22,032**	**134,209**	**101,478**	**(120,240)**	**196,239**
Non-operating revenues (expenses):						
Hospital Fee Program grants	5,567	901	1,594	1,394	5,681	15,137
Investment income	5,257	3,185	14,587	4,628	10,978	38,635
Build America Bonds federal interest subsidies		3,345	3,076	2,367	15,059	23,847
Private gifts, net					10,918	10,918
Net depreciation in fair value of investments			(5,797)		(9,392)	(15,189)
Interest expense	(15,419)	(15,595)	(39,339)	(7,948)	(48,172)	(126,473)
Loss on disposal of capital assets	(74)	(59)	(3,198)	(425)	(1,074)	(4,830)
Other	4,208	(12,227)	4,679		339	(3,001)
Total net non-operating revenues (expenses)	**(461)**	**(20,450)**	**(24,398)**	**16**	**(15,663)**	**(60,956)**
Income (loss) before other changes in net position	**58,299**	**1,582**	**109,811**	**101,494**	**(135,903)**	**135,283**
Other changes in net position:						
Donated assets			16,212	33,120	27,511	76,843
Contributions for building programs	2,074	822		19,135	19,779	41,810
Transfers (to) from University, net	(8,563)	3,086	(8,950)	(2,735)	8,240	(8,922)
Changes in allocation for pension payable to University	(1,184)	681	(452)	(1,613)	(12,414)	(14,982)
Health system support	(41,387)	(65,081)	(176,852)	(96,570)	(64,055)	(443,945)
Total other changes in net position	**(49,060)**	**(60,492)**	**(170,042)**	**(48,663)**	**(20,939)**	**(349,196)**
Increase (decrease) in net position	**9,239**	**(58,910)**	**(60,231)**	**52,831**	**(156,842)**	**(213,913)**
Net position - beginning of year	332,469	295,287	1,202,976	729,110	1,358,617	3,918,459
Net position - end of year	**$341,708**	**$236,377**	**$1,142,745**	**$781,941**	**$1,201,775**	**$3,704,546**

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2015 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
Net patient service revenue	$1,693,445	$906,595	$2,167,150	$1,423,546	$ 3,084,035	$9,274,771
Other operating revenue:						
Clinical teaching support		8,727	13,467			22,194
Grants and contracts					51,366	51,366
Other	30,521	17,842	73,249	63,095	123,597	308,304
Total other operating revenue	**30,521**	**26,569**	**86,716**	**63,095**	**174,963**	**381,864**
Total operating revenue	**1,723,966**	**933,164**	**2,253,866**	**1,486,641**	**3,258,998**	**9,656,635**
Operating expenses:						
Salaries and wages	729,881	352,214	864,458	470,206	1,220,698	3,637,457
Retiree health and other employee benefits	175,260	94,299	207,030	150,780	266,477	893,846
Pension benefits	107,907	52,646	126,325	67,052	139,806	493,736
Professional services	118,536	4,536	40,720	47,151	94,845	305,788
Medical supplies	283,794	129,044	275,594	290,038	438,488	1,416,958
Other supplies and purchased services	134,006	171,282	361,884	202,518	673,305	1,542,995
Depreciation and amortization	85,078	57,710	130,946	56,647	164,916	495,297
Insurance	8,852	2,711	11,660	7,829	9,408	40,460
Other	28,776				149,774	178,550
Total operating expenses	**1,672,090**	**864,442**	**2,018,617**	**1,292,221**	**3,157,717**	**9,005,087**
Income from operations	**51,876**	**68,722**	**235,249**	**194,420**	**101,281**	**651,548**
Non-operating revenues (expenses):						
Hospital Fee Program grants	4,864	3,234	4,228	3,855	5,832	22,013
Investment income	4,126	3,575	13,644	4,015	19,683	45,043
Build America Bonds federal interest subsidies		3,326	3,040	2,349	14,968	23,683
Private gifts, net					14,114	14,114
Net appreciation (depreciation) in fair value of investments			4,334		(77)	4,257
Interest expense	(16,884)	(15,938)	(38,619)	(8,064)	(24,747)	(104,252)
Loss on disposal of capital assets	(930)	(170)	(151)	(270)	(1,130)	(2,651)
Other	3,562	803	1,691	904	169	7,129
Total net non-operating revenues (expenses)	**(5,262)**	**(5,170)**	**(11,833)**	**2,789**	**28,812**	**9,336**
Income before other changes in net position	**46,614**	**63,552**	**223,416**	**197,209**	**130,093**	**660,884**
Other changes in net position:						
Donated assets			4,146	15,219	74,361	93,726
Contributions (distributions) building programs	1,398	729		(3,890)	28,294	26,531
Transfers (to) from University, net	(10,563)			6,558		(4,005)
Changes in allocation for pension payable to University	3,137	2,715	2,822	(1,136)	(11,704)	(4,166)
Health system support	(32,323)	(60,899)	(130,170)	(100,651)	(76,250)	(400,293)
Total other changes in net position	**(38,351)**	**(57,455)**	**(123,202)**	**(83,900)**	**14,701**	**(288,207)**
Increase in net position	**8,263**	**6,097**	**100,214**	**113,309**	**144,794**	**372,677**
Net position - beginning of year:						
Beginning of year, as previously reported	324,206	289,190	1,102,762	615,801	782,669	3,114,628
Cumulative effect of reporting entity changes					431,154	431,154
Beginning of year, as restated	324,206	289,190	1,102,762	615,801	1,213,823	3,545,782
Net position - end of year	**$332,469**	**$295,287**	**$1,202,976**	**$729,110**	**$1,358,617**	**$3,918,459**

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF CASH FLOWS

For the year ended June 30, 2016 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
Cash flows from operating activities:						
Receipts from patients and third-party payors	$1,885,528	$977,759	$2,253,238	$1,492,142	$3,346,349	$9,955,016
Payments to employees	(806,639)	(399,510)	(948,025)	(538,038)	(1,375,279)	(4,067,491)
Payments to suppliers	(608,440)	(327,479)	(613,745)	(557,304)	(1,500,839)	(3,607,807)
Payments for benefits	(299,382)	(147,105)	(345,331)	(229,208)	(500,342)	(1,521,368)
Other receipts	36,656	24,598	84,662	136,392	244,934	527,242
Net cash provided by operating activities	**207,723**	**128,263**	**430,799**	**303,984**	**214,823**	**1,285,592**
Cash flows from noncapital financing activities:						
Health system support	(41,387)	(65,081)	(176,852)	(96,570)	(64,055)	(443,945)
Grants from the Hospital Fee Program	3,774	901	1,594	1,394	5,681	13,344
Transfers to University, net	(8,563)			(6,711)		(15,274)
Gifts received for other than capital purposes					10,918	10,918
Net cash used by noncapital financing activities	**(46,176)**	**(64,180)**	**(175,258)**	**(101,887)**	**(47,456)**	**(434,957)**
Cash flows from capital and related financing activities:						
Contributions for building program	2,074	822		19,135		22,031
Proceeds from financing obligations and other borrowings			46,482	8,093		54,575
Build America Bonds federal interest subsidies		3,345	3,076	2,368	15,059	23,848
Proceeds from sale of capital assets	144	36		28	1,060	1,268
Purchases of capital assets	(76,930)	(59,425)	(117,497)	(198,625)	(183,235)	(635,712)
Principal paid on long-term debt and financing obligations	(28,563)	(13,494)	(10,038)	(16,373)	(3,915)	(72,383)
Interest paid on long-term debt and financing obligations	(14,786)	(15,750)	(40,519)	(36,063)	(51,824)	(158,942)
Gifts and donated funds			16,212	33,120	47,290	96,622
Net cash used by capital and related financing activities	**(118,061)**	**(84,466)**	**(102,284)**	**(188,317)**	**(175,565)**	**(668,693)**
Cash flows from investing activities:						
Investment income received	5,257	3,185	14,587	4,627	10,978	38,634
Distributions from (contributions to) investments in joint ventures, net	4,900		4,270		(2,269)	6,901
Purchase of investments			(4,238)	(4,491)		(8,729)
Change in restricted assets			964	49,628	604	51,196
Other non-operating receipts (payments)	2,011	(12,227)			(2,756)	(12,972)
Net cash provided (used) by investing activities	**12,168**	**(9,042)**	**15,583**	**49,764**	**6,557**	**75,030**
Net increase (decrease) in cash	**55,654**	**(29,425)**	**168,840**	**63,544**	**(1,641)**	**256,972**
Cash - beginning of year	409,254	282,757	734,777	402,045	452,342	2,281,175
Cash - end of year	**$464,908**	**$253,332**	**$903,617**	**$465,589**	**$450,701**	**$2,538,147**

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF CASH FLOWS *continued*

For the year ended June 30, 2016 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
Reconciliation of income from operations to net cash provided by (used) operating activities:						
Income from operations	$58,760	$22,032	$134,209	$101,478	$(120,240)	$196,239
Adjustments to reconcile income from operations to net cash provided by operating activities:						
Depreciation and amortization expense	79,291	68,706	134,100	58,391	205,146	545,634
Provision for uncollectible accounts	96,770	27,494	26,323	33,406	54,944	238,937
Changes in operating assets and liabilities:						
Patient accounts receivable	(93,058)	(36,996)	(34,230)	(29,905)	(95,103)	(289,292)
Other receivables	1,193	4,997	(733)	(2,691)	(273)	2,493
Inventory	(2,649)	(2,498)	(957)	(114)	(4,737)	(10,955)
Prepaid expenses and other assets	(3,898)	(3,622)	(7,739)	453	(15,487)	(30,293)
Accounts payable and accrued expenses	10,011	110	28,906	29,214	7,594	75,835
Accrued salaries and benefits	(23,905)	(14,535)	(24,828)	(9,867)	27,227	(45,908)
Third-party payor settlements	(6,886)	3,100	3,960	23,210	15,654	39,038
Other liabilities	12,258	(11)	77,298	43,403	119,673	252,621
Pension benefits	79,836	59,486	94,490	57,006	20,425	311,243
Net cash provided by operating activities	**$207,723**	**$128,263**	**$430,799**	**$303,984**	**$214,823**	**$1,285,592**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION						
Payables for property and equipment	$12,557	$1,959	$6,576	$4,436	$11,515	$37,043
Amortization of bond premium	762	155	401	596	21	1,935
Capital asset transfers from (to) the University	314	822	(8,950)			(7,814)
Change in fair value of interest rate swaps			28,227		3,080	31,307
Swap fair value amortization			424			424
Advances from University	6,951			62,078		69,029

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF CASH FLOWS

For the year ended June 30, 2015 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
Cash flows from operating activities:						
Receipts from patients and third-party payors	$1,770,941	$937,207	$2,170,084	$1,447,386	$3,017,210	$9,342,828
Payments to employees	(727,819)	(348,597)	(860,261)	(465,069)	(1,202,576)	(3,604,322)
Payments to suppliers	(561,484)	(300,460)	(662,623)	(563,077)	(1,336,485)	(3,424,129)
Payments for benefits	(270,204)	(138,848)	(300,834)	(207,840)	(399,166)	(1,316,892)
Other receipts (payments)	23,738	(9,559)	75,057	70,599	180,649	340,484
Net cash provided by operating activities	**235,172**	**139,743**	**421,423**	**281,999**	**259,632**	**1,337,969**
Cash flows from noncapital financing activities:						
Health system support	(32,323)	(60,899)	(130,170)	(100,651)	(76,250)	(400,293)
Grants from the Hospital Fee Program	1,838	3,234	4,228	3,855	5,832	18,987
Transfers (to) from University	(10,563)			6,558		(4,005)
Gifts received for other than capital purposes					14,114	14,114
Net cash used by noncapital financing activities	**(41,048)**	**(57,665)**	**(125,942)**	**(90,238)**	**(56,304)**	**(371,197)**
Cash flows from capital and related financing activities:						
Contributions (distributions) for building program	1,398	729		(3,890)	28,294	26,531
Proceeds from financing obligations and other borrowings				32,970		32,970
Repayment of University advances					(2,200)	(2,200)
Build America Bonds federal interest subsidies		3,326	3,040	2,349	14,968	23,683
Proceeds from sale of capital assets	49			49	6,142	6,240
Purchases of capital assets	(42,269)	(49,829)	(99,929)	(194,925)	(357,383)	(744,335)
Principal paid on long-term debt and financing obligations	(31,781)	(17,096)	(10,944)	(14,737)	(8,112)	(82,670)
Interest paid on long-term debt and financing obligations	(15,793)	(16,093)	(40,332)	(35,908)	(51,212)	(159,338)
Gifts and donated funds			4,146	15,219	74,361	93,726
Net cash used by capital and related financing activities	**(88,396)**	**(78,963)**	**(144,019)**	**(198,873)**	**(295,142)**	**(805,393)**
Cash flows from investing activities:						
Investment income received	4,126	3,575	13,644	4,015	19,683	45,043
Distributions from (contributions to) investments in joint ventures, net	1,400		286	6,534	(1,861)	6,359
Proceeds from sales and maturities of investments					374,333	374,333
Purchase of investments			(252,415)		(375,254)	(627,669)
Change in restricted assets		3,232	702	143,044	7,906	154,884
Other non-operating receipts (payments)	(5)	803		904	1,619	3,321
Net cash provided (used) by investing activities	**5,521**	**7,610**	**(237,783)**	**154,497**	**26,426**	**(43,729)**
Net increase (decrease) in cash	**111,249**	**10,725**	**(86,321)**	**147,385**	**(65,388)**	**117,650**
Cash - beginning of year	298,005	272,032	821,098	254,660	517,730	2,163,525
Cash - end of year	**$409,254**	**$282,757**	**$734,777**	**$402,045**	**$452,342**	**$2,281,175**

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS *continued*

For the year ended June 30, 2015 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
Reconciliation of income from operations to net cash provided by (used) operating activities:						
Income from operations	$51,876	$68,722	$235,249	$194,420	$101,281	$651,548
Adjustments to reconcile income from operations to net cash provided by operating activities:						
Depreciation and amortization expense	85,078	57,710	130,946	56,647	164,916	495,297
Provision for uncollectible accounts	96,056	22,806	25,702	43,790	70,142	258,496
Impairment of capital assets	1,283					1,283
Changes in operating assets and liabilities:						
Patient accounts receivable	(110,894)	(15,383)	(34,796)	(9,890)	(129,156)	(300,119)
Other receivables	(1,068)	(32,547)	(4,665)	406	(28,741)	(66,615)
Inventory	(1,236)	445	(246)	(5,351)	(9,761)	(16,149)
Prepaid expenses and other assets	(8,419)	(927)	1,687	(4,381)	3,002	(9,038)
Accounts payable and accrued expenses	5,846	4,884	18,307	1,438	17,580	48,055
Accrued salaries and benefits	3,405	4,464	13,658	5,137	38,338	65,002
Third-party payor settlements	92,334	23,189	23,978	(10,060)	21,099	150,540
Other liabilities	6,154	(870)	(11,458)	(150)	(647)	(6,971)
Pension benefits	14,757	7,250	23,061	9,993	11,579	66,640
Net cash provided by operating activities	**$235,172**	**$139,743**	**$421,423**	**$281,999**	**$259,632**	**$1,337,969**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION						
Payables for property and equipment	$9,396	$1,967	$10,527	$3,273	$15,658	$40,821
Amortization of bond premium	808	155	401	596	21	1,981
Capital asset transfers from (to) the University	(319)	729				410
Change in fair value of interest rate swaps			7,255		246	7,501
Swap fair value amortization			424			424
Advances from University				5,468		5,468
Exchange of investments for commingled funds					46,289	46,289

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTER POOLED GROUP

Notes to Financial Statements

Year ended June 30, 2016

1. ORGANIZATION

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

The financial statements of the Medical Centers present the financial position, and the changes in financial position and cash flows, of only that portion of the University that is attributable to the transactions of the Medical Centers.

