UNIVERSITY OF CALIFORNIA

Medical Centers Report

16/17

UC Health is rooted in its three missions of patient care, teaching and research. They come together in a powerful way to improve the lives of people in California and beyond. From medical innovations and clinical trials to the high-quality, compassionate health care in our hospitals and clinics, UC pushes the boundaries of medicine forward.

UNIVERSITY OF CALIFORNIA

Medical Centers
16/17 Annual Financial Report

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Letter from the Executive Vice President

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

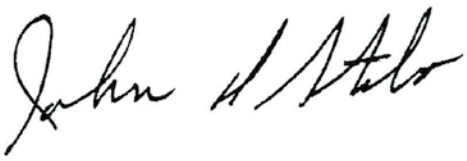
UC Health's efforts continue to be reflected in our strong showing in external rankings. All five UC medical centers were named among the nation's best hospitals by *U.S. News & World Report*, with two listed among the nation's top 10 hospitals: UCSF (5) and UCLA (7). In California, U.S. News ranked all five UC medical centers in the top 11, UCSF (1), UCLA (2), UC Davis (5), UC San Diego (7) and UC Irvine (11).

The UC Health initiative known as Leveraging Scale for Value completed its third year in fiscal year 2017. The initiative saved more than $178 million in fiscal year 2015, more than $380 million in fiscal year 2016, and almost $540 million in fiscal year 2017, and continues to demonstrate how system-wide efficiencies produce savings and quality improvement in the ever-changing landscape of health care. In recognition of UC Health's demonstration of excellence in balancing cost, quality and outcomes, our system was awarded the Healthcare Supply Chain Achievement Award from the ECRI Institute.

In the past year, the University of California's Board of Regents has empowered UC Health to promote the continued growth of the University's academic medical centers and health professional schools. In January of 2017, the Board of Regents established the fourth school of nursing at UC Irvine. Overall, UC has the nation's largest health sciences instructional program, with 18 professional schools in seven fields on seven campuses — schools known for their excellence. In July of 2017, UC Health and the Healthforce Center at UC San Francisco collectively produced a report of recommendations that identified strategies to expand health professional educational opportunities in pursuit of enhancing health care delivery options and access to care in the San Joaquin Valley. These actions were taken as part of the University's broader efforts to address future health workforce needs in the state of California.

UC Health has made strides as a system to increase innovation and improve patient care by forging new partnerships, creating collaborations and enhancing facilities. In November of 2016, UC San Diego opened the 245-bed Jacobs Medical Center that supports highly specialized multidisciplinary services for women and infants, advanced surgery and cancer care. With the formation of the UC Cancer Consortium, a system-wide effort is underway to reflect a new model for cancer research and treatment. The consortium is empowered by advances in collecting and analyzing large data and is comprised of the UC Davis Comprehensive Cancer Center, the UC Irvine Chao Family Comprehensive Cancer Center, the UCLA Jonsson Comprehensive Cancer Center, the UC San Diego Moores Cancer Center and the UCSF Helen Diller Family Comprehensive Cancer Center.

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



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

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

The following table presents certain historical utilization statistics for the primary and secondary service areas for the 12-month period ended December 31, 2016. Data for the 12-month period ended December 31, 2016, is the most current data available from the state of California Office of Statewide Health Planning and Development.

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	Sacramento, Placer, Yolo	83	2,110,793	68.1%	10.6%
Secondary	Alpine, Amador, Colusa, El Dorado, Nevada, Sierra, Sutter, Yuba	65	519,647	9.6%	5.8%

The University of California, Davis Medical Center

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

Licensed as a 627-bed general acute care hospital with more than 30 operating rooms, the Davis Medical Center provides a full range of inpatient general acute and intensive care, and a full complement of ancillary, support and ambulatory services. These services are housed in about 4.9 million gross square feet of facilities, most of which are located on the 144-acre campus in the city of Sacramento. Ambulatory care is provided at the hospital-based clinics and at satellite clinics in Sacramento and in the surrounding communities of Auburn, Carmichael, Davis, Elk Grove, Folsom, Natomas, Rancho Cordova, Rocklin and Roseville.

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

The Davis Medical Center participates in a variety of cooperative outreach activities with regional health care providers. The Davis Medical Center's Cancer Care Network is composed of community-based cancer centers in Marysville, Merced, Bakersfield and Truckee, and expanded this fiscal year to include sites in Tahoe and the southeastern Sierra. The Davis Medical Center's nationally recognized clinical telemedicine, distance education and rural affiliation programs have affiliations with the Veterans Administration, Lawrence Livermore National Laboratory and the adjacent Shriners' Hospital for Children — Northern California. The UC Davis Medical Group, supported by 1,540 faculty and contract physicians and approximately 900 residents and fellows, provides inpatient and outpatient medical services.

Significant events during the year are highlighted below:

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

- The Davis Medical Center is the top-ranking hospital in the Sacramento metropolitan area, according to the results of the annual *U.S. News & World Report (USNWR)* "Best Hospitals" 2016-17 survey.
- The Davis Medical Center ranked as one of the nation's best hospitals for 2016-17 in 10 adult medical specialties, including cancer care; cardiology and heart surgery; ear, nose and throat; geriatrics; gynecology; nephrology; neurology and neurosurgery; orthopaedics; pulmonology; and urology, according to the annual *U.S. News & World Report* "Best Hospitals" 2016-17 survey.

- *U.S. News & World Report* also released ratings for common types of care or procedures for 2016-17, and ranked the Davis Medical Center as high performing in abdominal aortic aneurysm repair, chronic obstructive pulmonary disease, colon cancer surgery, heart failure, hip replacement, knee replacement and lung cancer surgery.
- *U.S. News & World Report* ranked the Davis Children's Hospital among the nation's top children's hospitals in five specialties in its 2016-17 rankings. The specialties include neonatology, diabetes and endocrinology and nephrology. Together with its longstanding partner Shriners Hospital for Children — Northern California, UC Davis Children's Hospital also ranked in orthopaedics and urology.
- UC Davis Children's Hospital became the first hospital on the West Coast, and only the fourth in the nation at the time, to earn verification as a Level I Children's Surgery Center by the American College of Surgeons (ACS). The designation from the ACS Children's Surgery Verification Quality Improvement Program focuses on the nation's first and only multi-specialty standards of surgical care for pediatric patients.
- For the second consecutive year, *Becker's Hospital Review* included UC Davis Medical Center in its list of 100 Great Hospitals in America. The publication for U.S. health care leaders notes that listed hospitals are "home to many medical and scientific breakthroughs, provide best-in-class patient care and are stalwarts of their communities, serving as research hubs or local anchors of wellness."
- For the sixth consecutive year, the nation's largest lesbian, gay, bisexual and transgender (LGBT) civil rights organization recognized the Davis Medical Center as a Leader in LGBT Healthcare Equality in 2016 for creating an inclusive and welcoming environment for LGBT patients and employees.
- UC Davis Health also earned its sixth consecutive "Most Wired" designation in 2016, as one of the nation's top health leaders in information technology. The award is based on a national survey conducted by *Hospitals & Health Networks* magazine.

New one-stop care center

To better serve patients who live or work in the heart of Sacramento, UC Davis Medical Group opened an expanded primary and specialty care clinic in August 2016 at the edge of the city's center. The new UC Davis Midtown Ambulatory Care Center consolidates three primary-care clinics into a single "one stop shop" location convenient to major downtown and Midtown employment centers, two major regional freeways, and several prominent core-area residential neighborhoods. The newly renovated, state-of-the-art medical building offers a wide range of services such as adult and pediatric primary care; on-site appointments in popular medical specialties such as neurology, gastroenterology and sleep medicine; and laboratory and imaging services.

Regional outreach

UC Davis Health continues to increase its affiliations with regional health care providers by providing seamless transfer and repatriation processes, supported by electronic health record interoperability, to ensure that patients receive access to tertiary and quaternary services at the Davis Medical Center when needed. With our Comprehensive Cancer Center, UC Davis Health System now has six regional Cancer Care Network partners located throughout California that bring advanced cancer care and the latest clinical research to patients in their local communities. The UC Davis telehealth program connects 33 specialties to 70 sites, enabling patients throughout California to receive direct clinical and specialty care without leaving their own communities. Leveraging its leadership in telehealth and using an integrated approach for simulation-based education and distance learning, the program serves as a model for regional population health.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The University of California, Irvine Medical Center
Service Area and Market Share

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

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	Orange	91	1,914,292	69.4%	8.2%
Secondary	Orange, Los Angeles, Riverside, San Bernardino	80	1,805,559	15.7%	2.3%

The University of California, Irvine Medical Center

UC Irvine Medical Center is a major clinical component of UC Irvine Health and is the primary teaching facility for the UC Irvine School of Medicine. In 1976, The Regents purchased the land and facilities that now include UC Irvine Medical Center from the Orange County Board of Supervisors. The medical center subsequently expanded with the addition of the University Hospital Tower, UCI Neuropsychiatric Center, Chao Family Comprehensive Cancer Center and the H.H. Chao Comprehensive Digestive Disease Center (CDDC). The UC Irvine Health Douglas Hospital opened as the main inpatient facility in March 2009. It was designed to meet and exceed the needs of a world-class academic medical center and provide a top notch patient experience.

Orange County's only academic medical center, UC Irvine Medical Center is licensed to operate 417 beds and offers specialty inpatient care and specialty/primary care outpatient services, teaching and clinical research.

It serves as a major tertiary and quaternary care referral center for nearly 4 million people residing in and around Orange County, western Riverside County and southeastern Los Angeles County. It is also Orange County's only combined Level I Trauma Center and Level II Pediatric Trauma Center verified by the American College of Surgeons, combined high-risk obstetrics and regional neonatal programs, and American Burn Association-verified Regional Burn Center. The UC Irvine Medical Center campus is home to Orange County's only National Cancer Institute-designated comprehensive cancer center, providing access to leading clinical care and trials not available anywhere else in the county.

UC Irvine Health provides inpatient and outpatient services through a clinical practice group of more than 400 faculty physicians and surgeons. Outpatient services are provided at the medical center's pavilion buildings, Chao Family Comprehensive Cancer Center, H. H. Chao Comprehensive Digestive Disease Center and Gottschalk Medical Plaza on the UC Irvine campus. In addition to these locations, UC Irvine Health owns and operates two Federally Qualified Health Centers in Santa Ana and Anaheim to meet the needs of underserved populations in Orange County.