The Regents are the sole corporate and voting member of Children's Hospital & Research Center Oakland ("CHRCO"), a private, not-for-profit 501(c)(3) corporation. Children's Hospital & Research Center Foundation, a nonprofit public benefit corporation, is organized and operated for the purpose of supporting CHRCO. Since San Francisco provides certain management services for CHRCO, CHRCO combined with its foundation is included with UCSF Medical Center in the financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for the University's fiscal year beginning July 1, 2015. This Statement establishes standards for accounting and financial reporting for fair value measurements. The Statement requires investments to be measured at fair value and permits the use of net asset value as the fair value when an investment does not have a readily determinable fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Implementation of Statement No. 72 resulted in additional disclosures of investments and other assets reported at fair value within the fair value hierarchy.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for the University's fiscal year beginning July 1, 2015. This Statement establishes requirements for those pensions and pension plans that were not covered by Statements 67 and 68, specifically those not administered through a trust meeting specified criteria. Implementation of Statement No. 73 had no impact on the financial statements for the year ended June 30, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the University's fiscal year beginning July 1, 2015. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. Implementation of Statement No. 76 had no impact on the financial statements for the year ended June 30, 2016.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*, effective for the University's fiscal year beginning July 1, 2016. This Statement requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments that reduce the reporting government's tax revenues. The purpose of this Statement is to increase transparency in regards to tax abatements governments entered into and make the impact of these agreements more apparent to users of the financial statements. Implementation of Statement No. 77 had no impact on the financial statements for the year ended June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*, effective for the University's fiscal year beginning July 1, 2015. This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. Implementation of Statement No. 79 had no impact on the financial statements for the year ended June 30, 2016.

GASB Statement No. 80, *Blending Requirements for Certain Component Units — An Amendment of GASB statement No. 14*, was adopted by the University during the year ended June 30, 2016. Statement No. 80 amends the blending requirements established in paragraph 53 of amended Statement No. 14, *The Financial Reporting Entity*, for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. CHRCO, combined with its foundation, was previously reported as a discretely presented component unit of the University and with the accounting change became a blended component of unit of the University. CHRCO is included with UCSF Medical Center in the financial statements.

San Francisco restated the 2015 financial statements for purposes of presenting comparative information for the year ended June 30, 2016. The effect of the changes from the adoption of Statement No. 80 on San Francisco's financial statements as of and for the year ended June 30, 2015 was as follows:

(in thousands of dollars)	SAN FRANCISCO AS OF AND FOR THE YEAR ENDED JUNE 30, 2015		
	As Previously Reported	Effect of Adoption of Statement No. 80	As Restated
Statement of Net Position			
Current assets	$834,366	$225,398	$1,059,764
Total assets	2,980,418	712,202	3,692,620
Deferred outflows of resources*	307,480	35,410	342,890
Current liabilities	366,633	73,210	439,843
Total liabilities	2,205,005	204,041	2,409,046
Deferred inflows of resources*	255,813	12,034	267,847
Unrestricted net position	(479,575)	262,368	(217,207)
Total net position	827,080	531,537	1,358,617
Statement of Revenues, Expenses and Changes in Net Position			
Net patient service revenue	2,579,844	504,191	3,084,035
Total other operating revenues	103,608	71,355	174,963
Total operating revenues	2,683,452	575,546	3,258,998
Total operating expenses	2,614,878	542,839	3,157,717
Income from operations	68,574	32,707	101,281
Net non-operating revenues	5,391	23,421	28,812
Income before other changes in net position	73,965	56,128	130,093
Other changes in net position	(29,554)	44,255	14,701
Change in net position	44,411	100,383	144,794
Statement of Cash Flows			
Net cash used by operating activities	231,506	28,126	259,632
Net cash provided by noncapital financing activities	(67,981)	11,677	(56,304)
Net cash used by capital and related financing activities	(318,002)	22,860	(295,142)
Net cash provided (used) by investing activities	17,910	8,516	26,426

** As revised for comparative purposes.*

In April 2016, the GASB issued Statement No. 82, *Pension Issues — An Amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the University's fiscal year beginning July 1, 2016. The University has elected to early implement this Statement, effective July 1, 2015. This statement clarifies or amends Statements No. 67, 68 and 73 and specifically addresses the issues of presentation of payroll related measures in required supplementary information, the selection of assumptions and the treatment of deviations from guidance in Actuarial Standards of Practice for financial reporting purposes, and classification of payments made by employers to satisfy plan member contribution requirements. Implementation of Statement No. 82 had no impact on the financial statements.

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 except for certain deposits held for hospital construction. The net asset value for the STIP is held at a constant value of $1 and is not adjusted for unrealized gains and losses associated with the fluctuation in the fair value of the investments included in the STIP (which are predominately held to maturity) and are not recorded by each operating entity but are absorbed by the University, as the manager of the pool. None of these amounts are insured by the Federal Deposit Insurance Corporation. To date, the Medical Centers have not experienced any losses on these accounts.

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

Additional information on cash and investments can be obtained from the 2015-2016 annual report of the University.

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

Investments. Investments are reported at fair value. The Medical Centers' investments consist of investments in the UC Regents Total Return Investment Pool ("TRIP") and General Endowment Pool ("GEP"). UCSF's investments consist of investments in the UCSF Foundation's ("UCSFF") Endowed Investment Pool ("EIP"), the University's STIP and other investment securities. The basis of determining the fair value of pooled funds or mutual funds is determined as the number of units held in the pool multiplied by the price per unit share, computed on the last day of the month. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Certain securities may be valued on a basis of a price provided by a single source.

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

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

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

Restricted Assets, Deposits Held for Hospital Construction. The University directly finances the construction, renovation and acquisition of facilities and equipment as are authorized by The Regents through the issuance of debt obligations. Bond proceeds are primarily invested in STIP and are released to the Medical Centers when spent on qualifying expenditures for hospital construction.

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

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

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

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

Interest Rate Swap Agreements. The Medical Centers have entered into interest rate swap agreements to limit the exposure of their variable-rate debt to changes in market interest rates. These derivative financial instruments are agreements that involve the exchange with a counterparty of fixed- and variable-rate interest payments periodically over the life of the agreement

without exchange of the underlying notional principal amounts. The difference to be paid or received is recognized over the life of the agreements as an adjustment to interest expense.

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

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

Bond Premium. The premium received in the issuance of long-term debt is amortized as a reduction to interest expense over the term of the related long-term debt.

Self-Insurance Programs. The University is self-insured or insured through a wholly owned captive insurance company for medical malpractice, workers' compensation, employee health care and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer.

Liabilities are recorded when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred, but not reported. The estimated liabilities are based upon an independent actuarial determination of the present value of the anticipated future payments. While the Medical Centers participate in the self-insurance programs, they are administered by the University of California Office of the President. Accordingly, the self-insurance funding and liabilities are not included in the accompanying financial statements.

CHRCO has a claims-made policy for medical malpractice claims. Under this policy, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed, or replaced with equivalent insurance, claims related to occurrences during their terms but reported subsequent to their termination may be uninsured. CHRCO has a high-deductible per occurrence policy for workers' compensation with no limit, and is effectively self-insured due to the high deductible. CHRCO has a self-insured preferred provider organization plan for health claims.

Deferred Outflows of Resources and Deferred Inflows of Resources. Deferred outflows of resources and deferred inflows of resources represent a consumption and acquisition of net position that applies to a future period, respectively. The Medical Centers classify gains on refunding of debt as deferred inflows of resources and losses as deferred outflows of resources and recognize the amortization of gains and losses as a component of interest expense over the remaining life of the old debt, or the new debt, whichever is shorter.

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

Changes in net pension liability not included in pension expense, including proportionate shares of collective pension expense from the University of California Retirement Plan, are reported as deferred outflows of resources or deferred inflows of resources related to pensions for the Medical Centers.

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

Net Investment in Capital Assets — Capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted — The Medical Centers classify net position resulting from transactions with purpose restrictions as restricted net assets until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable — Net position subject to externally imposed restrictions that must be retained in perpetuity.

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

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

Expenses are charged to either restricted or unrestricted net position based upon a variety of factors, including consideration of prior and future revenue sources, the type of expense incurred, budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost. Unrestricted net position is negative due primarily to obligations for pension and retiree health benefits exceeding the Medical Centers' reserves.

Contributions received by CHRCO may be designated by the donor for restricted purposes or may be without restriction as to their use. Contributions restricted by donors as to use or time period are reported as restricted until used in a manner designated or upon expiration of the time period. Under California law, income and gains on permanently restricted net position are maintained in restricted expendable net position until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard prudence prescribed by the Prudent Management of Institutional Funds Act. Income and gains on permanently restricted net position that are available for expenditure are $4.7 million and $8.1 million as of June 30, 2016 and 2015, respectively.

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

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

The Medical Centers estimate and recognize a provision for uncollectible accounts based on historical experience.

CHRCO receives grants from federal agencies and other third-parties. Government grants are reimbursed based on actual expenses incurred or units of service provided. Revenue from these grants is recognized either when expenses are incurred or when services are provided, depending on the grant award agreements.

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

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

Health system support, donated assets, contributions for building programs, transfers to the University and changes in allocation for pension payable to the University are classified as other changes in net position.

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

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.

Net Pension Liability. The University of California Retirement Plan ("UCRP") provides retirement benefits to retired employees of the Medical Centers. The Medical Centers are required to contribute to UCRP at a rate set by The Regents. Net pension liability includes the Medical Centers' share of the University's net pension liability for UCRP. The Medical Centers' share of net pension liability, deferred inflows of resources, deferred outflows of resources and pension expense have been determined based upon their proportionate share of covered compensation for the fiscal year. The fiduciary net position and changes in the fiduciary net position of UCRP have been measured consistent with the accounting policies used by the Plan. For purposes of measuring UCRP's fiduciary net position, investments are reported at fair value and benefit payments are recognized when due and payable in accordance with the benefit terms.

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

Pension Payable to University. Additional deposits in UCRP have been made using University resources to make up the gap between the approved contribution rates and the required contributions based on The Regents' funding policy. These deposits, carried as internal loans by the University, are being repaid by the Medical Centers, plus accrued interest, over a thirty-year period through a supplemental pension assessment. The Medical Centers' share of the internal loans has been determined based upon their proportionate share of covered compensation for the fiscal year. Supplemental pension assessments are reported as pension expense by the Medical Centers. Additional deposits in UCRP by the University, and changes in the Medical Centers' share of the internal loans, are reported as other changes in net position.

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

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

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

Compensated Absences. The Medical Centers accrue annual leave, including employer related costs, for employees at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked.

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

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

Comparative Information. In connection with the preparation of the June 30, 2016 statement of net position, the Medical Centers concluded deferred outflows of resources arising from net difference between projected and actual earnings on pension plan investment should have been netted against deferred inflows of resources as of June 30, 2015. The effect on the prior period financial statements is not material. However, management elected to make the revisions in classification to the Medical Center's 2015 presentation to conform to the 2016 presentation. The revision in classification resulted in a decrease in deferred outflows of resources and deferred inflows of resources in the statement of net position as follows:

(in thousands of dollars)

	2015
Davis	$117,356
Irvine	57,637
Los Angeles	130,391
San Diego	72,069
San Francisco	155,765
Total	**$533,218**

New Accounting Pronouncements. In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the Medical Centers' fiscal year beginning July 1, 2017. This Statement revises existing standards for measuring and reporting retiree health benefits provided by the Medical Centers to its employees. This Statement requires recognition of a liability equal to the net retiree health benefit liability, which is measured as the total retiree health benefit liability, less the amount of the UCRHBT's fiduciary net position. The total retiree health benefit liability is determined based upon discounting projected benefit payments based on claims costs, the benefit terms and legal agreements existing at the UCRHBT's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. The Statement requires that most changes in the net retiree health benefit liability be included in the retiree health benefit expense in the period of change. Currently, the Medical Centers do not report an obligation to UCRHBT; however, under Statement No. 75, the Medical Centers as a participant of UCRHBT will report its share of net retiree health benefit liability, deferred inflows of resources, deferred outflows of resources and retiree health benefit expense based on its proportionate share of covered compensation for the fiscal year.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for the University's fiscal year beginning July 1, 2016. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan).

This Statement establishes requirements for recognition and measurement of pension expense, expenditures and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The Medical Centers are evaluating the effect that Statement 78 will have on its financial statements.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for the University's fiscal year beginning July 1, 2017. This Statement addresses when Irrevocable Split-Interest Agreements constitute an asset for accounting and financial reporting purposes when the resources are administered by a third party. The Statement also provides expanded guidance for circumstances in which the government holds the assets. The Medical Centers are evaluating the effect that Statement 81 will have on its financial statements.

2. INVESTMENTS

The composition of investments, by investment type and fair value level at June 30, is as follows:

(in thousands of dollars)	FAIR VALUE LEVEL	LOS ANGELES		SAN FRANCISCO	
		2016	2015	2016	2015
Fixed- or variable-income securities:					
U.S. government-guaranteed:					
U.S. Treasury bills, notes and bonds	2			$300	$299
U.S. government-guaranteed				**300**	**299**
Other U.S. dollar-denominated:					
U.S. agencies - asset-backed securities	2			193	218
Corporate - asset-backed securities	2				9
Other U.S. dollar-denominated				**193**	**227**
Commingled funds:					
U.S. equity funds	1			1,549	1,863
Non-U.S. equity funds	1			254	310
U.S. bond funds	1			125	311
Non-U.S. bond funds	1			286	
Money market funds	1			87	95
Balanced funds	NAV	$255,191	$256,750	191,374	200,132
Commingled funds		**255,191**	**256,750**	**193,675**	**202,711**
Publicly traded real estate investment trusts	1			478	420
Total investments		**255,191**	**256,750**	**194,646**	**203,657**
Less: Reported as restricted assets in donor funds				(40,821)	(44,218)
Noncurrent portion		**$255,191**	**$256,750**	**$153,825**	**$159,439**

The University-managed commingled funds (UC pooled funds) serve as the core investment vehicle for the Medical Centers. A description of the funds used is as follows:

TRIP. The Total Return Investment Pool (TRIP) allows participants the opportunity to maximize the return on their long-term working capital by taking advantage of the economies of scale of investing in a large pool across a broad range of asset classes. TRIP supplements STIP by investing in an intermediate-term, higher-risk portfolio allocated across equities, fixed-income and liquid alternative strategies, and allows participants to maximize the return on their long-term capital. The objective of TRIP is to generate a rate of return above the policy benchmark, after all costs and fees, consistent with liquidity, cash flow requirements and the risk. UCLA Medical Center's investment in TRIP is classified as commingled balanced funds. TRIP is considered to be an external investment pool from the Medical Center's perspective. The fair value of the UCLA Medical Center's investment in TRIP was $204.6 million and $204.4 million at June 30, 2016 and 2015, respectively.

Investments in TRIP are committed for a three-year lock-up period and would therefore not be available to the UCLA Medical Center until the end of such lock-up period. After the lock-up period expires, one calendar quarter notice to the Campus will be required for any redemptions or withdrawals. Withdrawals will occur on the last business day of the month. Investments into TRIP are subject to certain withdrawal guidelines such as limiting the withdrawals to 10% of the current value of TRIP in any one quarter.

GEP. The General Endowment Pool (GEP) is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scales. GEP is a balanced portfolio of equities, fixed-income securities and alternative investments. The primary goal is to maximize long-term total return, growth of principal and a growing payout stream to ensure that future funding for endowment-supported activities can be maintained. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements. UCLA Medical Center's investment in GEP is classified as commingled funds. GEP is considered to be an external investment pool from the Medical Center's perspective. The fair value of the UCLA Medical Center's investment in GEP was $50.6 million and $52.4 million at June 30, 2016 and 2015, respectively.

EIP. UCSF invests primarily in the UCSF Foundation's Endowed Investment Pool (EIP) and STIP. STIP is classified as a money market fund. EIP is the UCSF Foundation's primary investment vehicle for endowed gifts. The Foundation's primary investment objective is growth of principal sufficient to preserve purchasing power and provide income to support current and future activities. Investments in EIP include high-quality, readily marketable equity and fixed-income securities; other types of investments, including derivative instruments such as financial futures, may be made at the direction of the UCSF Foundation's Investment Committee. EIP represents investments in a unitized pool. UCSF's investment in EIP is classified as commingled funds. Transactions within each individual endowment in the pool are based on the unit market value at the beginning or end of the month during which the transaction takes place for withdrawals and additions, respectively.

Investments in the EIP with the UCSF Foundation were committed to a one-year lock-up period which ended at June 30, 2016, after which point termination of the agreement will require at least twelve months' prior written notice of intention to terminate as of a date specified in the notice. Withdrawals will occur on the last business day of the month and are subject to certain withdrawal guidelines such as providing a forecasted schedule of cash withdrawals 90 days prior to the start of each fiscal year.

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

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

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

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

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

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

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

Investment Risk Factors

There are many factors that can affect the value of investments. In addition to market risk, credit risk, custodial credit risk, concentration of credit risk and foreign currency risk may affect both equity and fixed-income securities. Equity securities are affected by such factors as economic conditions, individual company earnings performance and market liquidity, while fixed-income securities are particularly sensitive to credit risk, inflation and changes in interest rates. UCLA Medical Center and UCSF Medical Center have established investment policies to provide the basis for the management of a prudent investment program appropriate to the particular fund type.

Credit Risk

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

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

Certain fixed-income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are considered to have minimal credit risk. The credit risk profile for investments at June 30, 2016 and 2015 are as follows:

(in thousands of dollars)	**SAN FRANCISCO**	
	2016	**2015**
Fixed- or variable-income securities:		
U.S. government-guaranteed	$300	$299
Other U.S. dollar-denominated:		
AA		9
Not rated	193	218
Commingled funds:		
U.S. bond funds: Not rated	125	311
Non-U.S. bond funds: Not rated	286	
Money market funds: Not rated	87	95

UCLA Medical Center's and UCSF's Medical Center's commingled funds (including GEP, EIP and TRIP) are not rated.

Custodial credit risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. Substantially, all of UCSF's investments are registered in the name of the UCSF Foundation. UCLA Medical Center's investments are registered in the name of the University.

Concentration of credit risk

Concentration of credit risk is the risk of loss associated with a lack of diversification of having too much invested in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments. Securities issued or explicitly guaranteed by the U.S. government, mutual funds, external investment pools and other pooled investments are excluded from this review. Investments in the various investment pools managed by the Office of the Chief Investment Officer of the Regents and the UCSF Foundation are external investment pools and are not subject to concentration of credit risk. There is no concentration of any single individual issuer of investments that comprise more than 5% of total investments.

Interest rate risk

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

The effective durations for fixed- or variable-income securities at June 30, 2016 and 2015 are as follows:

	SAN FRANCISCO	
	2016	**2015**
U.S. government-guaranteed:		
U.S. Treasury bills, notes and bonds	3.8	3.8
Corporate - asset-backed securities		2.7

UCSF considers the effective duration for money market funds to be zero, and effective duration information for the EIP is unavailable.

Investments include other asset-backed securities, which generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. At June 30, 2016 and 2015, the fair value of UCSF's other asset backed securities were $193 and $218, respectively with an effective duration of 2.7.

Foreign Currency Risk

The University's strategic asset allocation policy for TRIP and GEP as well as the UCSF Foundation's asset allocation strategy includes allocations to non-U.S. equities and non-dollar-denominated bonds. Exposure from foreign currency risk results from investments in foreign currency-denominated equity, fixed-income and private equity securities.
At June 30, 2016 and 2015, UCSF was subject to foreign currency risk as a result of holding various currency denominations in the following investments:

(in thousands of dollars)	SAN FRANCISCO	
	2016	**2015**
Commingled funds:		
Various currency denominations:		
Non-U.S. equity funds	$254	$310
Non-U.S. bond funds	286	
Total exposure to foreign currency risk	**$540**	**$310**

3. NET PATIENT SERVICE REVENUE

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

Medicare. Medicare patient revenues include traditional reimbursement under Title XVIII of the Social Security Act or Medicare capitated contract revenue.

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

The Medical Centers are reimbursed for cost reimbursable items at a tentative rate with final settlement of such items determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The Medical Centers' classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Centers have received final notices from the Medicare fiscal intermediary through June 30, 2008 for UC Davis Medical Center; through June 30, 2008, for UC Irvine Medical Center; through June 30, 2008, for Ronald Reagan UCLA Medical Center; through June 30, 2011, for the Santa Monica Hospital; through June 30, 2014, for the Resnick Neuropsychiatric Hospital; through June 30, 2009, for UCSD Medical Center; through June 30, 2002, for the UCSF Medical Center; and through December 31, 2013, for CHRCO. The fiscal intermediary is in the process of conducting their audits of the subsequent cost reports. The results of these audits have yet to be finalized and any amounts due to or from

Medicare have not been determined. Estimated receivables and payables related to all open cost reporting periods are included in the statements of net position as third-party payor settlements.

Medi-Cal. The Medicaid program is referred to as Medi-Cal in California. Medi-Cal fee-for-service ("FFS") inpatient hospital payments are made in accordance with the federal Medicaid hospital financing waiver and legislation enacted by the state of California ("The Waiver Program"). The Waiver Program was enacted in two five-year phases, the first covering 2006 through 2010 and the second covering 2011 through 2015. The Waiver Program was extended and is effective from January 1, 2016 to December 31, 2020. The total payments made to the Medical Centers will include a combination of Medi-Cal inpatient FFS payments, Medi-Cal Disproportionate Share Hospital ("DSH") payments and the Safety Net Care Pool ("SNCP"). Effective November 2011, the Medical Centers are also eligible to receive incentive payments designed to encourage delivery system innovation in connection with federal health care reform. The Medical Centers are reimbursed at tentative settlement amounts with final settlement of such items determined after submission of annual filings and audits thereof by the state. Certain payments under the Waiver Program are based on allocation of pooled funds amongst all participating public hospitals in the state and are subject to change based on the audit results of the other participating public hospitals. The Medical Centers have received final settlement through 2007. The state is in the process of conducting their audits of the subsequent years of the Waiver Program. The results of these audits have yet to be finalized and any amounts due to or from Medi-Cal have not been determined. Estimated receivables and payables related to all Waiver Program reporting periods are included in the statements of net position as third-party payor settlements.

CHRCO has a contractual agreement with the Medi-Cal program, which includes patients that qualify for California Children's Services (CCS). CHRCO is an essential Medi-Cal and California Children's Services provider. Inpatient services are reimbursed by the All Patient Refined Diagnosis Related Group (APR DRG), at a per-case rate based upon acuity. Outpatient services are paid via fee schedules. In addition, CHRCO is the recipient of Medi-Cal funds under various state of California programs, in particular the Private Hospital Supplemental Fund and DSH. The state of California funds eligible hospitals based upon the total pool of funding available and a formula for distribution. The legislative funding is subject to retroactive reductions and potential future elimination.

Assembly Bill 1383. State of California Assembly Bill 1383 of 2009, as amended by AB 1653 on September 8, 2010, and extended through 2013, established a series of Medicaid supplemental payments funded through a Quality Assurance Fee and a Hospital Fee Program, which are imposed on certain California hospitals. The effective date of the Hospital Fee Program was April 1, 2009 through December 31, 2013, and was predicated, in part, on the enhanced Federal Medicaid Assistance Percentage contained in the American Reinvestment and Recovery Act ("ARRA"). The Hospital Fee Program was extended for three years starting on January 1, 2014 with SB 239. The Hospital Fee Program makes supplemental payments to hospitals for various health care services and supports the state's effort to maintain health care coverage for children. The Hospital Fee Program is funded by a Quality Assurance Fee paid by participating hospitals and matching federal funds. All of the Medical Centers, except CHRCO, are designated as public hospitals, and are exempt from paying the Quality Assurance Fee. CHRCO recognized $55.9 million and $93.8 million of patient service revenue under the Hospital Fee Program for the years ended June 30, 2016 and 2015, respectively. CHRCO paid $15.6 million and $25.5 million in Quality Assurance Fees for the years ended June 30, 2016 and 2015, respectively. The Medical Centers, including CHRCO, receive supplemental payments under the Hospital Fee Program.

Assembly Bill 915. State of California Assembly Bill 915, Public Hospital Outpatient Services Supplemental Reimbursement Program, provides for supplemental reimbursement equal to the federal share of unreimbursed facility costs incurred by public hospital outpatient departments. This supplemental payment covers only Medi-Cal fee-for-service outpatient services. The supplemental payment is based on each eligible hospital's certified public expenditures, which are matched with federal Medicaid funds.

Senate Bill 1732. State of California Senate Bill 1732 provides for supplemental Medi-Cal reimbursement to DSH for costs (i.e., principal and interest) of qualified patient care capital construction. For the years ended June 30, 2016 and 2015, the Medical Centers applied for and received additional revenue related to the reimbursement of costs for certain debt-financed construction projects based on the Medical Centers' Medi-Cal utilization rate.

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

- Commercial insurance companies that reimburse the Medical Centers for reasonable and customary charges. Workers' compensation plans pay negotiated rates and are reported as contract (discounted or per-diem) revenue.
- Managed care contracts such as those with HMOs and PPOs that reimburse the Medical Centers at contracted or per-diem rates, which are usually less than full charges. CHRCO contracts with various Medi-Cal managed care plans in the state. These plans operate as state-licensed HMOs that provide health care services on a prepaid basis to enrolled Medi-Cal members residing in the county. Eligible members select the plan in which they wish to participate.
- Capitated contracts with health plans that reimburse the Medical Centers on a per-member-per-month basis, regardless of whether services are actually rendered. The Medical Centers assume a certain financial risk, as the contract requires patient treatment for all covered services. Expected losses on capitated agreements are accrued when probable and can be reasonably estimated.
- Certain health plans that have established a shared-risk pool where the Medical Centers share in any surplus associated with health care utilization as defined in the related contracts. Additionally, the Medical Centers may assume the risk of certain health care utilization costs, as determined in the related agreements. Differences between the final contract settlement and the amount estimated as receivable or payable relating to the shared-risk arrangements are recorded in the year of final settlement.
- Counties in the state of California that reimburse the Medical Centers for certain indigent patients covered under county contracts.
- CHRCO receives funding from Alameda county, which is leveraged with state matching funds. CHRCO received $2.0 million and $47.3 million under these programs for the years ended June 30, 2016 and 2015, respectively.