These sites enable UC Irvine Health to provide a full scope of high-quality patient care services to the community and attract a broad and diverse patient population required to support the education and research programs of the UC Irvine School of Medicine.

Significant events during the year are highlighted below:

National recognition

For the 17th consecutive year, UC Irvine Medical Center is one of "America's Best Hospitals" and the only Orange County hospital consistently rated among the nation's best, according to the 2017-18 *U.S. News & World Repor*t survey. The annual rankings recognize hospitals that excel in treating the most challenging patients. The UC Irvine Health program in geriatrics and senior health was rated among the country's top 50 in

2017. Since 2001, the magazine has listed UC Irvine Health programs in urology, gynecology, geriatrics, cancer, digestive disorders/ gastroenterology & GI surgery, nephrology, orthopaedics and ear, nose & throat among the top 50 nationwide.

In 2017, UC Irvine Health received its sixth consecutive "A" grade in The Leapfrog Group's *Hospital Safety Grade*, which rates how well hospitals protect patients from errors, injuries and infections. UC Irvine Health features more than 100 physicians listed as Best Doctors in America by Best Doctors Inc., more than any hospital or health system in Orange County.

UC Irvine Health Clinical Network

Primary Care

- UC Irvine Health continues to expand its community-based primary care presence, providing access to family medicine, internal medicine, pediatrics and senior health in Placentia, Yorba Linda, Orange and Tustin.

Specialty Care

- UC Irvine Health continues to expand its specialty care services in the coastal region, with neurology, cancer and digestive disease services at the UC Irvine Health Cancer Center – Newport, UC Irvine Health Digestive Disease Center – Newport and UC Irvine Health Neurology – Newport, respectively.
- In the Inland Empire, UC Irvine Health continues to deepen its affiliation with Corona Regional Medical Center to provide the region with convenient access to academic-based medicine. The affiliation's tele-stroke program is particularly successful, offering residents of western Riverside County emergent access to the stroke neurology expertise at UC Irvine Medical Center's Joint Commission-certified Comprehensive Stroke Center, the region's first. The affiliation also includes UC Irvine Health cardiology and gastroenterology clinics in Corona.
- UC Irvine Health has also opened two new urology clinics in Riverside County.
- The UC Irvine Health Department of Emergency Medicine (EM) now provides emergency services to residents of Catalina Island through an agreement with Catalina Island Medical Center in Avalon. UC Irvine Health EM specialists provide round-the-clock daily high-level emergency and urgent care evaluation services for 4,500 Catalina Island residents and more than 1 million annual visitors.

Major hospital projects

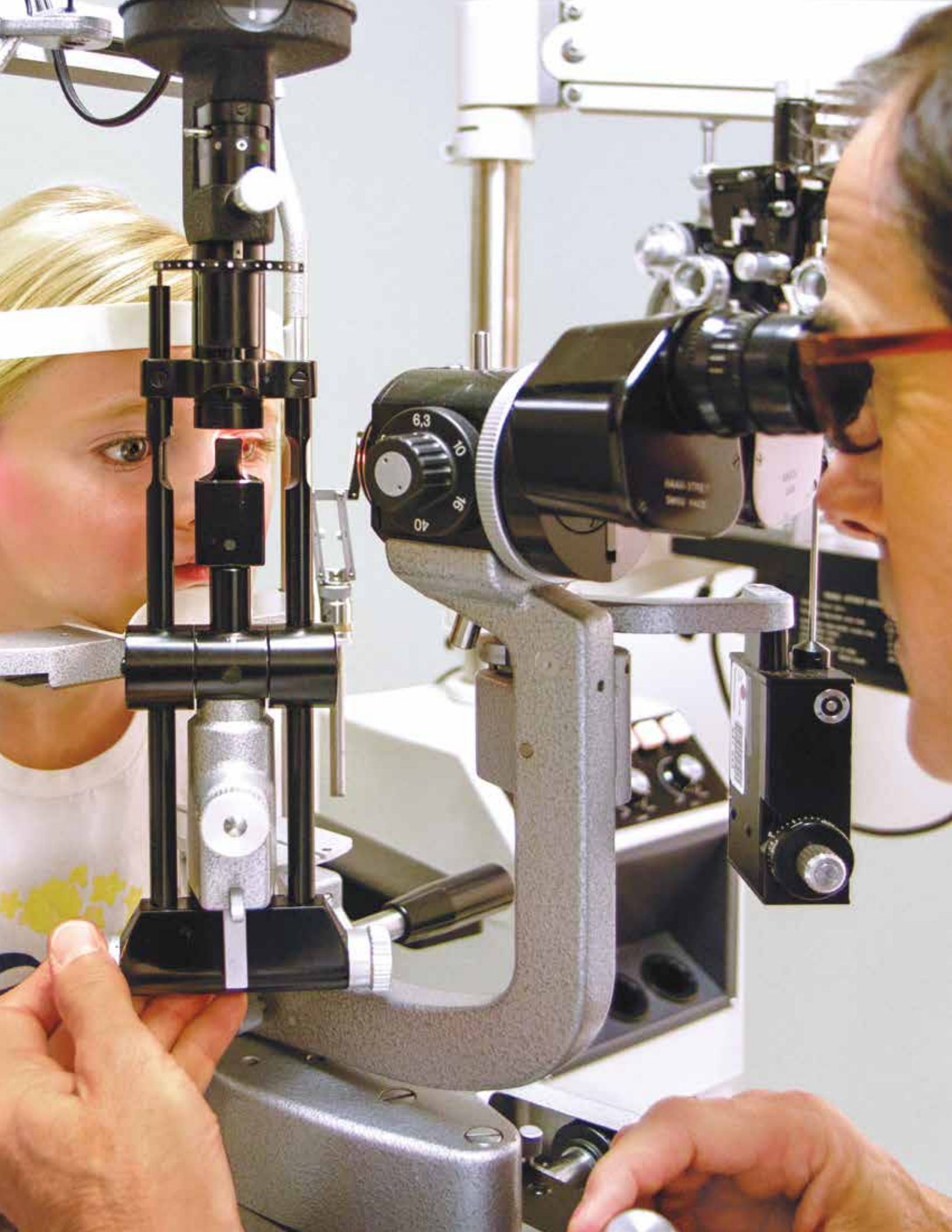
The renovation of the H.H. Chao Comprehensive Digestive Disease Center (CDDC) is complete, on schedule and on budget. The project includes renovation and a 14,100-square-foot expansion, a new entrance and waiting area, six interventional procedure rooms, 17 new pre- and post-operative procedure bays, nine additional exam rooms and a conference room. The CDDC is a regional leader in the delivery of interventional endoscopy treatments and diagnostic screening services for patients with a variety of digestive disorders. It is one of the few facilities in the nation to provide full-spectrum care specifically for disorders of the esophagus, stomach, liver, pancreas, small intestines, colon and rectum. The CDDC annually treats more than 20,000 patients and the renovated center has capacity to meet the region's increasing needs. The new building features a three-story, sunlight-filled atrium designed to reduce noise and soothe patients. The spacious exam and procedure rooms permit patients to receive all diagnostic, treatment, follow-up care and visits with other specialists in the same building.

Information Services infrastructure

During 2017, Information Services (IS) implemented the following initiatives:

- Replacement of Quest electronic medical record (EMR) with Epic EMR in conjunction with UCSD.
- Implementation of an IT Joint Service Model with UCSD to create an integrated IS department over time.
- Preparation for Epic Go-Live beginning Nov. 4, 2017.
- Focus on migration to the cloud of both infrastructure and applications to meet the needs of UC Irvine Health.
- Implement an enterprise clinical and financial data warehouse to support outcomes driven quality improvement and patient safety.
- Implement a quality measures engine to drive improvements in population health management.
- Continue to enhance the privacy and security of UC Irvine Health's IS environment.

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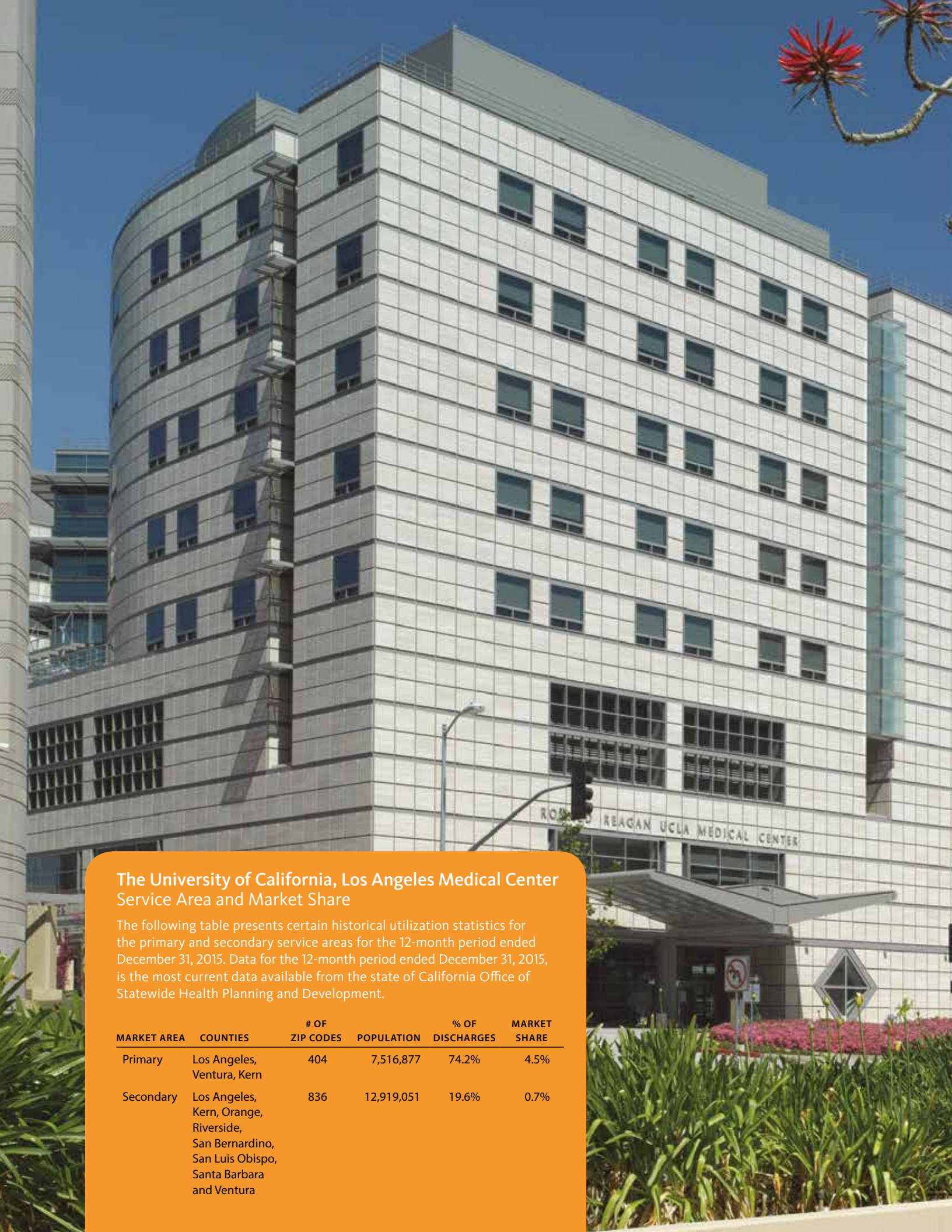