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

Amounts due from Medicare and Medi-Cal as a percentage of net patient accounts receivable at June 30 are as follows:

(shown as percentage)	MEDICARE		MEDI-CAL	
	2016	**2015**	**2016**	**2015**
Davis	19.1%	19.4%	17.5%	17.2%
Irvine	24.0	18.3	24.6	14.8
Los Angeles	12.2	13.2	5.4	6.0
San Diego	15.8	12.0	7.2	8.1
San Francisco	11.3	10.4	10.4	12.9

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

(in thousands of dollars)		
	2016	**2015**
Davis	$31,537	$29,924
Irvine	17,665	(7,502)
Los Angeles	(1,774)	30,784
San Diego	15,533	26,008
San Francisco	32,010	37,103
Total	**$94,971**	**$116,317**

Net patient accounts receivable and net patient service revenues are presented net of uncollectible accounts as follows:

(in thousands of dollars)	PATIENT ACCOUNTS RECEIVABLE ALLOWANCE at June 30		PATIENT SERVICE REVENUE ALLOWANCE for the year ending June 30	
	2016	**2015**	**2016**	**2015**
Davis	$49,962	$52,941	$96,770	$96,056
Irvine	29,662	40,232	27,494	22,806
Los Angeles	50,563	60,616	26,323	25,702
San Diego	56,348	51,289	33,406	43,790
San Francisco	48,532	46,208	54,944	70,142
Total	**$235,067**	**$251,286**	**$238,937**	**$258,496**

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2016						
Medicare	$453,938	$252,911	$502,098	$294,374	$532,338	$2,035,659
Medi-Cal	376,658	220,039	248,695	212,028	473,781	1,531,201
Contract (discounted or per-diem)	922,541	497,432	1,428,328	948,452	2,305,887	6,102,640
Contract (capitated)	131,642		73,404		5,673	210,719
County	1,702	817		7,309	17,153	26,981
Non-sponsored/self-pay	2,221	12,962	14,455	3,268	36,022	68,928
Total	**$1,888,702**	**$984,161**	**$2,266,980**	**$1,465,431**	**$3,370,854**	**$9,976,128**
2015						
Medicare	$382,173	$235,994	$533,929	$270,560	$495,405	$1,918,061
Medi-Cal	344,951	210,438	170,417	265,500	541,382	1,532,688
Contract (discounted or per-diem)	831,477	437,400	1,452,243	873,814	1,997,681	5,592,615
Contract (capitated)	132,424				3,819	136,243
County	950	7,245		11,990	15,228	35,413
Non-sponsored/self-pay	1,470	15,518	10,561	1,682	30,520	59,751
Total	**$1,693,445**	**$906,595**	**$2,167,150**	**$1,423,546**	**$ 3,084,035**	**$9,274,771**

4. CHARITY CARE

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2016						
Charity care at established rates	$36,155	$38,105	$13,194	$56,128	$114,119	$257,701
Estimated cost of charity care	7,182	3,617	5,858	19,222	42,486	78,365
Estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs	180,168	119,468	86,876	122,141	89,738	598,391
2015						
Charity care at established rates	$114,002	$39,550	$5,473	$41,199	$104,695	$304,919
Estimated cost of charity care	17,096	10,333	2,317	12,298	41,368	83,412
Estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs	199,255	72,301	70,631	41,058	86,470	469,715

Included within the table above are the estimated cost of charity care for self-pay patients presumed to qualify for charity care in the amounts of $4.2 million for UC Davis Medical Center, $1.6 million for UC Irvine Medical Center and $2.1 million for UC San Diego Medical Center for the year ended June 30, 2016. Included within the table above are the estimated costs of charity care for self-pay patients presumed to qualify for charity care in the amounts of $4.6 million for UC Davis Medical Center, $8.1 million for UC Irvine Medical Center and $1.4 million for UC San Diego Medical Center for the year ended June 30, 2015. At June 30, 2016, San Francisco includes CHRCO amounts: $80.5 million charity care at established rates, $34.0 million estimated cost of charity care, $16.6 million estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs. At June 30, 2015, San Francisco includes CHRCO amounts: $78.8 million charity care at established rates, $35.0 million estimated cost of charity care, $16.1 million estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs.

5. RESTRICTED ASSETS, DONOR FUNDS

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

The composition of restricted assets due to donor restrictions at June 30 is as follows:

(in thousands of dollars)

	LOS ANGELES	SAN FRANCISCO	TOTAL
2016			
Cash and STIP	$3,634	$18,523	$22,157
General Endowment Pool	7,011	37,550	44,561
Mutual funds	30		30
Charitable remainder trusts	685	3,272	3,957
Total	**$11,360**	**$59,345**	**$70,705**
2015			
Cash and STIP	$3,073	$18,873	$21,946
General Endowment Pool	8,387	39,752	48,139
Mutual funds	30		30
Charitable remainder trusts	723	3,525	4,248
Total	**$12,213**	**$62,150**	**$74,363**

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

(in thousands of dollars)

	LOS ANGELES	SAN FRANCISCO	TOTAL
2016			
Capital projects	$1,089	$3,525	$4,614
Endowments	621	25,242	25,863
Operations	9,650	30,578	40,228
Total	**$11,360**	**$59,345**	**$70,705**
2015			
Capital projects	$1,231	$2,797	$4,028
Endowments	662	24,619	25,281
Operations	10,320	34,734	45,054
Total	**$12,213**	**$62,150**	**$74,363**

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

6. CAPITAL ASSETS

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

(in thousands of dollars)

DAVIS	2014	ADDITIONS	DISPOSALS	2015	ADDITIONS	DISPOSALS	2016
ORIGINAL COST							
Land	$36,675			$36,675			$36,675
Buildings and improvements	1,315,054	$5,752		1,320,806	$30,914	$(1,152)	1,350,568
Equipment	433,566	34,642	$(61,946)	406,262	39,107	(30,647)	414,722
Construction in progress	21,716	5,783	(1,350)	26,149	11,133	(966)	36,316
Capital assets, at cost	**$1,807,011**	**$46,177**	**$(63,296)**	**$1,789,892**	**$81,154**	**$(32,765)**	**$1,838,281**

	2014	DEPRECIATION	DISPOSALS	2015	DEPRECIATION	DISPOSALS	
ACCUMULATED DEPRECIATION							
Buildings and improvements	$479,044	$40,223		$519,267	$39,546	$(1,101)	$557,712
Equipment	283,405	44,855	$(60,715)	267,545	39,745	(30,794)	276,496
Accumulated depreciation	762,449	**$85,078**	**$(60,715)**	786,812	**$79,291**	**$(31,895)**	834,208
Capital assets, net	**$1,044,562**			**$1,003,080**			**$1,004,073**

(in thousands of dollars)

IRVINE	2014	ADDITIONS	DISPOSALS	2015	ADDITIONS	DISPOSALS	2016
ORIGINAL COST							
Land	$12,418			$12,418			$12,418
Buildings and improvements	820,171	$18,819		838,990	$16,229		855,219
Equipment	302,567	35,732	$(13,904)	324,395	38,466	$(1,564)	361,297
Construction in progress	18,107	(3,733)		14,374	4,974		19,348
Capital assets, at cost	**$1,153,263**	**$50,818**	**$(13,904)**	**$1,190,177**	**$59,669**	**$(1,564)**	**$1,248,282**

	2014	DEPRECIATION	DISPOSALS	2015	DEPRECIATION	DISPOSALS	
ACCUMULATED DEPRECIATION							
Buildings and improvements	$246,044	$25,438		$271,482	$34,474		$305,956
Equipment	172,846	32,272	$ (13,734)	191,384	34,232	$(1,469)	224,147
Accumulated depreciation	418,890	**$57,710**	**$(13,734)**	462,866	**$68,706**	**$(1,469)**	530,103
Capital assets, net	**$734,373**			**$727,311**			**$718,179**

(in thousands of dollars)

LOS ANGELES	2014	ADDITIONS	DISPOSALS	2015	ADDITIONS	DISPOSALS	2016
ORIGINAL COST							
Land	$51,924			$51,924	$10,550		$62,474
Buildings and improvements	1,845,195	$90,538	$(106)	1,935,627	61,913	$(12,477)	1,985,063
Equipment	672,662	30,507	(52,297)	650,872	67,152	(25,718)	692,306
Construction in progress	67,497	(16,509)		50,988	(25,285)	(2,559)	23,144
Capital assets, at cost	**$2,637,278**	**$104,536**	**$(52,403)**	**$2,689,411**	**$114,330**	**$(40,754)**	**$2,762,987**

	2014	DEPRECIATION	DISPOSALS	2015	DEPRECIATION	DISPOSALS	
ACCUMULATED DEPRECIATION							
Buildings and improvements	$392,004	$53,251	$(373)	$444,882	$62,811	$(3,817)	$503,876
Equipment	373,348	77,695	(51,879)	399,164	71,289	(24,788)	445,665
Accumulated depreciation	765,352	**$130,946**	**$(52,252)**	844,046	**$134,100**	**$(28,605)**	949,541
Capital assets, net	**$1,871,926**			**$1,845,365**			**$1,813,446**

(in thousands of dollars)

SAN DIEGO	2014	ADDITIONS	DISPOSALS	2015	ADDITIONS	DISPOSALS	2016
ORIGINAL COST							
Land	$8,641			$8,641			$8,641
Buildings and improvements	790,844	$15,479	$(3)	806,320	$19,418		825,738
Equipment	278,623	24,176	(8,367)	294,432	64,383	$(12,631)	346,184
Construction in progress	489,080	184,755		673,835	161,357		835,192
Capital assets, at cost	**$1,567,188**	**$224,410**	**$(8,370)**	**$1,783,228**	**$245,158**	**$(12,631)**	**$2,015,755**

	2014	DEPRECIATION	DISPOSALS	2015	DEPRECIATION	DISPOSALS	2016
ACCUMULATED DEPRECIATION							
Buildings and improvements	$286,213	$27,738	$(30)	$313,921	$29,487		$343,408
Equipment	163,692	28,909	(8,070)	184,531	28,904	$(12,206)	201,229
Accumulated depreciation	449,905	**$56,647**	**$(8,100)**	498,452	**$58,391**	**$(12,206)**	544,637
Capital assets, net	**$1,117,283**			**$1,284,776**			**$1,471,118**

(in thousands of dollars)

SAN FRANCISCO	2014	ADDITIONS	DISPOSALS	2015	ADDITIONS	DISPOSALS	2016
ORIGINAL COST							
Land	$135,155	$267		$135,422	$7,846		$143,268
Buildings and improvements	1,298,406	1,201,459	$(355)	2,499,510	43,445	$(3,471)	2,539,484
Equipment	769,065	259,883	(22,630)	1,006,318	65,389	(22,066)	1,049,641
Construction in progress	1,197,900	(1,081,285)		116,615	67,314	(218)	183,711
Capital assets, at cost	**$ 3,400,526**	**$ 380,324**	**$ (22,985)**	**$ 3,757,865**	**$183,994**	**$(25,755)**	**$3,916,104**

	2014	DEPRECIATION	DISPOSALS	2015	DEPRECIATION	DISPOSALS	2016
ACCUMULATED DEPRECIATION							
Buildings and improvements	$769,927	$68,790		$838,717	$92,245	$(2,746)	$928,216
Equipment	433,540	96,126	$ (15,530)	514,136	112,901	(20,875)	606,162
Accumulated depreciation	1,203,467	**$164,916**	**$ (15,530)**	1,352,853	**$205,146**	**$(23,621)**	1,534,378
Capital assets, net	**$ 2,197,059**			**$2,405,012**			**$2,381,726**

(in thousands of dollars)

TOTAL	2014	ADDITIONS	DISPOSALS	2015	ADDITIONS	DISPOSALS	2016
ORIGINAL COST							
Land	$244,813	$267		$245,080	$18,396		$263,476
Buildings and improvements	6,069,670	1,332,047	$(464)	7,401,253	171,919	$(17,100)	7,556,072
Equipment	2,456,483	384,940	(159,144)	2,682,279	274,497	(92,626)	2,864,150
Construction in progress	1,794,300	(910,989)	(1,350)	881,961	219,493	(3,743)	1,097,711
Capital assets, at cost	**$10,565,266**	**$806,265**	**$(160,958)**	**$11,210,573**	**$684,305**	**$(113,469)**	**$11,781,409**

	2014	DEPRECIATION	DISPOSALS	2015	DEPRECIATION	DISPOSALS	
ACCUMULATED DEPRECIATION							
Buildings and improvements	$2,173,232	$215,440	$(403)	$2,388,269	$258,563	$(7,664)	$2,639,168
Equipment	1,426,831	279,857	(149,928)	1,556,760	287,071	(90,132)	1,753,699
Accumulated depreciation	3,600,063	**$495,297**	**$(150,331)**	3,945,029	**$545,634**	**$(97,796)**	4,392,867
Capital assets, net	**$6,965,203**			**$7,265,544**			**$7,388,542**

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

(in millions of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2016						
Equipment under financing obligations	$59	$31	$109	$44		$168
Accumulated amortization	(33)	(28)	(26)	(23)		(59)
Total	**$26**	**$3**	**$83**	**$21**		**$109**
2015						
Equipment under financing obligations	$84	$50	$62	$48		$244
Accumulated amortization	(51)	(41)	(7)	(26)		(125)
Total	**$33**	**$9**	**$55**	**$22**		**$119**

The Medical Centers made seismic improvements in order to be in compliance with Senate Bill 1953, the Hospital Facilities Seismic Safety Act. Certain facilities and equipment were constructed or acquired to make seismic improvements using financing obligations of the University. These facilities and equipment were contributed at cost by the University to the Medical Centers to support the operations of the Medical Centers. Principal and interest payments required for these obligations are not reflected in the financial statements of the Medical Centers.

7. PAYABLES TO UNIVERSITY AND CAMPUS

The UCLA Medical Center has an internal line of credit in the amount of $75.0 million from the UCLA campus Chancellor reported as a note payable to the campus. The line of credit is due in June 2024 and bears interest at the STIP rate of an annual average of 1.2 percent for the year ended June 30, 2016. As of June 30, 2016 and 2015, $75.0 million was outstanding. Effective July 1, 2011, the campus has agreed to waive interest due for an undetermined time period and no interest expense has been recorded on the line of credit for the years ended June 30, 2016 and 2015.