The University of California, Los Angeles Medical Center
Service Area and Market Share

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

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	Los Angeles, Ventura, Kern	404	7,516,877	74.2%	4.5%
Secondary	Los Angeles, Kern, Orange, Riverside, San Bernardino, San Luis Obispo, Santa Barbara and Ventura	836	12,919,051	19.6%	0.7%

The University of California, Los Angeles Medical Center

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

UCLA operates licensed-bed facilities at the 445-bed Ronald Reagan UCLA Medical Center (RRUCLA) in Westwood which includes the UCLA Mattel Children's Hospital (MCH), the 265-bed Santa Monica-UCLA Medical Center and Orthopaedic Hospital (SMUCLA) in Santa Monica, and the 74-bed Resnick Neuropsychiatric Hospital at UCLA (RNPH) in Westwood. The financial statements also include the activities of the UCLA Tiverton House, a 100-room hotel facility for patients and their families.

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

The Westwood campus opened in 1955 as a 320-bed hospital and expanded to 669 beds by 1967. On June 29, 2008, the RRUCLA then 466-bed and RNPH 74-bed state-of-the-art replacement hospital opened for patient care, meeting the seismic requirements of the state of California's SB 1953 Hospital Facilities Seismic Safety Act.

UCLA offers patients of all ages comprehensive care, from routine to highly specialized medical and surgical treatment.

In addition, the Westwood campus is known for its wide range of tertiary/quaternary care offerings including Level I trauma care, regional neonatal and pediatric intensive care units (ICUs), neurosurgery/neurology and organ transplantation. SMUCLA also serves the University's teaching and research missions while meeting the health care needs of Los Angeles' west side community. RNPH is one of the leading centers for comprehensive patient care, research and education in the fields of mental and developmental disabilities and offers a full range of treatment options for patients.

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

Significant events during the year are highlighted below:

UCLA Health Sciences maintains its outstanding national reputation

- UCLA Health hospitals in Westwood and Santa Monica placed No. 1 in Los Angeles, No. 2 in California and No. 7 in the nation in the 2017–18 *U.S. News and World Report (USNWR)* rankings. UCLA received top 10 rankings in eight specialties: ear, nose and throat (2); geriatrics (4); urology (4); ophthalmology at the UCLA Stein and Doheny Eye Institutes (5); nephrology (6); rheumatology (6); psychiatry at the Resnick Neuropsychiatric Hospital at UCLA (8) and pulmonology (10).

- MCH was recognized as one of the nation's best pediatric hospitals by *USNWR* and is among a select group of hospitals to be ranked in all 10 of the specialty areas in the 2017-18 "Best Children's Hospitals" survey.
- DGSOM ranks No. 6 among best medical schools for primary care in the *USNWR* 2018 annual survey of the best graduate schools in the U.S. DGSOM ranks No. 11 in the ranking of the nation's best medical schools for research.
- UCLA's hospitals were recognized as "Leaders in LGBTQ Healthcare Equality" as part of the Human Rights Campaign Foundation's Healthcare Equality Index (HEI) 2017.
- The UCLA Lung Transplant Program performed its 1,000th surgery in September 2016, becoming the first program on the West Coast, and only one of seven centers nationwide, to do so.
- UCLA Health and DGSOM earned the 2017 Seal of Distinction from WorldatWork, an award given to organizations that meet defined standards of workplace programs, policies and practices.
- UCLA Health cardiology program was named in *Becker's Hospital Review* of top 100 heart programs.
- Twenty UCLA Health clinics received URAC Patient-Centered Medical Home accreditation for excellence in ambulatory patient care delivery.
- RRUCLA received the Greenhealth Partner for Change Award for its commitment to safe and sustainable environmental policies.
- SMUCLA was recognized with Press Ganey's 2016 Guardian of Excellence Award for outstanding Neonatal Intensive Care.
- RRUCLA was awarded a "Baby-Friendly" designation as part of the Baby-Friendly Hospital Initiative, recognizing its quality care for breastfeeding mothers and their babies.
- A group of 20 nurses from the RRUCLA medical ICU received the 2017 National Patient Safety Foundation and DAISY Foundation Team Award for Extraordinary Nurses.
- UCLA Medical Group's Santa Monica Bay Physicians network was awarded 4.5 out of 5 stars by the Integrated Healthcare Association, a statewide non-profit that aims to enhance quality and affordability.

UCLA Medical Center continues to work on strategic initiatives

UCLA's strategic activities are focused on increasing tertiary/quaternary care delivery at the Westwood campus while securing primary and secondary care partners and creating a robust health care delivery platform for managing all aspects of health care delivery. These activities are related to a carefully orchestrated clinical growth strategy that advances UCLA's depth, scope and reach, promotes increased market presence, rationalizes care by utilizing lower-cost clinical settings, secures alignments that fuel additional clinical growth and provides partners with access to a large and vibrant academic community.

- The Los Angeles Lakers and UCLA Health agreed to a long-term partnership that includes UCLA Health's designation as the exclusive in-game health provider for the team's players and naming rights for the new training facility and offices in El Segundo, the UCLA Health Training Center.
- The 138-bed California Rehabilitation Institute opened in Century City — it is a partnership between UCLA Health, Cedars-Sinai Medical Center and Select Medical to serve the community's rehabilitation needs.
- MCH and Miller Children's & Women's Hospital announced their intent to form a strategic affiliation bringing together their academic, clinical and research expertise, along with their pooled resources to enhance children's health care services.
- UCLA and AccentCare formed a joint venture to provide home health services to patients in Los Angeles County and the surrounding areas, positioning UCLA to have minority ownership and clinical oversight of services provided in the post-acute care environment to improve patient care, clinical quality and overall patient experience.
- The Institute for Precision Health at UCLA launched as a home for precision and genomic health activities to facilitate current and future large-scale initiatives in genetic and genomic medicine; create new, currently untapped, opportunities for innovative discovery; and further solidify UCLA's international leadership in a broad range of scholarship and training, information technology and clinical care.

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

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

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	San Diego	77	1,447,484	54.3%	14.6%
Secondary	San Diego	95	1,816,364	30.3%	5.7%

The University of California, San Diego Medical Center

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

With the opening of Jacobs Medical Center in November 2016, the health system has a current combined capacity of 808 beds, a 43 percent increase since the last reporting period. Operating under one license, its three hospitals are the 364-bed Jacobs Medical Center (which includes the 119-bed Thornton Pavilion), the 54-bed Sulpizio Cardiovascular Center and the 390-bed UC San Diego Medical Center.

The La Jolla campus, located on the eastern portion of the main university campus, is home to the 10-story Jacobs Medical Center, a specialty hospital focused on surgery, complex oncology, and high-risk obstetrics and neonatal care. Among its many advanced medical features is the region's only intraoperative imaging suite consisting of four operating rooms with both MRI and CT imaging capabilities, and an entire floor dedicated to the care and recovery of blood and marrow transplant recipients. Jacobs Medical Center is connected to Sulpizio Cardiovascular Center, the region's first comprehensive cardiovascular center and the global leader in pulmonary thromboendarterectomy (PTE), an operation for removing blood clots from the pulmonary arteries to treat chronic pulmonary hypertension.

A sky bridge connects the cardiovascular center to another facility that opened in 2016, the Altman Clinical and Translational Research Institute. This seven-story structure provides the physical space, biomedical infrastructure and proximity to patient care facilities to support the development and management of clinical trials. UC San Diego Health initiates approximately 250 new clinical trials a year and currently has about 7,000 patients receiving investigational therapies for cancer and other serious conditions.

The La Jolla campus also includes Moores Cancer Center, the primary site for outpatient oncology care and the region's only NCI-designed Comprehensive Cancer Care Center, and the Shiley Eye Institute, a multi-specialty vision center with the region's only facility dedicated to children.

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

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

These combined sites enable UC San Diego Health to deliver a continuum of care and attract the volume and diversity of patients needed to achieve its tripartite mission of clinical, research and education excellence.

UC San Diego Health maintains strong reputation for patient care

UC San Diego Health was ranked among the nation's best in eight adult medical and surgical specialties in *U.S. News & World Report's* 2017-2018 "Best Hospitals" report.

Specialties listed in the top 50 nationally include: cancer; cardiology and heart surgery; gastroenterology and GI surgery; geriatrics; gynecology; neurology and neurosurgery; orthopedics, and pulmonology. It was considered high performing in urology and nephrology and achieved the highest rating possible for eight common adult procedures/common conditions, including aortic valve surgery, heart bypass surgery, heart failure, colon cancer surgery, chronic obstructive pulmonary disease (COPD), hip replacement, knee replacement and lung cancer surgery.

In November 2016, UC San Diego Health surgeons performed the region's first combined heart-liver transplant. Fewer than 10 of these technically challenging surgeries are performed in the U.S. each year. It is also the only local hospital system to perform heart-lung, living donor liver and multi-organ chest-abdominal transplants.

It received an "A" for hospital safety in April 2017 from The Leapfrog Group, reflecting its low rates of medical errors and preventable harm to patients. For the fourth year in a row, Healthgrades awarded it with a "Distinguished Hospital Award for Clinical Excellence," placing it among the top 5 percent of U.S. hospitals delivering superior care to the Medicare population based on clinical outcomes.

In addition, it was recertified as a Magnet hospital from the American Nurses Credentialing Center, considered among the highest recognitions for nursing excellence. In its evaluation, the credentialing board noted UC San Diego Health's team-based approach to care as a best practice that more hospitals should follow.

It had a perfect score on the 2017 Healthcare Equality Index from the nation's largest LGBTQ civil rights organization, and reflects the provision of inclusive and welcoming care to LGBTQ patients and their families.

Finally, UC San Diego Health received The Joint Commission (TJC) Gold Seal of Approval in recognition of its quality patient care, and is currently California's only hospital that holds advanced certification in chronic kidney disease care from TJC.

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

UC San Diego Health continues to expand its clinical capabilities and adapt its business model to thrive in an intensely competitive local market while meeting the challenges of value-based payer models.

To this end, a four-story, 156,000-square-foot Outpatient Pavilion is being built on the La Jolla campus, near Jacobs Medical Center. Scheduled to open in 2018, the facility will house eight operating rooms in which procedures that once required hospitalization will be performed on an outpatient basis. In addition to the outpatient surgery center, the facility will house a breast health center, stem cell center, apheresis services, orthopedic/sports medicine services, urology center, radiology services and a pain management clinic.

It continues to extend its reach beyond its employed physician base to meet consumer demand for primary care close to home. More than 250 select community physicians are now part of the UC San Diego Health Physician Network. To complement the physician network, UC San Diego Health is forging affiliations with hospitals in the region to further its clinical footprint. UC San Diego Health physicians now provide care to patients at Rady Children's Hospital San Diego, Veteran Affairs San Diego Healthcare System and El Centro Regional Medical Center in Imperial Valley. It also maintains partnerships with Scripps Health, Sharp HealthCare and others to provide services as diverse as proton therapy for cancer to at-home hospice care.


San Diego
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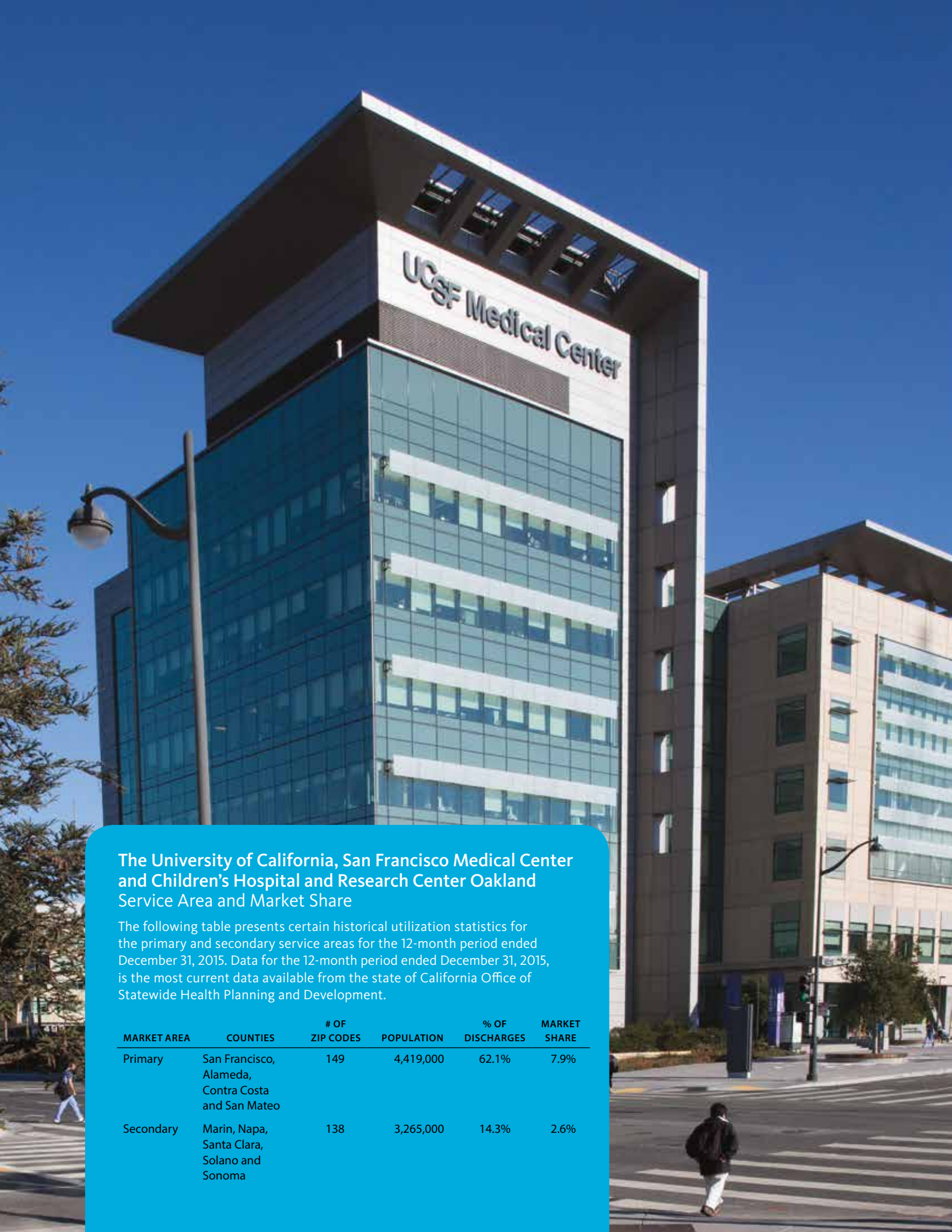


The University of California, San Francisco Medical Center and Children's Hospital and Research Center Oakland
Service Area and Market Share

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

MARKET AREA	COUNTIES	# OF ZIP CODES	POPULATION	% OF DISCHARGES	MARKET SHARE
Primary	San Francisco, Alameda, Contra Costa and San Mateo	149	4,419,000	62.1%	7.9%
Secondary	Marin, Napa, Santa Clara, Solano and Sonoma	138	3,265,000	14.3%	2.6%

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

UCSF Health is comprised of the hospitals of UCSF Medical Center, the UCSF Faculty Clinical Practices, Langley Porter Psychiatric Hospital and Clinics and UCSF Benioff Children's Hospital Oakland. UCSF Health serves as the principal clinical teaching site for the University of California, San Francisco, School of Medicine, affiliated with the University of California since 1873.

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

UCSF Health's financial statements also include the activities of the UCSF Faculty Clinical Practices — the faculty practice organization for more than 1,100 UCSF faculty physicians. The net revenues from clinical practices are recorded in net patient service revenue; the direct expenses of non-physician staff and non-labor expenses are included in operating expenses.

Effective January 1, 2014, UCSF Medical Center affiliated with Children's Hospital & Research Center Oakland and the University of California became its sole corporate and voting member. Now known and doing business as UCSF Benioff Children's Hospital Oakland (BCHO), the 105-year-old hospital retains its status as a private, not-for-profit 501(c)(3) medical center, offering children and their families outstanding medical, surgical and mental health care. BCHO has 190 licensed beds and more than 500 physicians in 43 specialties.

The BCHO hospital is one of only five ACS Pediatric Level I Trauma Centers in the state, and has one of the largest pediatric intensive care units in Northern California.

UCSF Health continues to maintain an outstanding local and national reputation

- UCSF Medical Center is the leading hospital in San Francisco and a destination for patients with complex conditions from around the world.
- U.S. News & World Report ranked UCSF Medical Center the fifth best hospital in the country in its 2017–18 survey and awarded Honor Roll status for exceptional performance in 15 medical specialties, including thirteen in the top ten.
- UCSF Benioff Children's Hospitals are nationally recognized by U.S. News & World Report in all ranked ten specialties.
- The UCSF School of Medicine was ranked third and fourth in the nation by U.S. News & World Report in its survey for 2017-18 best medical schools for its primary care training and its research training, respectively — the only medical school in the country ranked in the top five in both categories.

- UCSF is designated as a Magnet hospital by the American Nurses Credentialing Center (ANCC) which recognizes organizations for quality patient care, nursing excellence and innovations in nursing.
- UCSF Medical Center was named one of Health Care's Most Wired Hospitals in 2017 by the American Hospital Association. Hospitals with this designation are using smartphones, telehealth, remote patient monitoring technologies, secure messaging and other tools to increase patients' access to health care providers, and to record valuable health data for improving safety and quality.
- UCSF Medical Center became the only institution in the country to receive a perfect score on the national LGBT Healthcare Equality Index (HEI) for eight consecutive years. The HEI annually invites health care facilities nationwide to complete a survey describing how they provide equitable, inclusive care for lesbian, gay, bisexual and transgender (LGBT) patients and their families.

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

- UCSF Health is self-supporting and uses its margins to meet important needs in the community, including training physicians and other health professionals, supporting medical research, providing care to the medically and financially needy, and building and operating facilities to serve the diverse needs of its patients.
- UCSF Health continued to implement its Health System Strategic Plan to foster strategic alignments with other providers in order to provide more access to clinical care. Included in the strategic plan are the following initiatives:
  - Creating a high value system of care for regional populations of patients through an Accountable Care Organization (ACO) network.
  - Expansion of regional tertiary care services and other destination programs.
  - Continued implementation of a culture of continuous process improvement.
- Construction has continued on Phase I of the BCHO Master Plan that began in October 2015. Phase 1 includes building a six story outpatient center with clinics for cardiology, rehabilitation, neurology and other subspecialties, while also addressing California seismic compliance standards.
- Canopy Health, a Bay Area-wide health care network developed by UCSF Health, John Muir Health and three physician groups, has grown to include more than 4,000 physicians and dozens of care centers and hospitals throughout the San Francisco Bay Area. The breadth of the Canopy Health network enables patients to have in-network access to a full continuum of care, through close connections between primary care providers, community hospitals, medical groups (facilities and practitioners) and academic medical centers. In 2017, more than 14,000 UC Health employees became members of Canopy Health.

UCSF Health: Commitment to the Community

- UCSF Health entered into an affiliation agreement with Dignity Health, the nation's sixth largest health system. As part of the agreement, UCSF Health staff and faculty will provide consulting services at Dignity Health hospitals in the San Francisco Bay Area. This will enable patients to receive surgical and specialty care sooner and in more places, including their own community hospital.
- UCSF Health collaborated with the San Francisco Department of Public Health and other health and social service agencies to develop a community health needs assessment report in 2016 to identify key health priorities in its primary service area. These priorities are important components in the Health System Strategic Plan mentioned above and are included in future goals for UCSF Health.
- UCSF Health provided more than $492 million in uncompensated or undercompensated care in 2017.
- While UCSF Health is known and respected nationally and internationally, its primary commitment is providing leading-edge health care services to the people of the San Francisco Bay Area and communities throughout Northern California and offering the best possible experience for patients and their families.