Advances from the University, financed through the University's commercial paper program and bank lines, were made to the Medical Centers to finance capital projects and refund certain Medical Center Pooled Revenue Bonds. The payables are reported as other current liabilities by the Medical Centers in the statements of net position. Total advances from the University outstanding as of June 30 are as follows:

(in thousands of dollars)

	PAYABLES TO UNIVERSITY	
	2016	**2015**
Davis	$6,951	
Los Angeles	87,000	$53
San Diego	54,689	5,468
San Francisco	73,015	55,915
Total	**$221,655**	**$61,436**

8. INTEREST RATE SWAP AGREEMENTS

As a means to lower the UCLA and UCSF Medical Centers' borrowing costs, when compared against fixed-rate bonds at the time of issuance, the UCLA and UCSF Medical Centers entered into interest rate swap agreements in connection with their variable-rate Medical Center Pooled Revenue Bonds. Under the swap agreements, the Medical Centers pay the swap counterparty a fixed interest rate payment and receive a variable-rate interest payment to effectively change the variable-rate bonds to synthetic fixed-rate bonds. For three of the hedging derivatives, the notional amount of the swap matches the principal amount of the variable-rate Medical Center Pooled Revenue Bonds, and the swap agreement contains scheduled reductions to outstanding notional amounts that match scheduled reductions in the variable-rate bonds. One of the UCLA Medical Center interest rate swaps is a partial hedge, whereby the notional amount of the swap of $25.8 million is less than the amount of bonds outstanding of $31.3 million.

The UCLA Medical Center determined that certain of its interest rate swap agreements were hedging derivatives that hedge future cash flows for its variable-rate Medical Center Pooled Revenue Bonds. At the time of pricing the interest rate swaps, the fixed rate on each of the swaps was off-market such that the UCLA Medical Center received an up-front payment. As such, the swaps consist of an at-the-market interest rate swap derivative instrument and a borrowing, represented by the up-front payment. The unamortized amount of the borrowing was $40.0 million and $41.0 million at June 30, 2016 and 2015, respectively.

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

(in thousands of dollars)

	NOTIONAL AMOUNT		FAIR VALUE – POSITIVE (NEGATIVE)			CHANGES IN FAIR VALUE		
	2016	2015	CLASSIFICATION	2016	2015	CLASSIFICATION	2016	2015
Los Angeles	124,775	124,775	Other noncurrent liabilities	$(57,604)	$(40,212)	Deferred outflows	$(17,392)	$(4,246)
	24,250	24,250	Other noncurrent liabilities	(14,901)	(9,809)	Deferred outflows	(5,092)	(1,409)
	25,750	25,750	Other noncurrent liabilities	(16,498)	(10,755)	Deferred outflows	(5,743)	(1,600)
San Francisco	70,880	74,110	Other noncurrent liabilities	(14,188)	(11,108)	Deferred outflows	(3,080)	(246)

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, 2016 or 2015.

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
	2016	2015				
LOS ANGELES						
Pay fixed 4.550 percent; receive 67 percent of 3-Month LIBOR* + 0.61 percent	31,610	31,610	2008	2030	None	Baa2/BBB+
Pay fixed 4.625 percent; receive 67 percent of 3-Month LIBOR* + 0.67 percent	38,670	38,670	2008	2037	None	Baa2/BBB+
Pay fixed 4.6935 percent; receive 67 percent of 3-Month LIBOR* + 0.74 percent	54,495	54,495	2008	2043	None	Baa2/BBB+
Pay fixed 4.741 percent; receive 67 percent of 3-Month LIBOR* + 0.79 percent	24,250	24,250	2013	2045	None	Baa2/BBB+
Pay fixed 4.741 percent; receive 67 percent of 3-Month LIBOR* + 0.79 percent	25,750	25,750	2013	2047	None	Baa2/BBB+
SAN FRANCISCO						
Pay fixed 3.5897 percent; receive 58 percent of 1-Month LIBOR* + 0.48 percent	70,880	74,110	2007	2032	None	A1/A

** London Interbank Offered Rate (LIBOR)*

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

There are no collateral requirements related to the swaps held by the UCSF Medical Center. Depending on the fair value 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 $149.0 million since the variable rate the UCLA Medical Center pays to the bond holders matches the variable-rate payments received from the swap counterparty.

In connection with one of the UCLA Medical Center swaps and the UCSF Medical Center swap, there is a risk that the basis for the variable payment received will not match the variable payment on the bonds that expose the UCLA Medical Center and the UCSF Medical Center to basis risk whenever the interest rates on the bonds are reset. The interest rate on the bonds is a tax-exempt interest rate, while the basis of the variable receipt on the interest rate swap is taxable. Tax-exempt interest rates can change without a corresponding change in the LIBOR rate due to factors affecting the tax-exempt market, which do not have a similar effect on the taxable market. For example, the swaps expose the UCSF Medical Center to risk if reductions in the federal personal income tax rate cause the relationship between the variable interest rate on the bonds to be greater than 58.0 percent of the 30-day LIBOR, plus 0.48 percent. The swaps expose the UCLA Medical Center to risk if reductions in the federal personal income tax rate cause the relationship between the variable interest rate on the bonds to be greater than 67.0 percent of the three-month LIBOR, plus 0.79 percent.

Termination Risk. There is termination risk for losses on the interest rate swaps classified as hedging derivatives in the event of non-performance by the counterparty in an adverse market resulting in cancellation of the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. For the interest rate swap held by the UCSF Medical Center, the termination threshold is reached when the credit quality rating for either the underlying Medical Center Pooled Revenue Bonds or swap counterparty falls below Baa2 or BBB. For the swaps held by the UCLA Medical Center, the termination threshold is reached when the credit quality rating for the underlying Medical Center Pooled Revenue Bonds falls below Baa3/BBB-, or the interest rate swap counterparty's rating falls below Baa2 or BBB. Upon termination, the Medical Centers may also owe a termination payment if there is a realized loss based on the fair value of each interest rate swap.

Subsequent Event

In August 2016, the UCLA Medical Center replaced the counterparty for its interest rate swap agreements and discontinued hedge accounting. The UCLA Medical Center recognized a decrease in net position upon hedge termination of $43.5 million on the statement of revenues, expenses and changes in net position. The UCLA Medical Center determined that the interest rate swap agreements with the new counterparty are hedging derivatives that hedge future cash flows for its variable-rate Medical Center Pooled Revenue Bonds. At the time of pricing the interest rate swaps, the fixed rate on each of the swaps was off-market such that the UCLA Medical Center received an up-front payment. As such, the swaps consist of an at-the-market swap derivative instrument and a borrowing, represented by the up-front payment. There are no collateral requirements related to these new interest rate swaps. The new counterparty's credit rating is Aa2/AA- upon the date of the transaction.

9. LONG-TERM DEBT AND FINANCING OBLIGATIONS

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2016						
University of California Medical Center Pooled Revenue Bonds:						
2007 Series A	$60,109	$58,190	$231,200	$17,787	$40,704	$407,990
2007 Series B*					70,880	70,880
2007 Series C-1			5,650			5,650
2007 Series C-2*			149,025			149,025
2008 Series D	205,060					205,060
2009 Series E		46,080	2,680	13,360	1,250	63,370
2009 Series F Build America Bonds		155,855	143,320	110,355	19,620	429,150
2010 Series G & I			11,200	18,390		29,590
2010 Series H Build America Bonds					700,000	700,000
2013 Series J	16,885	5,060	83,380	498,775	525	604,625
2013 Series K*			31,300			31,300
University of California Hospital Revenue Bonds 2004 (University of California, Los Angeles Medical Center, Series A and B)			42,560			42,560
Financing obligations	7,101	3,370	111,317	39,393		161,181
Other borrowings			39,979			39,979
Total outstanding debt and financing obligations	**289,155**	**268,555**	**851,611**	**698,060**	**832,979**	**2,940,360**
Unamortized bond premium	5,409	3,114	5,259	3,347	621	17,750
Total debt and financing obligations	**294,564**	**271,669**	**856,870**	**701,407**	**833,600**	**2,958,110**
Less: Current portion	(25,893)	(4,325)	(19,799)	(16,735)	(4,081)	(70,833)
Noncurrent portion of debt and financing obligations	**$268,671**	**$267,344**	**$837,071**	**$684,672**	**$829,519**	**$2,887,277**

** Variable-rate bonds*

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2015						
University of California Medical Center Pooled Revenue Bonds:						
2007 Series A	$60,979	$59,030	$234,540	$18,042	$41,294	$413,885
2007 Series B*					74,110	74,110
2007 Series C-1			6,075			6,075
2007 Series C-2*			149,025			149,025
2008 Series D	220,980					220,980
2009 Series E		52,790	2,680	13,360	1,345	70,175
2009 Series F Build America Bonds		155,855	143,320	110,355	19,620	429,150
2010 Series G & I			12,835	22,500		35,335
2010 Series H Build America Bonds					700,000	700,000
2013 Series J	18,310	5,740	85,170	499,595	525	609,340
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)			44,970			44,970
Financing obligations	17,449	8,634	64,169	42,488		132,740
Other borrowings			41,083			41,083
Total outstanding debt and financing obligations	**317,718**	**282,049**	**815,167**	**706,340**	**836,894**	**2,958,168**
Unamortized bond premium	6,171	3,269	5,660	3,943	642	19,685
Total debt and financing obligations	**323,889**	**285,318**	**820,827**	**710,283**	**837,536**	**2,977,853**
Less: Current portion	(29,325)	(13,494)	(10,438)	(16,873)	(3,936)	(74,066)
Noncurrent portion of debt and financing obligations	**$294,564**	**$271,824**	**$810,389**	**$693,410**	**$833,600**	**$2,903,787**

**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*	0.34 percent	Monthly	Through 2032
2007 Series C-1	4.3 percent to 4.4 percent	Semi-annually	Through 2022
2007 Series C-2*	1.0 percent to 1.2 percent	Quarterly	Through 2045
2008 Series D	4.0 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	3.0 percent to 5.8 percent	Semi-annually	Through 2025
2010 Series H Build America Bonds	3.3 percent to 4.2 percent, after 35 percent federal subsidy	Semi-annually	Through 2048
2013 Series J	4.0 percent to 5.3 percent	Semi-annually	Through 2048
2013 Series K*	0.39 percent	Monthly	Beginning 2045 through 2047
University of California Hospital Revenue Bonds 2004 (University of California, Los Angeles Medical Center, Series A and B)	5.0 percent to 5.5 percent	Semi-annually	Through 2039
Financing obligations (primarily for computer and medical equipment, collateralized by underlying equipment)	Fixed interest rates of 1.1 percent to 6.0 percent	Monthly, Quarterly	Through 2042

**Variable-rate bonds*

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

(in thousands of dollars)

	2016		2015	
	INTEREST EXPENSE	INTEREST CAPITALIZED	INTEREST EXPENSE	INTEREST CAPITALIZED
Davis	$15,419	$411	$6,884	$30
Irvine	15,595		15,938	8
Los Angeles	39,339	784	38,619	1,310
San Diego	7,948	27,519	8,064	27,247
San Francisco	48,172	3,605	24,747	26,629
Total	**$126,473**	**$32,319**	**$104,252**	**$55,224**

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, 2016			
Long-term debt and financing obligations at June 30, 2015	$306,440	$17,449	$323,889
Principal payments and bond retirements	(18,215)	(10,348)	(28,563)
Amortization of bond premium	(762)		(762)
Long-term debt and financing obligations at June 30, 2016	**287,463**	**7,101**	**294,564**
Less: Current portion	(19,413)	(6,480)	(25,893)
Noncurrent portion of long-term debt and financing obligations at June 30, 2016	**$268,050**	**$621**	**$268,671**
Year ended June 30, 2015			
Long-term debt and financing obligations at June 30, 2014	$325,038	$31,440	$356,478
Principal payments and bond retirements	(17,790)	(13,991)	(31,781)
Amortization of bond premium	(808)		(808)
Long-term debt and financing obligations at June 30, 2015	**306,440**	**17,449**	**323,889**
Less: Current portion	(18,977)	(10,348)	(29,325)
Noncurrent portion of long-term debt and financing obligations at June 30, 2015	**$287,463**	**$7,101**	**$294,564**

(in thousands of dollars)

IRVINE	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2016			
Long-term debt and financing obligations at June 30, 2015	$276,684	$8,634	$285,318
Principal payments and bond retirements	(8,230)	(5,264)	(13,494)
Amortization of bond premium	(155)		(155)
Long-term debt and financing obligations at June 30, 2016	**268,299**	**3,370**	**271,669**
Less: Current portion	(1,585)	(2,740)	(4,325)
Noncurrent portion of long-term debt and financing obligations at June 30, 2016	**$266,714**	**$630**	**$267,344**
Year ended June 30, 2015			
Long-term debt and financing obligations at June 30, 2014	$284,734	$17,835	$302,569
Principal payments and bond retirements	(7,895)	(9,201)	(17,096)
Amortization of bond premium	(155)		(155)
Long-term debt and financing obligations at June 30, 2015	**276,684**	**8,634**	**285,318**
Less: Current portion	(8,230)	(5,264)	(13,494)
Noncurrent portion of long-term debt and financing obligations at June 30, 2015	**$268,454**	**$3,370**	**$271,824**

(in thousands of dollars)

LOS ANGELES	REVENUE BONDS	FINANCING OBLIGATIONS	OTHER BORROWINGS	TOTAL
Year ended June 30, 2016				
Long-term debt and financing obligations at June 30, 2015	$715,575	$64,169	$41,083	$820,827
New obligations		46,482		46,482
Principal payments and bond retirements	(9,600)	666	(1,104)	(10,038)
Amortization of bond premium	(401)			(401)
Long-term debt and financing obligations at June 30, 2016	**705,574**	**111,317**	**39,979**	**856,870**
Less: Current portion	(10,451)	(8,205)	(1,143)	(19,799)
Noncurrent portion of long-term debt and financing obligations at June 30, 2016	**$695,123**	**$103,112**	**$38,836**	**$837,071**
Year ended June 30, 2015				
Long-term debt and financing obligations at June 30, 2014	$725,200	$64,820	$42,152	$832,172
Principal payments and bond retirements	(9,224)	(651)	(1,069)	(10,944)
Amortization of bond premium	(401)			(401)
Long-term debt and financing obligations at June 30, 2015	**715,575**	**64,169**	**41,083**	**820,827**
Less: Current portion	(10,001)	667	(1,104)	(10,438)
Noncurrent portion of long-term debt and financing obligations at June 30, 2015	**$705,574**	**$64,836**	**$39,979**	**$810,389**

(in thousands of dollars)

SAN DIEGO	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2016			
Long-term debt and financing obligations at June 30, 2015	$667,795	$42,488	$710,283
New obligations		8,093	8,093
Principal payments and bond retirements	(5,185)	(11,188)	(16,373)
Amortization of bond premium	(596)		(596)
Long-term debt and financing obligations at June 30, 2016	**662,014**	**39,393**	**701,407**
Less: Current portion	(5,996)	(10,739)	(16,735)
Noncurrent portion of long-term debt and financing obligations at June 30, 2016	**$656,018**	**$28,654**	**$684,672**
Year ended June 30, 2015			
Long-term debt and financing obligations at June 30, 2014	$673,386	$19,260	$692,646
New obligations		32,970	32,970
Principal payments and bond retirements	(4,995)	(9,742)	(14,737)
Amortization of bond premium	(596)		(596)
Long-term debt and financing obligations at June 30, 2015	**667,795**	**42,488**	**710,283**
Less: Current portion	(5,781)	(11,092)	(16,873)
Noncurrent portion of long-term debt and financing obligations at June 30, 2015	**$662,014**	**$31,396**	**$693,410**

(in thousands of dollars)

SAN FRANCISCO	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2016			
Long-term debt and financing obligations at June 30, 2015	$837,536		$837,536
Principal payments and bond retirements	(3,915)		(3,915)
Amortization of bond premium	(21)		(21)
Long-term debt and financing obligations at June 30, 2016	**833,600**		**833,600**
Less: Current portion	(4,081)		(4,081)
Noncurrent portion of long-term debt and financing obligations at June 30, 2016	**$829,519**		**$829,519**
Year ended June 30, 2015			
Long-term debt and financing obligations at June 30, 2014	$841,317	$4,352	$845,669
Principal payments and bond retirements	(3,760)	(4,352)	(8,112)
Amortization of bond premium	(21)		(21)
Long-term debt and financing obligations at June 30, 2015	**837,536**		**837,536**
Less: Current portion	(3,936)		(3,936)
Noncurrent portion of long-term debt and financing obligations at June 30, 2015	**$833,600**		**$833,600**

(in thousands of dollars)

TOTAL	REVENUE BONDS	FINANCING OBLIGATIONS	OTHER BORROWINGS	TOTAL
Year ended June 30, 2016				
Long-term debt and financing obligations at June 30, 2015	$2,804,030	$132,740	$41,083	$2,977,853
New obligations		54,575		54,575
Principal payments and bond retirements	(45,145)	(26,134)	(1,104)	(72,383)
Amortization of bond premium	(1,935)			(1,935)
Long-term debt and financing obligations at June 30, 2016	**2,756,950**	**161,181**	**39,979**	**2,958,110**
Less: Current portion	(41,526)	(28,164)	(1,143)	(70,833)
Noncurrent portion of long-term debt and financing obligations at June 30, 2016	**$2,715,424**	**$133,017**	**$38,836**	**$2,887,277**
Year ended June 30, 2015				
Long-term debt and financing obligations at June 30, 2015	$2,849,675	$137,707	$42,152	$3,029,534
New obligations		32,970		32,970
Principal payments and bond retirements	(43,664)	(37,937)	(1,069)	(82,670)
Amortization of bond premium	(1,981)			(1,981)
Long-term debt and financing obligations at June 30, 2015	**2,804,030**	**132,740**	**41,083**	**2,977,853**
Less: Current portion	(46,925)	(26,037)	(1,104)	(74,066)
Noncurrent portion of long-term debt and financing obligations at June 30, 2015	**$2,757,105**	**$106,703**	**$39,979**	**$2,903,787**

The Medical Centers' Pooled Revenue Bonds are issued to finance the University's Medical Centers and are collateralized by a joint and several pledges of certain operating and non-operating revenues, as defined in the indentures, of all five of the University's Medical Centers. The Medical Center Pooled Revenue Bond Indenture requires the Medical Centers to set rates, charges and fees each year sufficient for the Medical Centers' total operating and non-operating revenues to pay for the annual principal and interest on the bonds and sets forth requirements for certain other financial covenants. Pledged revenues for the Medical Centers for the year ended June 30, 2016 was $10.4 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 maximum debt service coverage ratio of 1.1 times 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 $70.9 million and $31.3 million, respectively, are variable-rate demand obligations subject to daily and weekly remarketing, respectively. The University has entered into a standby bond purchase agreement if a failed remarketing was to occur and the purchase of any of the 2007 Series B bonds is required. The standby bond purchase agreement terminated in August 2016 as described under subsequent events. 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 University has an internal working capital program that allows each Medical Center to receive internal advances. Advances may not exceed 60 percent of a Medical Center's accounts receivable for any working capital needs. Interest on any such advance is based upon the earnings rate on the STIP. Repayment of any advances made to the Medical Centers under the working capital program is not collateralized by a pledge of revenues. Currently, there are no advances to the Medical Centers. The University may cancel or change the terms of the working capital program at its sole discretion. However, the University has historically provided working capital advances under informal or formal programs for the Medical Centers.

Subsequent Event

In August 2016, Medical Center Pooled Revenue Bonds totaling $1.0 billion, including $872.8 million of tax-exempt bonds and $173.4 million taxable bonds, were issued to finance and refinance certain facilities and projects of the Medical Centers. Proceeds, including a net bond premium of $155.8 million, were used to pay for project construction, issuance costs and refund $724.5 million of outstanding Medical Center Pooled Revenue Bonds and all of the outstanding Hospital Revenue Bonds. The bonds mature at various dates through 2047.

The Medical Center Pooled Revenue Bonds were distributed across the Medical Centers as follows:

(in thousands of dollars)

	TAX-EXEMPT	TAXABLE	TOTAL
Davis	$276,665	$65,765	$342,430
Irvine	122,525	37,230	159,755
Los Angeles	275,075	50,740	325,815
San Diego	89,910		89,910
San Francisco	108,620	19,625	128,245
Total	**$872,795**	**$173,360**	**$1,046,155**

Simultaneously, a bank standby bond purchase agreement for certain of the University's variable-rate demand bonds was terminated. The University will provide its own liquidity in connection with mandatory and optional tenders and remarketing of these bonds and does not plan to provide any third-party liquidity facility to support this obligation. The interest rates on the variable-rate demand bonds reset daily and an interest rate swap is being used to limit exposure to changes in market interest rates. In the event of a failed remarketing, the variable-rate demand bonds can be put back to The Regents for tender. The tax-exempt and taxable bonds have a stated weighted average interest rate of 4.5 percent and 3.0 percent, respectively. The refunding of the outstanding Medical Center Pooled Revenue Bonds and Hospital Revenue Bonds resulted in a loss of $8.0 million, recorded as a deferred outflow of resources, that will be amortized as interest expense over the term of the refunded bonds. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. The refinancing and refunding of previously outstanding Revenue Bonds resulted in cash flow savings of $193.5 million and an economic gain of $151.2 million.

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

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, 2016, 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					
2017	$32,485	$6,532	$39,017	$25,180	$13,837
2018	31,595	624	32,219	19,351	12,868
2019	31,204		31,204	19,225	11,979
2020	30,813		30,813	19,824	10,989
2021	30,394		30,394	20,385	10,009
2022– 2026	142,002		142,002	107,535	34,467
2027 – 2031	43,854		43,854	30,605	13,249
2032 – 2036	21,668		21,668	11,945	9,723
2037 – 2041	21,677		21,677	14,975	6,702
2042 – 2046	19,779		19,779	16,745	3,034
2047 – 2051	3,541		3,541	3,385	156
Total future debt service	**409,012**	**7,156**	**416,168**	**$289,155**	**$127,013**
Less: Interest component of future payments	(126,958)	(55)	(127,013)		
Principal portion of future payments	282,054	7,101	289,155		
Adjusted by:					
Unamortized bond premium	5,409		5,409		
Total debt	**$287,463**	**$7,101**	**$294,564**		

(in thousands of dollars)

IRVINE	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2017	$17,039	$2,780	$19,819	$4,325	$15,494
2018	16,561	354	16,915	1,519	15,396
2019	16,569	295	16,864	1,536	15,328
2020	19,861		19,861	4,600	15,261
2021	19,871		19,871	4,805	15,066
2022– 2026	99,096		99,096	27,725	71,371
2027 – 2031	97,188		97,188	33,735	63,453
2032 – 2036	94,382		94,382	41,205	53,177
2037 – 2041	90,625		90,625	50,680	39,945
2042 – 2046	85,313		85,313	62,040	23,273
2047 – 2051	40,953		40,953	36,385	4,568
Total future debt service	**597,458**	**3,429**	**600,887**	**$268,555**	**$332,332**
Less: Interest component of future payments	(332,273)	(59)	(332,332)		
Principal portion of future payments	265,185	3,370	268,555		
Adjusted by:					
Unamortized bond premium	3,114		3,114		
Total debt	**$268,299**	**$3,370**	**$271,669**		

(in thousands of dollars)

LOS ANGELES	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2017	$45,278	$13,302	$58,580	$18,256	$40,324
2018	45,290	13,434	58,724	19,111	39,613
2019	46,114	13,573	59,687	20,838	38,849
2020	48,644	13,717	62,361	24,351	38,010
2021	47,296	13,867	61,163	24,110	37,053
2022– 2026	228,607	21,947	250,554	77,533	173,021
2027 – 2031	221,419	26,702	248,121	96,901	151,220
2032 – 2036	220,103	32,487	252,590	130,288	122,302
2037 – 2041	217,084	39,525	256,609	172,908	83,701
2042 – 2046	204,859	5,543	210,402	172,127	38,275
2047 – 2051	59,411		59,411	55,209	4,202
Total future debt service	**1,384,105**	**194,097**	**1,578,202**	**$811,632**	**$766,570**
Less: Interest component of future payments	(683,790)	(82,780)	(766,570)		
Principal portion of future payments	700,315	111,317	811,632		
Adjusted by:					
Unamortized bond premium	5,259		5,259		
Other borrowings	39,979		39,979		
Total debt	**$745,553**	**$111,317**	**$856,870**		

(in thousands of dollars)

SAN DIEGO	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2017	$40,189	$11,260	$51,449	$16,139	$35,310
2018	40,178	8,537	48,715	13,790	34,925
2019	40,181	8,537	48,718	14,197	34,521
2020	40,176	8,117	48,293	14,176	34,117
2021	38,041	4,270	42,311	8,550	33,761
2022– 2026	217,270		217,270	53,530	163,740
2027 – 2031	233,696		233,696	89,115	144,581
2032 – 2036	230,998		230,998	113,275	117,723
2037 – 2041	227,374		227,374	143,935	83,439
2042 – 2046	206,675		206,675	165,125	41,550
2047 – 2051	71,205		71,205	66,228	4,977
Total future debt service	**1,385,983**	**40,721**	**1,426,704**	**$698,060**	**$728,644**
Less: Interest component of future payments	(727,316)	(1,328)	(728,644)		
Principal portion of future payments	658,667	39,393	698,060		
Adjusted by:					
Unamortized bond premium	3,347		3,347		
Total debt	**$662,014**	**$39,393**	**$701,407**		

(in thousands of dollars)

SAN FRANCISCO	REVENUE BONDS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30				
2017	$54,421	$54,421	$4,060	$50,361
2018	54,434	54,434	4,215	50,219
2019	54,446	54,446	4,375	50,071
2020	54,820	54,820	4,900	49,920
2021	68,761	68,761	19,110	49,651
2022– 2026	339,403	339,403	105,925	233,478
2027 – 2031	329,928	329,928	127,875	202,053
2032 – 2036	294,445	294,445	131,280	163,165
2037 – 2041	273,332	273,332	154,560	118,772
2042 – 2046	254,636	254,636	190,285	64,351
2047 – 2051	94,238	94,238	86,394	7,844
Total future debt service	**1,872,864**	**1,872,864**	**$832,979**	**$1,039,885**
Less: Interest component of future payments	(1,039,885)	(1,039,885)		
Principal portion of future payments	832,979	832,979		
Adjusted by:				
Unamortized bond premium	621	621		
Total debt	**$833,600**	**$833,600**		

(in thousands of dollars)

TOTAL	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2017	$189,412	$33,874	$223,286	$67,960	$155,326
2018	188,058	22,949	211,007	57,986	153,021
2019	188,514	22,405	210,919	60,171	150,748
2020	194,314	21,834	216,148	67,851	148,297
2021	204,363	18,137	222,500	76,960	145,540
2022– 2026	1,026,378	21,947	1,048,325	372,248	676,077
2027 – 2031	926,085	26,702	952,787	378,231	574,556
2032 – 2036	861,596	32,487	894,083	427,993	466,090
2037 – 2041	830,092	39,525	869,617	537,058	332,559
2042 – 2046	771,262	5,543	776,805	606,322	170,483
2047 – 2051	269,348		269,348	247,601	21,747
Total future debt service	**5,649,422**	**245,403**	**5,894,825**	**$2,900,381**	**$2,994,444**
Less: Interest component of future payments	(2,910,222)	(84,222)	(2,994,444)		
Principal portion of future payments	2,739,200	161,181	2,900,381		
Adjusted by:					
Unamortized bond premium	17,750		17,750		
Other borrowings	39,979		39,979		
Total debt	**$2,796,929**	**$161,181**	**$2,958,110**		

Additional information on the revenue bonds can be obtained from the 2015–2016 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, 2016, 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				
2017		$1,794	$6,172	$7,966
2018		1,794	6,172	7,966
2019		1,794	6,172	7,966
2020		1,799	6,172	7,971
2021		1,794	6,172	7,966
2022– 2026	$14,395	8,741	30,126	53,262
2027 – 2031	22,015	7,694	26,842	56,551
2032 – 2036	27,565	6,344	22,584	56,493
2037 – 2041	42,765	4,598	17,098	64,461
2042 – 2046	58,875	1,625	7,423	67,923
2047 – 2051	14,710	55	16	14,781
Total future debt service	**$180,325**	**$38,032**	**$134,949**	**$353,306**

(in thousands of dollars)

SAN FRANCISCO	VARIABLE-RATE BOND		INTEREST RATE SWAP, NET	TOTAL
	PRINCIPAL	INTEREST		
Year ending June 30				
2017	$3,340	$241	$2,036	$5,617
2018	3,465	230	1,940	5,635
2019	3,590	218	1,839	5,647
2020	3,725	206	1,740	5,671
2021	3,860	193	1,628	5,681
2022– 2026	21,495	758	6,385	28,638
2027 – 2031	25,695	365	3,039	29,099
2032 – 2036	5,710	18	157	5,885
Total future debt service	**$70,880**	**$2,229**	**$18,764**	**$91,873**