UCSF Benioff Children's Hospitals
San Francisco

Management's Discussion and Analysis *(Unaudited)*

INTRODUCTION

The objective of Management's Discussion and Analysis is to help readers better understand the UC Medical Centers' financial position and operating activities for the year ended June 30, 2017, with selected comparative information for the years ended June 30, 2016 and 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2015, 2016, 2017 etc.) in this discussion refer to the fiscal years ended June 30.

OVERVIEW

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

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

OPERATING STATISTICS

The following table presents utilization statistics for the Medical Centers:

(shown in fiscal year)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
Licensed beds						
2017	627	417	784	808	1,276	3,912
2016	621	411	795	563	1,276	3,666
2015	621	411	805	563	1,266	3,666
Admissions						
2017	34,564	21,173	40,966	29,264	45,480	171,447
2016	33,002	20,777	41,282	28,713	43,456	167,230
2015	32,292	20,226	42,345	28,185	41,934	164,982
Average daily census						
2017	536	338	741	504	755	2,874
2016	502	338	744	476	719	2,779
2015	483	317	738	451	675	2,664
Discharges						
2017	34,565	21,270	40,979	29,200	45,549	171,563
2016	32,955	20,872	41,263	28,719	43,310	167,119
2015	32,222	20,234	42,303	28,043	41,907	164,709
Average length of stay						
2017	5.6	5.8	6.6	6.3	6.0	6.1
2016	5.6	5.9	6.6	6.1	6.1	6.1
2015	5.4	5.7	6.4	5.9	5.9	5.9
Patient days						
2017	195,678	123,191	270,550	184,135	275,446	1,049,000
2016	183,667	123,557	272,191	174,101	262,430	1,015,946
2015	176,180	115,793	269,368	164,526	246,351	972,218
Case mix index[1]						
2017	1.87	1.83	2.00	1.96	1.97	
2016	1.80	1.81	1.99	1.91	1.96	
2015	1.73	1.77	1.88	1.82	1.87	
Outpatient visits						
2017	1,007,187	786,917	776,341	827,160	1,704,965	5,102,570
2016	995,688	751,629	806,359	777,452	1,531,435	4,862,563
2015	1,005,292	666,183	766,640	710,398	1,360,770	4,509,283

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

Licensed Beds

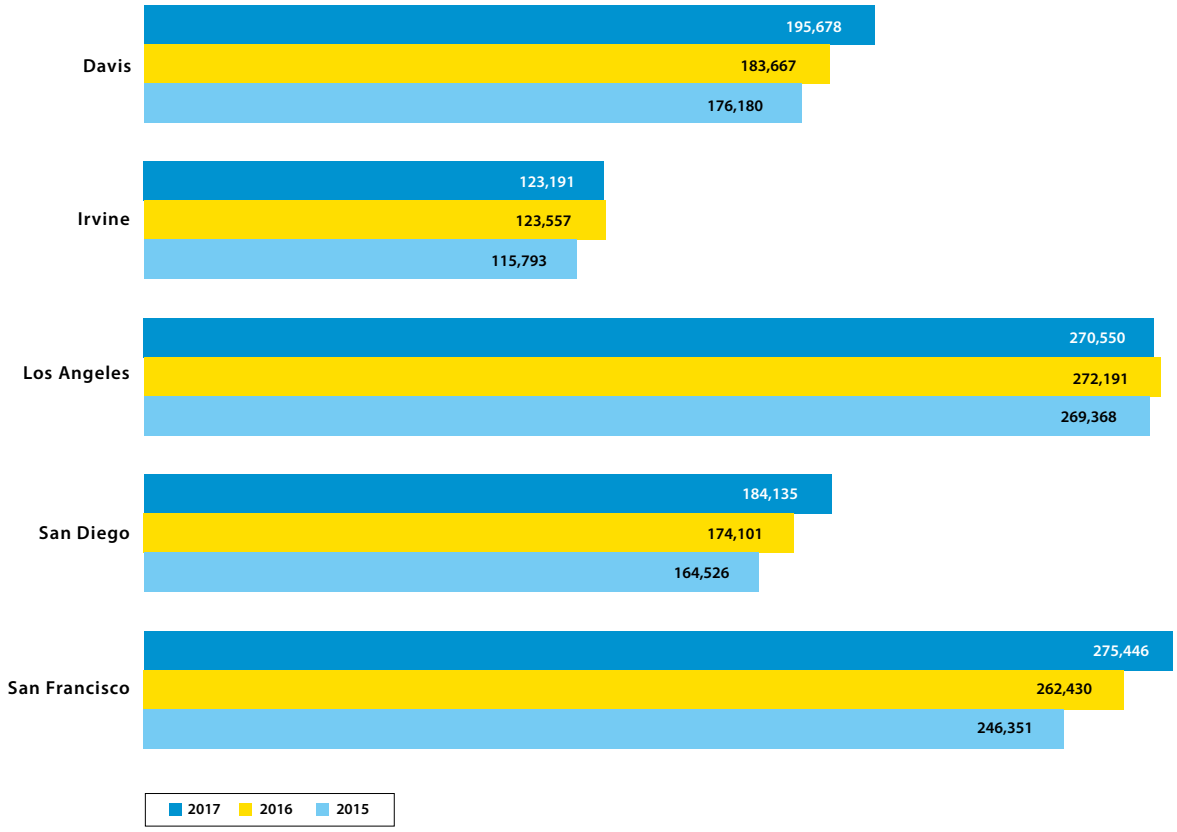
Licensed beds changed as follows:

Increased (decreased)

	2017	2016	
Davis	6		Space changes due to seismic compliance requirements resulted in six new beds.
Irvine	6		Licensed beds increased by six general acute care beds.
Los Angeles	(11)	(10)	Licensed beds decreased due to the closure of the Ronald Reagan rehabilitation center.
San Diego	245		Jacobs Medical Center (JMC) opened in November 2016 adding 245 new beds.
San Francisco		10	Additional general acute care beds were added in 2016.

Admissions and Patient Days

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



Admissions and patient days changed in 2017 as follows:

Increased (decreased)

	Admissions		Patient Days		
Davis	1,562	4.7%	12,011	6.5%	Admissions and patient days are higher due to an increase in the acuity of patients.
Irvine	396	1.9%	(366)	(0.3%)	Slight admissions increase and patient days decrease due to continued focus on lower length of stay.
Los Angeles	(316)	(0.8%)	(1,641)	(0.6%)	Admissions and patient days decreased due to lower Medicare, Medi-Cal and capitation patient days.
San Diego	551	1.9%	10,034	5.8%	Admissions and patient days increased primarily due to the opening of new beds at Jacobs Medical Center for the final seven months of the fiscal year.
San Francisco	2,024	4.7%	13,016	5.0%	Admissions and patient days increased primarily due to growth in Children's Hospital volume that has continued to grow since the opening of the Mission Bay Hospital in 2015. Adult volumes also increased due to growth of targeted programs.

Admissions and patient days changed in 2016 as follows:

Increased (decreased)

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

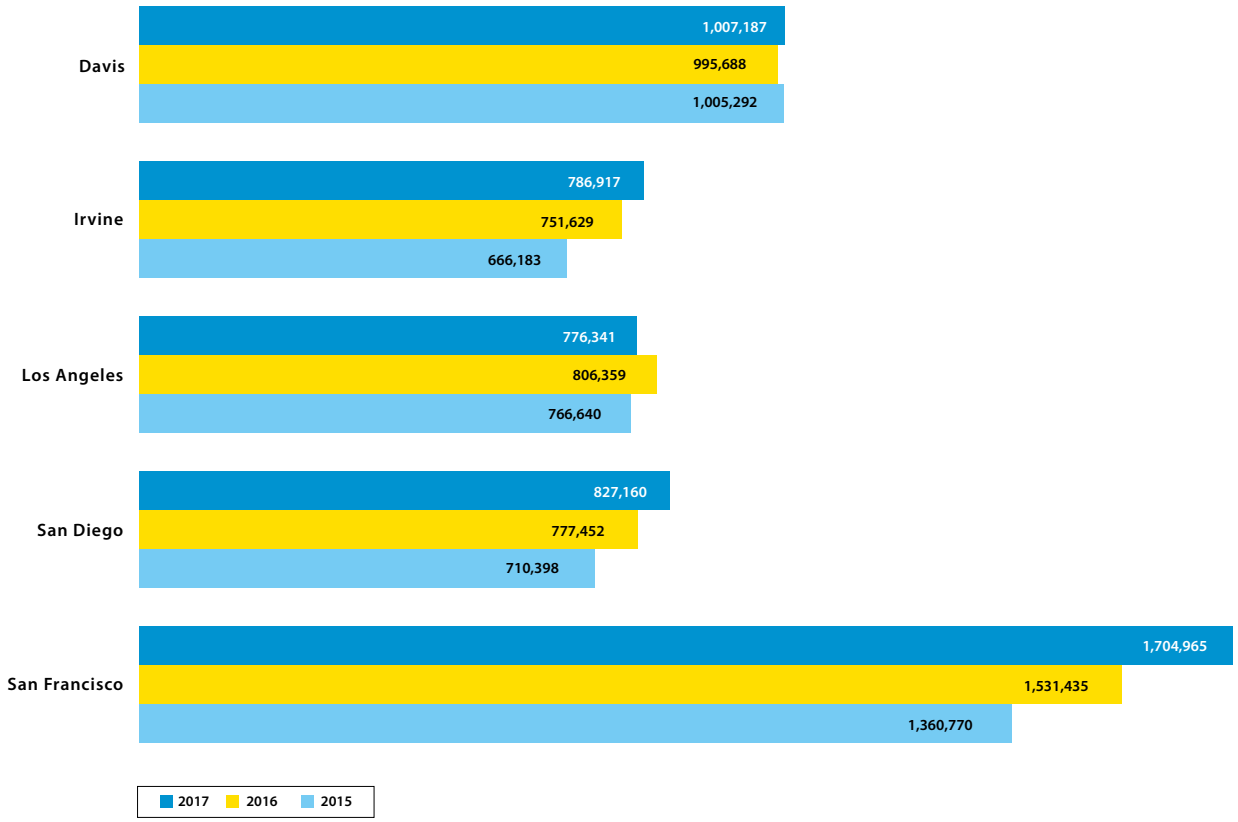
Outpatient Visits

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

(shown in fiscal year)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2017						
Hospital clinics	460,417	677,593	695,529	234,056	1,600,025	3,667,620
Primary care network	466,313	57,490		515,501		1,039,304
Home health and hospice	23,072				3,072	26,144
Emergency visits	57,385	51,834	80,812	77,603	101,868	369,502
Total	**1,007,187**	**786,917**	**776,341**	**827,160**	**1,704,965**	**5,102,570**
2016						
Hospital clinics	455,050	656,274	727,264	228,290	1,407,805	3,474,683
Primary care network	456,511	46,219		472,166		974,896
Home health and hospice	22,848				22,459	45,307
Emergency visits	61,279	49,136	79,095	76,996	101,171	367,677
Total	**995,688**	**751,629**	**806,359**	**777,452**	**1,531,435**	**4,862,563**
2015						
Hospital clinics	445,872	595,299	693,355	213,978	1,241,799	3,190,303
Primary care network	480,050	22,469		422,140		924,659
Home health and hospice	18,267				19,742	38,009
Emergency visits	61,103	48,415	73,285	74,280	99,229	356,312
Total	**1,005,292**	**666,183**	**766,640**	**710,398**	**1,360,770**	**4,509,283**

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



Total outpatient visits changed in 2017 as follows:

Increased (decreased)			
Davis	11,499	1.2%	Visits continue to increase based on a new clinic and continued demand for oncology services.
Irvine	35,288	4.7%	Overall visits increased due to the continued expansion in community based primary and specialty care services.
Los Angeles	(30,018)	(3.7%)	Outpatient visits decreased due to a reduction in hospital clinic visits.
San Diego	49,708	6.4%	Clinic visits increased 7.0% due to clinic expansion, while emergency room visits increased 0.8%.
San Francisco	173,530	11.3%	Outpatient visits increased due to growth of outpatient programs and clinical outreach to grow targeted areas.

Total outpatient visits changed in 2016 as follows:

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2017						
Net patient service revenue	$2,105,499	$1,088,317	$2,388,924	$1,595,867	$3,748,100	$10,926,707
Other operating revenue	41,875	28,010	113,628	92,295	203,654	479,462
Total operating revenue	2,147,374	1,116,327	2,502,552	1,688,162	3,951,754	11,406,169
Total operating expenses	1,983,662	1,050,777	2,384,772	1,668,586	4,003,451	11,091,248
Income (loss) from operations	163,712	65,550	117,780	19,576	(51,697)	314,921
Total net non-operating revenues (expenses)	9,467	(17,961)	(36,579)	(10,470)	24,067	(31,476)
Income (loss) before other changes in net position	173,179	47,589	81,201	9,106	(27,630)	283,445
Other changes in net position	(29,562)	(50,705)	(166,007)	(88,902)	(47,588)	(382,764)
Increase (decrease) in net position	143,617	(3,116)	(84,806)	(79,796)	(75,218)	(99,319)
Net position - beginning of year	(852,162)	(349,128)	(181,496)	45,120	(291,416)	(1,629,082)
Net position - end of year	**$(708,545)**	**$(352,244)**	**$(266,302)**	**$(34,676)**	**$(366,634)**	**$(1,728,401)**
2016						
Net patient service revenue	$1,888,702	$984,161	$2,266,980	$1,465,431	$3,370,854	$9,976,128
Other operating revenue	46,572	25,490	97,058	79,227	196,463	444,810
Total operating revenue	1,935,274	1,009,651	2,364,038	1,544,658	3,567,317	10,420,938
Total operating expenses	1,974,918	1,035,154	2,336,904	1,507,201	3,822,694	10,676,871
Income (loss) from operations	(39,644)	(25,503)	27,134	37,457	(255,377)	(255,933)
Total net non-operating revenues (expenses)	(461)	(20,450)	(24,398)	16	(15,663)	(60,956)
Income (loss) before other changes in net position	(40,105)	(45,953)	2,736	37,473	(271,040)	(316,889)
Other changes in net position	(49,060)	(60,492)	(170,042)	(48,663)	(20,939)	(349,196)
Decrease in net position	(89,165)	(106,445)	(167,306)	(11,190)	(291,979)	(666,085)
Net position - beginning of year	(762,997)	(242,683)	(14,190)	56,310	563	(962,997)
Net position - end of year	**$(852,162)**	**$(349,128)**	**$(181,496)**	**$45,120**	**$(291,416)**	**$(1,629,082)**
2015						
Net patient service revenue	$1,693,445	$906,595	$2,167,150	$1,423,546	$3,084,035	$9,274,771
Other operating revenue	30,521	26,569	86,716	66,700	174,963	385,469
Total operating revenue	1,723,966	933,164	2,253,866	1,490,246	3,258,998	9,660,240
Total operating expenses	1,748,774	902,100	2,103,820	1,342,923	3,252,781	9,350,398
Income (loss) from operations	(24,808)	31,064	150,046	147,323	6,217	309,842
Total net non-operating revenues (expenses)	(5,262)	(5,170)	(11,833)	2,789	28,812	9,336
Income (loss) before other changes in net position	(30,070)	25,894	138,213	150,112	35,029	319,178
Other changes in net position	(38,351)	(57,455)	(123,202)	(83,900)	14,701	(288,207)
Increase (decrease) in net position	(68,421)	(31,561)	15,011	66,212	49,730	30,971
Net position - beginning of year:						
Beginning of year, as previously reported	324,206	289,190	1,102,762	615,801	1,213,823	3,545,782
Cumulative effect of accounting change	(1,018,782)	(500,312)	(1,131,963)	(625,703)	(1,262,990)	(4,539,750)
Beginning of year, as restated	(694,576)	(211,122)	(29,201)	(9,902)	(49,167)	(993,968)
Net position – end of year	**$(762,997)**	**$(242,683)**	**$(14,190)**	**$56,310**	**$563**	**$(962,997)**

Retiree Health Benefits

Operating results for 2016 and 2015 have been restated for accounting changes related to reporting retiree health benefits that were implemented in 2017. The University administers single-employer health and welfare plans to provide primarily medical, dental and vision benefits to eligible retirees (and their eligible family members) of the University of California and its affiliates through the University of California Retiree Health Benefit Trust ("UCRHBT"). The University has a financial responsibility for retiree health benefits associated with UCRHBT, and the Medical Centers' financial statements for 2016 and 2015 have been restated for their proportionate share of the University's retiree health benefits expense. Retiree health benefits expense is allocated to the Medical Centers based on their proportionate share of covered compensation for the fiscal year.

Prior to adopting the retiree health benefits accounting changes, the Medical Centers reported retiree health benefits expense based on cash contributions to UCRHBT. The Medical Centers are required to contribute at a rate assessed each year by the University. The contribution requirements are based upon projected pay-as-you-go financing requirements. These retiree health benefits accounting changes do not impact the Medical Centers' requirements for making contributions to UCRHBT.

Retiree health benefits expense and contributions for the Medical Centers are as follows:

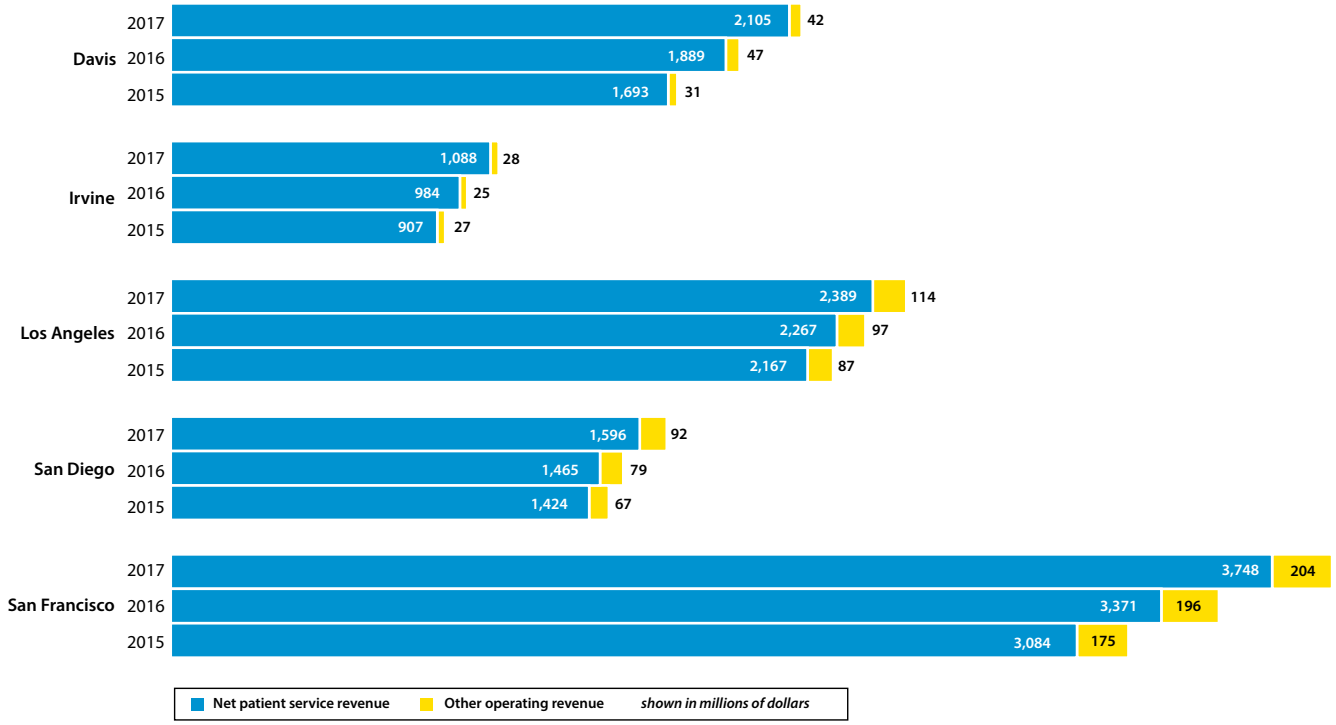
(in thousands of dollars)

	2017		2016		2015	
	Retiree health expense	**Retiree health contributions**	**Retiree health expense**	**Retiree health contributions**	**Retiree health expense**	**Retiree health contributions**
Davis	$104,795	$21,562	$124,210	$20,334	$99,492	$16,824
Irvine	46,113	10,089	60,645	10,433	48,859	8,686
Los Angeles	127,609	24,975	136,790	23,664	110,545	19,899
San Diego	79,684	14,677	80,253	12,780	61,105	10,307
San Francisco	177,865	31,217	170,434	28,147	123,340	22,100
Total	**$536,066**	**$102,520**	**$572,332**	**$95,358**	**$443,341**	**$77,816**