(in thousands of dollars)

TOTAL	VARIABLE-RATE BOND		INTEREST RATE SWAP, NET	TOTAL
	PRINCIPAL	INTEREST		
Year ending June 30				
2017	$3,340	$2,035	$8,208	$13,583
2018	3,465	2,024	8,112	13,601
2019	3,590	2,012	8,011	13,613
2020	3,725	2,005	7,912	13,642
2021	3,860	1,987	7,800	13,647
2022– 2026	35,890	9,499	36,511	81,900
2027 – 2031	47,710	8,059	29,881	85,650
2032 – 2036	33,275	6,362	22,741	62,378
2037 – 2041	42,765	4,598	17,098	64,461
2042 – 2046	58,875	1,625	7,423	67,923
2047 – 2051	14,710	55	16	14,781
Total future debt service	**$251,205**	**$40,261**	**$153,713**	**$445,179**

10. OPERATING LEASES

The Medical Centers lease certain buildings and equipment under agreements recorded as operating leases. The terms of the operating leases extend through the year 2042. Operating lease expense for the years ended June 30 were as follows:

(in thousands of dollars)

	2016	2015
Davis	$17,145	$16,907
Irvine	3,746	3,408
Los Angeles	13,819	13,294
San Diego	13,162	10,580
San Francisco	44,265	40,899
Total	**$92,137**	**$85,088**

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
Year ending June 30						
2017	$19,680	$3,134	$11,183	$13,224	$33,028	$80,249
2018	17,190	2,637	9,155	11,410	28,356	68,748
2019	15,681	2,090	7,885	8,859	21,441	55,956
2020	14,173	1,253	6,376	7,953	15,604	45,359
2021	11,329	1,007	4,213	7,444	16,107	40,100
2022 – 2042	48,245	1,903	14,238	8,426	4,691	77,503
Total	**$126,298**	**$12,024**	**$53,050**	**$57,316**	**$119,227**	**$367,915**

UC Irvine Medical Center is the tenant of a clinical site leased by its partner in a primary care network affiliation agreement. Under the terms of the affiliation agreement, UC Irvine Medical Center is the owner of and is responsible for meeting the financial obligations under the lease. The lease commenced on November 1, 2014, with an expiration date of March 31, 2025. Future monthly obligations under the lease are $59.0 and increase 3.0 percent at each anniversary of the commencement date.

11. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2016						
Pension obligations	$317,997	$157,583	$356,453	$216,217	$527,011	$1,575,261
Loss on refunding	11,363				806	12,169
Interest rate swap agreements			89,003		14,188	103,191
Total	**$329,360**	**$157,583**	**$445,456**	**$216,217**	**$542,005**	**$1,690,621**
2015						
Pension obligations	$207,452	$105,171	$242,792	$139,659	$330,884	$1,025,958
Loss on refunding	13,289				898	14,187
Interest rate swap agreements			60,776		11,108	71,884
Total	**$220,741**	**$105,171**	**$303,568**	**$139,659**	**$342,890**	**$1,112,029**

Deferred inflows of resources for June 30, 2016 and 2015 are related to net pension liability.

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 $2.98 and $2.65 per $100 of UCRP covered payroll effective July 1, 2015 and 2014, respectively.

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

(in thousands of dollars)

	2016	2015
Davis	$20,334	$16,824
Irvine	10,433	8,686
Los Angeles	23,664	19,899
San Diego	12,780	10,307
San Francisco	28,147	22,100
Total	**$95,358**	**$77,816**

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, 2015, the date of the latest actuarial valuation, were $50.6 million and $17.3 billion, respectively. The net position held in trust for retiree health benefits on the UCRHBT's statement of plan fiduciary net position were $72.5 million and $50.6 million at June 30, 2016 and 2015, respectively. For the years ended June 30, 2016 and 2015, combined contributions from the University's campuses and Medical Centers were $309.6 million and $258.6 million, respectively, including an implicit subsidy of $97.0 million and $91.6 million, respectively. The University's annual retiree health benefit expense for its campuses and Medical Centers was $1.4 billion and $1.3 billion for the years ended June 30, 2016 and 2015, respectively. 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 $10.2 billion and $9.1 billion at June 30, 2016 and 2015, respectively, increased by $1.1 billion and $907.7 million for the years ended June 30, 2016 and 2015, respectively.

Information related to plan assets and liabilities as they relate to individual campuses and Medical Centers is not readily available. Additional information on the retiree health plans can be obtained from the 2015–2016 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 2015-2016 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, 2014, employee member contributions were 8.0 percent. Effective July 1, 2015, employee member contributions range from 7.0 percent to 9.0 percent. The University pays a uniform contribution rate of 14.0 percent of covered payroll on behalf of all UCRP members.

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

Contributions were as follows during the years ended June 30:

(in thousands of dollars)

	2016			2015		
	Medical Center	**Employee**	**Total**	**Medical Center**	**Employee**	**Total**
Davis	$95,435	$54,888	$150,323	$88,693	$50,913	$139,606
Irvine	46,628	26,419	73,047	43,466	24,609	68,075
Los Angeles	105,103	59,559	164,662	98,329	55,665	153,994
San Diego	60,001	34,203	94,204	54,326	30,920	85,246
San Francisco	124,681	72,328	197,009	110,021	63,645	173,666
Total	**$431,848**	**$247,397**	**$679,245**	**$394,835**	**$225,752**	**$620,587**

Additional deposits were made by the University to UCRP in July 2014 and December 2015. The Medical Centers reported pension expense and an increase in the pension payable to the University for its portion of these additional deposits based upon their proportionate share of covered compensation for the year ended June 30 is as follows:

(in thousands of dollars)

	2016	2015
Davis	$37,008	$45,579
Irvine	18,113	22,385
Los Angeles	40,914	50,641
San Diego	23,337	27,990
San Francisco	48,369	56,500
Total	**$167,741**	**$203,095**

Net Pension Liability

The Medical Centers' proportionate share of the net pension liability for UCRP as of June 30 is as follows:

(in thousands of dollars)

	2016		2015	
	Proportion of the net pension liability	Proportionate share of net pension liability	Proportion of the net pension liability	Proportionate share of net pension liability
Davis	6.6%	$895,967	6.5%	$627,561
Irvine	3.2%	438,524	3.2%	308,211
Los Angeles	7.3%	990,520	7.2%	697,260
San Diego	4.1%	564,996	4.0%	385,387
San Francisco	8.6%	1,171,002	8.1%	777,948
Total	**29.8%**	**$4,061,009**	**29.0%**	**$2,796,367**

The Medical Centers' net pension liability was measured as of June 30, 2016 and 2015 and calculated using the plan net position valued as of the measurement date and total pension liability determined based upon rolling forward the total pension liability from the results of the actuarial valuations as of July 1, 2015 and 2014, respectively. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of certain events occurring far into the future. The Medical Centers' net pension liability was calculated using the following methods and assumptions:

(shown as percentage)	2016	2015
Inflation	3.0%	3.0%
Investment rate of return	7.25	7.25
Projected salary increases	3.8-6.2	3.8 - 6.2
Cost-of-living adjustments	2.0	2.0

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in 2016 and 2015 were based upon the results of an experience study conducted for the period July 1, 2010 through June 30, 2014. For active members, inactive members and healthy retirees, the RP-2014 White Collar Mortality Tables (separate table for males and females), projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females.

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

(shown as percentage)	Target Allocation	Long-term Expected Real Rate of Return
Asset class		
U.S. Equity	28.5%	6.1%
Developed International Equity	18.5	7.0
Emerging Market Equity	8.0	8.6
Core Fixed Income	12.5	0.8
High Yield Bonds	2.5	3.0
Emerging Market Debt	2.5	3.9
TIPS	4.5	0.4
Real Estate	5.5	4.8
Private Equity	8.0	11.2
Absolute Return	6.5	4.2
Real Assets	3.0	4.4
Total	**100.0%**	**5.6%**

Discount Rate

The discount rate used to estimate the net pension liability as of June 30, 2016 and 2015 was 7.25 percent. To calculate the discount rate, cash flows into and out of UCRP were projected in order to determine whether UCRP has sufficient cash in future periods for projected benefit payments for current members. For this purpose, Medical Center contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected Medical Center and member contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are not included. UCRP was projected to have assets sufficient to make projected benefit payments for current members for all future years as of June 30, 2016 and 2015.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the June 30, 2016 net pension liability of the Medical Center calculated using the June 30, 2016 discount rate assumption of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)

	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
Davis	$1,406,206	$895,967	$469,595
Irvine	688,257	438,524	229,840
Los Angeles	1,554,605	990,520	519,152
San Diego	886,752	564,996	296,126
San Francisco	1,837,869	1,171,002	613,746
Total	**$6,373,689**	**$4,061,009**	**$2,128,459**

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of the years ending June 30:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2016						
Deferred Outflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$20,867	$10,107	$27,967	$28,847	$93,910	$181,698
Changes of assumptions or other inputs	117,557	57,537	129,962	74,131	153,643	532,830
Net difference between projected and actual earnings on pension plan investments	170,818	83,606	188,845	107,718	223,254	774,241
Difference between expected and actual experience	8,755	4,285	9,679	5,521	11,443	39,683
Total	**$317,997**	**$155,535**	**$356,453**	**$216,217**	**$482,250**	**$1,528,452**
Deferred Inflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$9,521	$11,653	$4,197	$10,181	$16,712	$52,264
Changes of assumptions or other inputs	57,612	28,197	63,691	36,330	75,296	261,126
Difference between expected and actual experience	17,763	8,694	19,638	11,201	23,216	80,512
Total	**$84,896**	**$48,544**	**$87,526**	**$57,712**	**$115,224**	**$393,902**
2015						
Deferred Outflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$24,229	$15,185	$39,219	$27,141	$68,343	$174,117
Changes of assumptions or other inputs	183,223	89,986	203,573	112,518	227,131	816,431
Total	**$207,452**	**$105,171**	**$242,792**	**$139,659**	**$295,474**	**$990,548**
Deferred Inflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$12,539	$15,724	$5,349	$15,996	$23,520	$73,128
Changes of assumptions or other inputs	89,534	43,972	99,476	54,982	110,988	398,952
Net difference between projected and actual earnings on pension plan investments	72,444	35,579	80,489	44,487	89,803	322,802
Difference between expected and actual experience	25,411	12,481	28,235	15,606	31,502	113,235
Total	**$199,928**	**$107,756**	**$213,549**	**$131,071**	**$255,813**	**$908,117**

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
2017	$42,443	$19,919	$51,642	$28,716	$65,836	$208,556
2018	23,113	7,835	30,574	13,872	44,312	119,706
2019	98,380	46,485	111,048	67,698	147,628	471,239
2020	67,171	31,961	74,034	45,853	101,758	320,777
2021	1,994	791	1,629	2,366	7,492	14,272
Total	**$233,101**	**$106,991**	**$268,927**	**$158,505**	**$367,026**	**$1,134,550**

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

Orange County Employees Retirement System

Orange County Employees Retirement System (OCERS) administers a cost-sharing multi-employer defined benefit pension plan for the County of Orange, City of San Juan Capistrano and thirteen special districts. Certain employees of the University of California, Irvine Medical Center and Campus were eligible to continue to participate in OCERS at the time the hospital was acquired.

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

Additional information on OCERS can be obtained from the 2015-2016 annual reports of the Orange County Employee Retirement System.

Membership in the OCERS Plan consisted of the following at December 31, 2015: 15,810 retired members and beneficiaries, 5,091 inactive members, 21,525 active members.

Contributions

Contribution rates for OCERS are set by the Board of Trustees.

Net Pension Liability

The Irvine Medical Center's proportionate share of the net pension liability was $18.1 million, or 0.3 percent. The net pension liability for OCERS was measured as of June 30, 2016, and the total pension liability was determined by an actuarial valuation as of December 31, 2015 rolled forward to June 30, 2016. The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an experience review conducted during 2013. The net pension liability for the Plan was calculated based upon the following assumptions as of June 30, 2016: 3.0 percent inflation, 7.25 percent investment rate of return, 4.25-13.5 percent projected salary increases through 2017 and 3.0 percent cost-of-living adjustments.

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

(shown as percentage)	Target Allocation	Long-term Expected Real Rate of Return
Asset class		
Large Cap U.S. Equity	14.9%	5.9%
Small/Mid Cap U.S. Equity	2.7	6.5
Developed International Equity	10.9	6.9
Emerging International Equity	6.5	8.3
Core Bonds	10.0	0.7
Global Bonds	2.0	0.3
Emerging Market Debt	3.0	4.0
Real Estate	10.0	5.0
Diversified Credit (U.S. Credit)	8.0	5.0
Diversified Credit (Non-U.S. Credit)	2.0	6.8
Hedge Funds	7.0	4.1
GTAA	7.0	4.2
Real Return	10.0	5.9
Private Equity	6.0	9.6
Total	**100.0%**	

Discount Rate

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

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the current-period net pension liability calculated using the June 30, 2016 discount rate assumption of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension liability	$26,352	$18,092	$11,296

Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

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

(in thousands of dollars)	
Year Ending June 30	
2017	$41
2018	41
2019	41
2020	379
2021	34
Thereafter	5
Total	**$541**

Children's Hospital and Research Center Oakland Pension Plan

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

The net pension liability for the Plan was calculated based upon the following assumptions as of June 30, 2016: 3.0 percent inflation, 7.0 percent investment rate of return, 5.0 percent projected salary increases through 2017, 4.0 percent afterward and no cost-of-living adjustments. The net pension liability for the Plan was calculated based upon the following assumptions as of June 30, 2015: 3.0 percent inflation, 7.0 percent investment rate of return, 3.5 percent projected salary increases through 2017, 4.0 percent afterward and no cost-of-living adjustments. CHRCO recognized pension expense of $21.4 million and $10.3 million for the years ended June 30, 2016 and 2015, respectively.

Mortality rates were based on the RP-2015 mortality with fully generational projected mortality improvements using modified scale MP-2015. The MP 2015 projection scale as modified for this valuation to utilize the social security administration intermediate cost projection scale and a 15-year convergence period.

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

Condensed financial information for the CHRCO Pension Plan as of and for the years ended June 30, 2016 and 2015 are as follows:

(in thousands of dollars)	CHILDREN'S HOSPITAL & RESEARCH CENTER OAKLAND PENSION PLAN	
	2016	**2015**
CONDENSED STATEMENT OF PLAN FIDUCIARY NET POSITION		
Investments at fair value	$353,446	$340,557
Total assets	**353,446**	**340,557**
Net position held in trust	**$353,446**	**$340,557**
CONDENSED STATEMENT OF CHANGES IN PLAN'S FIDUCIARY NET POSITION		
Contributions	$24,000	$18,000
Investment and other income, net	214	11,797
Total additions	**24,214**	**29,797**
Benefit payment and participant withdrawals	9,509	8,082
Plan expense	1,816	1,222
Total deductions	**11,325**	**9,304**
Increase in net position held in trust	**12,889**	**20,493**
Net position held in trust		
Beginning of year	340,557	320,064
End of year	**$353,446**	**$340,557**
CHANGES IN TOTAL PENSION LIABILITY		
Service cost	$10,410	$9,448
Interest	27,782	24,683
Difference between expected and actual experience	(3,690)	762
Changes of benefit terms	24	40
Changes of assumptions or other inputs	3,613	33,105
Benefits paid, including refunds of employee contributions	(9,509)	(8,082)
Net change in total pension liability	**28,630**	**59,956**
Total pension liability		
Beginning of year	391,232	331,276
End of year	**419,862**	**391,232**
Net pension liability, end of year	**$66,416**	**$50,675**

Membership in the CHRCO Plan consisted of the following at June 30, 2016:

Retirees and beneficiaries receiving benefits	794
Inactive members entitled to, but not yet receiving benefits	1,102
Active members	1,849
Total membership	**3,745**

Contributions

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

Net Pension Liability

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

(shown as percentage)	TARGET ALLOCATION	LONG-TERM EXPECTED REAL RATE OF RETURN
Asset class		
U.S. Equity	51.6%	5.9%
Developed International Equity	1.7	6.9
Emerging Market Equity	3.6	10.3
Core Fixed Income	43.1	1.6
Total	**100.0%**	

Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent for June 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumes that CHRCO will make contributions to the Plan under IRC Section 430's minimum requirements for a period of eight years, and that all future assumptions are met. Based on these assumptions, the CHRCO Plan fiduciary net position is projected to be available to make all projected future benefit payments for current active and inactive employees.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the current-period net pension liability calculated using the June 30, 2016 discount rate assumption of 7.0 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	1% DECREASE (6.0%)	CURRENT ASSUMPTION (7.0%)	1% INCREASE (8.0%)
Net pension liability	$126,691	$66,416	$16,708

Deferred Outflows of Resources and Deferred Inflows of Resources

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

(in thousands of dollars)	2016	2015
DEFERRED OUTFLOWS OF RESOURCES		
Difference between expected and actual experience	$3,528	$4,720
Changes of benefit terms	254	317
Changes of assumptions	27,877	30,373
Net difference between projected and actual earnings on pension plan investments	13,103	
Total	**$44,762**	**$35,410**
DEFERRED INFLOWS OF RESOURCES		
Difference between expected and actual experience	$3,030	
Net difference between projected and actual earnings on pension plan investments		$12,034
Total	**$3,030**	**$12,034**

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

(in thousands of dollars)	
Year Ending June 30	
2017	$5,571
2018	8,256
2019	13,569
2020	11,209
2021	3,127
Total	**$41,732**

14. SELF-INSURANCE

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

Malpractice and general liability premiums are recorded as insurance 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 years ended June 30 were as follows:

(in thousands of dollars	**2016**	**2015**
Davis	$7,600	$7,115
Irvine	6,246	7,400
Los Angeles	19,906	15,427
San Diego	8,763	7,491
San Francisco	17,249	14,227
Total	**$59,764**	**$51,660**

CHRCO's liabilities for medical malpractice, workers' compensation and health care claims changed as follows:

(in thousands of dollars)

	MEDICAL MALPRACTICE	WORKERS' COMPENSATION	EMPLOYEE HEALTH CARE	TOTAL
Year Ended June 30, 2016				
Balance at June 30, 2015	$4,427	$11,197	$2,522	$18,146
Claims incurred and changes in estimates	730	4,283	8,547	13,560
Claim payments	(732)	(2,940)	(9,205)	(12,877)
Liabilities at June 30, 2016	**$4,425**	**$12,540**	**$1,864**	**$18,829**
Discount rate	**Undiscounted**	**5.0%**	**Undiscounted**	
Year Ended June 30, 2015				
Liabilities assumed at January 1, 2015	$4,619	$9,341	$2,131	$16,091
Claims incurred and changes in estimates	562	5,337	9,359	15,258
Claim payments	(754)	(3,481)	(8,968)	(13,203)
Liabilities at June 30, 2015	**$4,427**	**$11,197**	**$2,522**	**$18,146**
Discount rate	**Undiscounted**	**5.0%**	**Undiscounted**	
Year Ended June 30, 2014				
Liabilities assumed at January 1, 2015	$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, 2015	**$4,619**	**$9,341**	**$2,131**	**$16,091**
Discount rate	**Undiscounted**	**5.0%**	**Undiscounted**	

CHRCO has two irrevocable letters of credit with a bank totaling $10.1 million as of June 30, 2016, which is security for the workers' compensation large dollar insurance deductible. No amounts were drawn on the letter of credit as of June 30, 2016.

15. TRANSACTIONS WITH OTHER UNIVERSITY ENTITIES

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2016						
Professional services	$49,103	$5,245	$1,398	$48,160		$103,906
Insurance	9,925	5,878	12,301	8,205	$8,224	44,533
Salaries and employee benefits	7,600				5,348	12,948
Other supplies and purchased services	10,947	41,985	82,528	14,066	537,192	686,718
Administrative costs		(4,339)				(4,339)
Medical supplies			(10,926)		(143)	(11,069)
Interest (income) expense, net	(5,257)	(3,185)	(14,554)	(4,585)	(10,103)	(37,684)
Total	**$72,318**	**$45,584**	**$70,747**	**$65,846**	**$540,518**	**$795,013**
2015						
Professional services	$51,446	$4,536	$4,379	$47,151	$1,683	$109,195
Insurance	8,852	5,061	11,550	7,829	6,631	39,923
Salaries and employee benefits	7,115			29,490	6,348	42,953
Other supplies and purchased services	10,910	35,340	70,623	(7,318)	494,122	603,677
Administrative costs		(4,339)				(4,339)
Medical supplies			(9,805)	(1,487)	(921)	(12,213)
Interest (income) expense, net	(4,126)	(3,575)	(13,599)	(3,765)	(10,397)	(35,462)
Total	**$74,197**	**$37,023**	**$63,148**	**$71,900**	**$497,466**	**$743,734**

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

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2016						
Reported as operating expenses	$72,318	$45,584	$70,747	$65,846	$540,518	$795,013
Reported as health system support	41,387	65,081	176,852	96,570	64,055	443,945
Total payments to the University	**$113,705**	**$110,665**	**$247,599**	**$162,416**	**$604,573**	**$1,238,958**
2015						
Reported as operating expenses	$74,197	$37,023	$63,148	$71,900	$497,466	$743,734
Reported as health system support	32,323	60,899	130,170	100,651	76,250	400,293
Total payments to the University	**$106,520**	**$97,922**	**$193,318**	**$172,551**	**$573,716**	**$1,144,027**

16. COMPONENT UNIT INFORMATION

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

(in thousands of dollars)

	2016	2015
CONDENSED STATEMENT OF NET POSITION		
Current assets	$195,918	$229,081
Capital assets, net	275,951	268,150
Other assets	211,711	218,654
Total assets	**683,580**	**715,885**
Total deferred outflows of resources	**44,761**	**35,410**
Current liabilities	98,477	76,893
Other noncurrent liabilities	147,244	130,831
Total liabilities	**245,721**	**207,724**
Total deferred inflows of resources	**3,030**	**12,034**
Net investment in capital assets	222,236	212,235
Restricted	55,036	56,934
Unrestricted	202,318	262,368
Total net position	**$479,590**	**$531,537**

(in thousands of dollars)

	2016	2015
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		
Operating revenues		
Net patient service revenue	$417,128	$504,191
Grants and contracts	46,469	51,366
Other operating revenue	19,468	19,989
Operating expenses	(524,445)	(505,957)
Depreciation expense	(34,274)	(36,882)
Operating income (loss)	**(75,654)**	**32,707**
Non-operating revenues, net	2,899	23,421
Income (loss) before other changes in net position	**(72,755)**	**56,128**
Health systems support		(2,437)
Other, including donated assets	20,808	46,692
Increase (decrease) in net position	**(51,947)**	**100,383**
Net position - beginning of year	531,537	431,154
Net position - end of year	**$479,590**	**$531,537**
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	$(13,671)	$28,126
Noncapital financing activities	10,918	11,677
Capital and related financing activities	(19,092)	22,860
Investing activities	(289)	8,519
Net increase (decrease) in cash and cash equivalents	**(22,134)**	**71,182**
Cash and cash equivalents – beginning of year	93,548	22,366
Cash and cash equivalents – end of year	**$71,414**	**$93,548**

17. COMMITMENTS AND CONTINGENCIES

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

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

The Medical Centers have entered into various construction contracts. The remaining costs of the Medical Center projects, excluding interest, as of June 30, 2016 are estimated to be approximately:

(in thousands of dollars)	
Davis	$25,981
Los Angeles	22,386
San Diego	125,813
San Francisco	89,034
Total	**$263,214**

As of June 30, 2016, CHRCO had no amounts outstanding under its revolving credit facility for $25.0 million. The interest rate on the credit facility is 1.2 percent as of June 30, 2016 and the facility expires on August 31, 2018.

REQUIRED SUPPLEMENTARY INFORMATION
UCRP

The schedule of the Medical Centers' proportionate share of UCRP's net pension liability is presented below:

(in thousands of dollars)

AS OF JUNE 30	Proportion of the net pension liability	Proportionate share of net pension liability	Covered-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					
2016	6.6%	$895,967	$682,784	131.2%	77.2%
2015	6.5%	627,561	635,120	98.8%	82.9%
2014	6.6%	468,810	603,824	77.6%	86.3%
2013	6.5%	690,989	563,695	122.6%	78.3%
2012	6.3%	880,516	522,988	168.4%	71.3%
IRVINE					
2016	3.2%	$438,524	$334,184	131.2%	77.2%
2015	3.2%	308,211	311,924	98.8%	82.9%
2014	3.3%	235,813	303,726	77.6%	86.3%
2013	3.3%	345,341	281,722	122.6%	78.3%
2012	3.3%	466,849	277,288	168.4%	71.3%
LOS ANGELES					
2016	7.3%	$990,520	$754,840	131.2%	77.2%
2015	7.2%	697,260	705,659	98.8%	82.9%
2014	7.3%	513,936	661,946	77.6%	86.3%
2013	7.0%	739,451	603,229	122.6%	78.3%
2012	6.6%	928,298	551,368	168.4%	71.3%
SAN DIEGO					
2016	4.1%	$564,996	$430,563	131.2%	77.2%
2015	4.0%	385,387	390,029	98.8%	82.9%
2014	3.9%	271,458	349,636	77.6%	86.3%
2013	3.8%	405,012	330,401	122.6%	78.3%
2012	4.2%	587,011	348,659	168.4%	71.3%
SAN FRANCISCO					
2016	8.6%	$1,171,002	$892,379	131.2%	77.2%
2015	8.1%	777,948	787,319	98.8%	82.9%
2014	7.4%	523,452	674,202	77.6%	86.3%
2013	7.8%	822,056	670,617	122.6%	78.3%
2012	7.5%	1,044,811	620,572	168.4%	71.3%
TOTAL					
2016	29.8%	$4,061,009	$3,094,750	131.2%	77.2%
2015	29.0%	2,796,367	2,830,051	98.8%	82.9%
2014	28.5%	2,013,469	2,593,334	77.6%	86.3%
2013	28.4%	3,002,849	2,449,664	122.6%	78.3%
2012	27.9%	3,907,485	2,320,875	168.4%	71.3%

REQUIRED SUPPLEMENTARY INFORMATION
CHRCO PENSION PLAN

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

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

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

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

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

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

Notes to schedule

Methods and assumptions used to determine contribution rates:
- Note that a 10-year history is not available as the organization was not required to report under GASB prior to FY 2014.

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

Actuarially determined contribution	The Plan is subject to funding requirements under ERISA. The contribution shown is the IRC Section 430 minimum contribution prior to offset by credit balances prorated for the number of months in the fiscal year. For the period January 1, 2014 to June 30, 2014, the amount shown does not reflect changes in the Highway and Transportation Funding Act of 2014 (HATFA). The contribution for July 1, 2014 to June 30, 2016 includes HATFA.
Contributions in relation to the actuarially determined contribution	The amount shown is equal to the overall dollar amount contributed to the Plan during the fiscal year shown. For 2016, this represents the period from July 1, 2015 through June 30,2016.
Actuarial cost method	Unit Credit Actuarial Cost Method.
Amortization method	Level dollar, closed amortization.
Remaining amortization period	7 years for changes in unfunded liabilities that occur each valuation date.
Asset valuation method	The actuarial value of assets is equal to the two-year average of Plan asset values as of the valuation date. The two-year average is the average of the two prior year's adjusted market value of assets and the current year's market value of assets. For this purpose, the prior years' market value of assets is adjusted to reflect benefit payments, administrative expenses, contributions and expected returns for the prior years. The resulting actuarial value of assets is adjusted to be within 10% of the market value of assets at the valuation date, as required by IRC Section 430.
Inflation	3.0%.
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation.
Projected salary increases	5.0%, including inflation through 2017, 4.0% afterward.
Cost-of-living adjustments	N/A.
Mortality	RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with generational adjustments for mortality improvements based on Scale AA.

REQUIRED SUPPLEMENTARY INFORMATION
OCERS

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

(in thousands of dollars)

AS OF JUNE 30	Proportion of the net pension liability	Proportionate share of net pension liability	Covered-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
2016	0.3%	$18,092	$285	6347.5%	34.8%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Office of the President
1111 Franklin Street
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