Revenues

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

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



Revenues for 2017 as compared to 2016 are as follows:

Increased (decreased) in millions of dollars

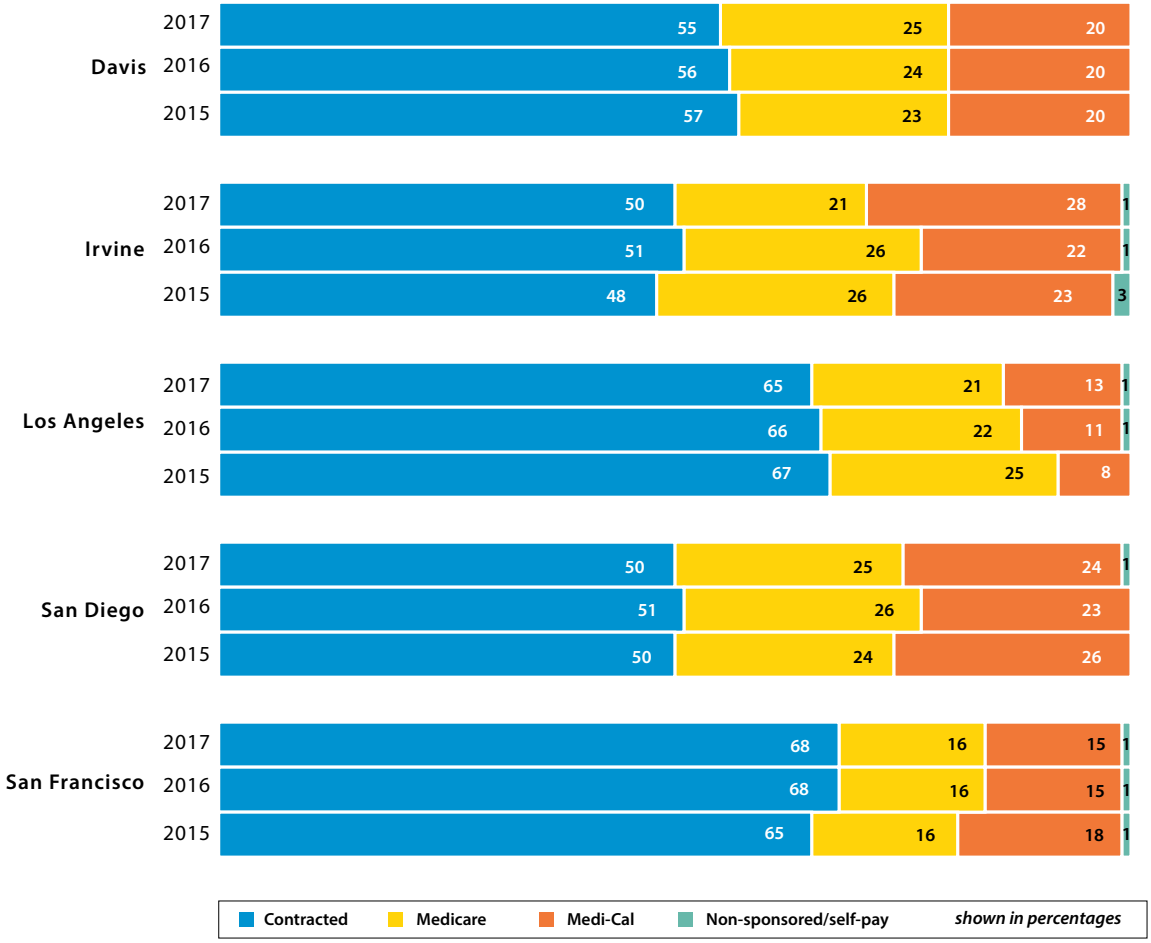
	Total Operating Revenue		Net Patient Service Revenue		
Davis	$212.1	11.0%	$216.8	11.5%	Increased third-party settlements, higher volumes and complexity of cases contributed to the increase.
Irvine	106.7	10.6%	104.2	10.6%	The increase was mainly due to higher patient volume and increased complexity of cases.
Los Angeles	138.5	5.9%	121.9	5.4%	The increase is due to an increase in third-party settlements and additional supplemental funding.
San Diego	143.5	9.3%	130.4	8.9%	The increase was mainly due to higher patient volume after the opening of new beds at Jacobs Medical Center in November 2016, as well as increased complexity of cases and contract price increases.
San Francisco	384.4	10.8%	377.2	11.2%	Increase is due to growth of patient volume, an increase of contracted rates and an increase of Medi-Cal supplemental funds approved in the year.

Revenues for 2016 as compared to 2015 are as follows:

Increased (decreased) in millions of dollars

	Total Operating Revenue		Net Patient Service Revenue		
Davis	$211.3	12.3%	$195.3	11.5%	Higher patient volumes, increased complexity of cases, continued growth in the UC Davis Specialty Pharmacy program, as well as several contractual arrangements with other providers contributed to the increase in net patient service revenue.
Irvine	76.5	8.2%	77.6	8.6%	Increase due to the increased patient volume, patient days and outpatient visits.
Los Angeles	110.2	4.9%	99.8	4.6%	The increase is due to an increase in third-party settlements, higher inpatient volume and additional supplemental funding.
San Diego	54.4	3.7%	41.9	2.9%	The increase is due to higher patient volume, increased complexity of cases and contract price increases, offset partially by reduced Disproportionate Share Hospital (DSH) revenue from the Medi-Cal waiver program.
San Francisco	308.3	9.5%	286.8	9.3%	Increase is primarily due to higher patient volumes with the operation for a full year of the Mission Bay Hospital that had been open for only five months in 2015.

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



Payor mix changed in 2017 as follows:

Davis	Payor mix is consistent when compared to prior year.
Irvine	Payor mix changed primarily with an increase in Medi-Cal due to reserves related to the Medi-Cal waiver program.
Los Angeles	Payor mix changed primarily with an increase in Medi-Cal due to continued Medi-Cal expansion as a result of the Affordable Care Act. In addition, contract revenue (capitated) decreased due to the termination of one of the capitation agreements during the year. All other payors remained relatively consistent with prior year.
San Diego	While overall payor mix was stable, within the Medi-Cal category there was a shift away from traditional Medi-Cal and towards Medi-Cal managed care plans.
San Francisco	Payor mix based on net patient revenue was consistent compared to the prior year.

Payor mix changed in 2016 as follows:

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

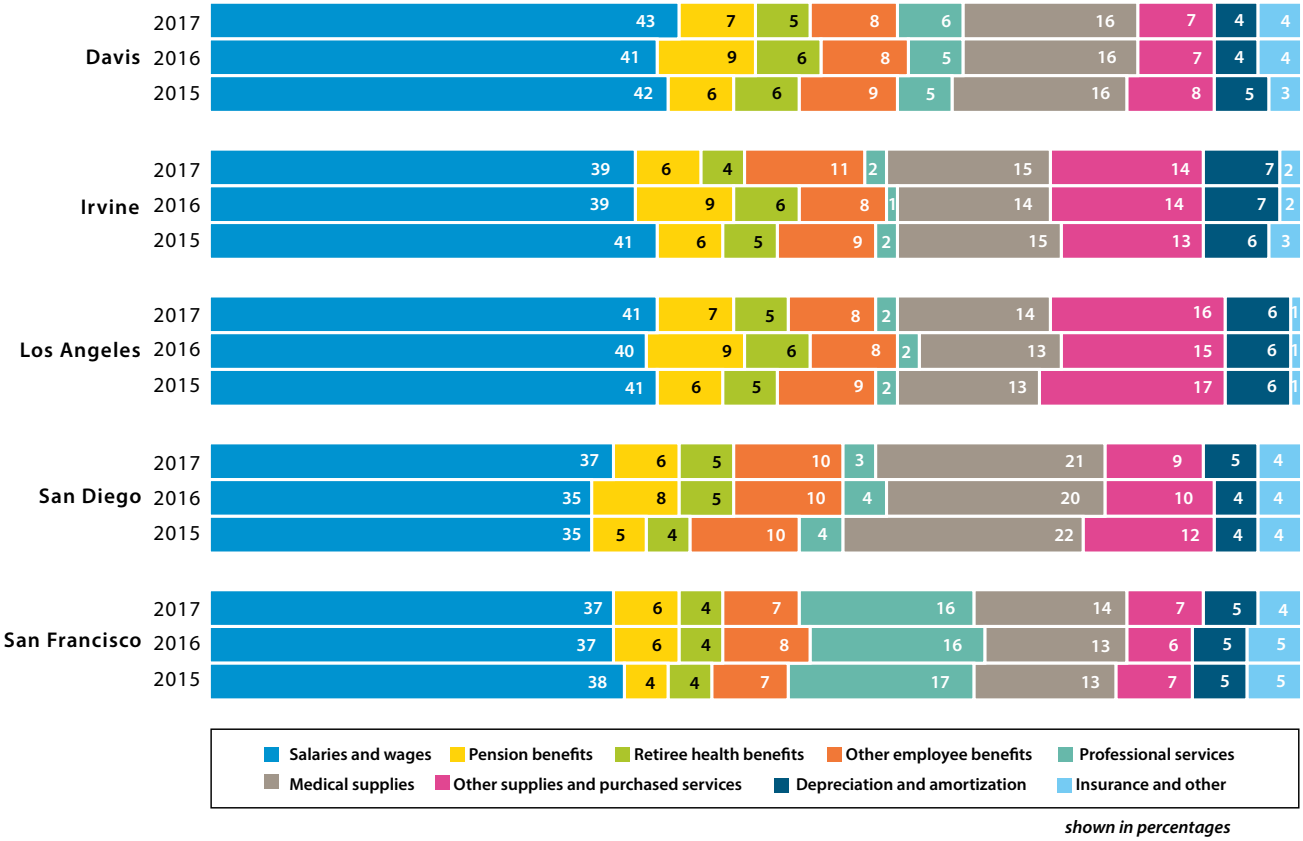
Operating Expenses

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2017						
Salaries and wages	$844,408	$407,671	$972,473	$620,548	$1,496,989	$4,342,089
Pension benefits	138,692	65,965	157,056	102,403	223,821	687,937
Retiree health benefits	104,795	46,113	127,609	79,684	177,865	536,066
Other employee benefits	163,447	118,183	201,544	173,917	272,697	929,788
Professional services	119,988	24,240	40,363	49,322	660,395	894,308
Medical supplies	310,960	155,943	326,994	348,549	543,119	1,685,565
Other supplies and purchased services	141,370	144,902	402,568	147,549	262,839	1,099,228
Depreciation and amortization	78,839	69,271	142,841	76,779	210,913	578,643
Insurance and other	81,163	18,489	13,324	69,835	154,813	337,624
Total	**$1,983,662**	**$1,050,777**	**$2,384,772**	**$1,668,586**	**$4,003,451**	**$11,091,248**
2016						
Salaries and wages	$800,159	$406,619	$924,643	$528,171	$1,389,825	$4,049,417
Pension benefits	185,667	91,575	211,154	119,576	247,971	855,943
Retiree health benefits	124,210	60,645	136,790	80,253	170,434	572,332
Other employee benefits	161,394	87,581	197,504	150,406	288,656	885,541
Professional services	103,469	13,608	44,725	51,058	608,724	821,584
Medical supplies	307,472	142,439	314,613	307,050	505,000	1,576,574
Other supplies and purchased services	141,457	141,628	360,980	154,564	238,361	1,036,990
Depreciation and amortization	79,291	68,706	134,100	58,391	205,146	545,634
Insurance and other	71,799	22,353	12,395	57,732	168,577	332,856
Total	**$1,974,918**	**$1,035,154**	**$2,336,904**	**$1,507,201**	**$3,822,694**	**$10,676,871**
2015						
Salaries and wages	$731,430	$372,568	$864,458	$470,206	$1,220,698	$3,659,360
Pension benefits	107,907	52,646	126,325	67,052	139,806	493,736
Retiree health benefits	99,492	48,859	110,545	61,105	123,340	443,341
Other employee benefits	152,644	83,098	181,688	136,772	238,201	792,403
Professional services	84,558	15,827	40,720	49,613	542,832	733,550
Medical supplies	282,704	129,044	279,446	292,350	438,488	1,422,032
Other supplies and purchased services	143,236	113,223	358,032	156,359	225,318	996,168
Depreciation and amortization	85,078	57,710	130,946	56,647	164,916	495,297
Insurance and other	61,725	29,125	11,660	52,819	159,182	314,511
Total	**$1,748,774**	**$902,100**	**$2,103,820**	**$1,342,923**	**$3,252,781**	**$9,350,398**

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



shown in percentages

Total operating expenses changed in 2017 as follows:

Increased (decreased) in millions of dollars			
Davis	$8.7	0.4%	Salary increases were offset by lower pension and retiree health benefits, while supply costs were consistent with volume.
Irvine	15.6	1.5%	Overall expenses are consistent with prior year. Other employee benefits increased due to vacation accrual.
Los Angeles	47.9	2.0%	Increases in salaries, other employee benefits, medical supplies, and other supplies and purchased services due to volume increases and wage rate increases.
San Diego	161.4	10.7%	The increase in salaries, employee benefits and medical supplies reflects higher patient volume, scheduled increases for employees and inflation. In addition, the opening of Jacobs Medical Center in November 2016 resulted in pre-opening and transition expenses such as staff training, as well as higher depreciation expense.
San Francisco	180.8	4.7%	Increase in salaries and benefits, professional fees and medical supplies is primarily due to increased patient volumes and wage rate increases.

Total operating expenses changed in 2016 as follows:

Increased (decreased) in millions of dollars			
Davis	$226.1	12.9%	Increases in salaries and benefit costs including pension, along with higher supply costs contributed to the increase in operating expenses.
Irvine	133.1	14.7%	Increases in salaries, employee benefits, pension benefits and medical supplies due to volume increases and wage rate increases.
Los Angeles	233.1	11.1%	Increases in salaries, employee benefits, pension benefits and medical supplies due to volume increases and wage rate increases.
San Diego	164.3	12.2%	Overall expenses reflect higher patient volume, scheduled increases for employees and inflation. Pension expense was much higher in 2016. There were also one-time expenses in the fourth quarter for pre-opening and transition expenses related to the Jacobs Medical Center.
San Francisco	569.9	17.5%	Increase is primarily due to the operation for a full year of the Mission Bay Hospital that had been open for only five months in 2015 and an increase in pension costs.

Salaries and Benefits

Salary and employee benefits expenses include wages paid to employees, vacation, holiday and sick pay, payroll taxes, workers' compensation insurance premiums, health insurance, pension and retiree health benefits expenses and other employee benefits. Salaries and benefits as a percentage of total operating revenues have changed primarily due to changes in pension and retiree health benefits expenses as follows:

	2017	2016	2015	
Davis	58.3%	65.7%	63.3%	Salary and benefit expense decreased compared to prior year due to lower pension and retiree health benefits, which was partially offset by higher wages.
Irvine	57.1%	64.0%	59.7%	The decrease was due to lower pension and retiree health benefits in current year, which was offset by increase in vacation accrual.
Los Angeles	58.3%	62.2%	56.9%	Salaries and benefits decreased due to a significant decrease in the pension and retiree health benefit expense in the current year compared to the prior year. This decrease was partially offset by an increase in wage rate increases in salaries.
San Diego	57.8%	56.9%	49.3%	The increase is primarily due to an increase in full-time employees (FTE) necessary for operating the new Jacobs Medical Center, including clinical and support positions at that location.
San Francisco	54.9%	58.8%	52.8%	Decrease due to revenue growth in excess of labor increases and decrease of pension expense.

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

Increased (decreased) in millions of dollars

	2017						2016					
	Salaries and Wages		FTEs		Rate Changes		Salaries and Wages		FTEs		Rate Changes	
Davis	$44.2	5.5%	174	2.2%	$26.6	3.3%	$68.7	9.4%	307	4.0%	$39.1	5.1%
Irvine	1.1	0.3%	(52)	(1.2)%	4.1	1.1%	34.1	9.1%	187	4.3%	14.7	4.2%
Los Angeles	47.8	5.2%	123	1.3%	34.9	3.8%	60.2	7.0%	353	4.0%	24.5	2.8%
San Diego	92.4	17.5%	818	13.9%	19.2	3.6%	58.0	12.3%	365	7.1%	24.7	5.2%
San Francisco	107.2	7.7%	464	4.0%	51.9	3.6%	169.1	13.9%	867	8.0%	71.1	5.4%

Employee benefits changed as follows:

Increased (decreased) in millions of dollars

	2017						2016					
	Pension		Retiree Health		Other Employee Benefits		Pension		Retiree Health		Other Employee Benefits	
Davis	$(47.0)	(25.3%)	$(19.4)	(15.6%)	$2.1	1.3%	$77.8	72.1%	$24.7	24.8%	$8.8	5.7%
Irvine	(25.6)	(28.0%)	(14.5)	(24.0%)	30.6	34.9%	38.9	73.9%	11.8	24.1%	4.5	5.4%
Los Angeles	(54.1)	(25.6%)	(9.2)	(6.7%)	4.0	2.0%	84.8	67.2%	26.2	23.7%	15.8	8.7%
San Diego	(17.2)	(14.4%)	(0.6)	(0.7%)	23.5	15.6%	52.5	78.3%	19.1	31.3%	13.6	10.0%
San Francisco	(24.2)	(9.7%)	7.4	4.4%	(16.0)	(5.5%)	108.2	77.4%	47.1	38.2%	50.5	21.2%

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

The Medical Centers are required to contribute at a rate set by The Regents. Employer contribution rates were 14.0 percent in 2017, 2016 and 2015, of covered compensation. Pension expenses were lower in 2017 due to higher than expected investment returns. Pension expenses were higher in 2016 due to lower than expected investment returns.

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

Increased (decreased) in millions of dollars

	2017		2016		2015	
	Medical Center Pension Expense	**Pension Contributions**	**Medical Center Pension Expense**	**Pension Contributions**	**Medical Center Pension Expense**	**Pension Contributions**
Davis	$138,692	$102,403	$185,667	$95,435	$107,907	$88,693
Irvine	63,997	48,710	90,499	46,628	52,646	43,466
Los Angeles	157,056	111,966	211,154	105,103	126,325	98,329
San Diego	102,403	69,647	119,576	60,001	67,052	54,326
San Francisco	203,864	139,730	226,586	124,681	129,462	110,021
Total	**$666,012**	**$472,456**	**$833,482**	**$431,848**	**$483,392**	**$394,835**

The University has a financial responsibility for retiree health benefits. The Medical Centers are required to contribute at a rate assessed each year by the University based upon projected pay-as-you-go financing requirements. Retiree health benefits expense is allocated to the Medical Centers based on their proportionate share of covered compensation for the fiscal year. Retiree health expenses were lower in 2017 due to the increase in the discount rate. Retiree health expenses were higher in 2016 due to the decrease in the discount rate. Other employee benefits increased due to higher health insurance costs.

Professional Services

Professional services include payments to the Schools of Medicine for physician services in the hospitals and clinics, payments to other health care providers for capitated patients, outside lab fees, organ acquisition fees, transcription fees and legal fees.

Professional services changed in 2017 as follows:

Increased (decreased) in millions of dollars

Davis	$16.5	16.0%	Increases are due to professional network costs for physician services.
Irvine	10.6	78.1%	Mainly due to increase in consulting fees to optimize operational efficiency.
Los Angeles	(4.4)	(9.8%)	Lower costs related to consulting and management fees due to cessation of information technology and revenue cycle projects. In addition, there was a slight decrease in medical director fees.
San Diego	(1.7)	(3.4%)	There was a reduction of call coverage fees paid to physicians.
San Francisco	51.7	8.5%	Increase due to growth of patient volumes which increases payments for physician services.

Professional services changed in 2016 as follows:

Increased (decreased) in millions of dollars

Davis	$18.9	22.4%	Increased costs related to external labor, consulting and professional network costs for physician services.
Irvine	(2.2)	(14.0%)	Decrease in consulting fees.
Los Angeles	4.0	9.8%	Higher costs related to consulting and management fees for information technology and revenue cycle projects.
San Diego	1.4	2.9%	Professional services for physician fees increased.
San Francisco	65.9	12.1%	Increase due to higher physician service fees.

Medical Supplies

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

Medical supply expenses, including pharmaceuticals, changed in 2017 as follows:

Increased (decreased) in millions of dollars			
Davis	$3.5	1.1%	An increase in volume contributed to the higher costs.
Irvine	13.5	9.5%	Medical supplies are higher due to higher surgical volume and pharmaceutical expenses are higher due to increased discharge, case mix intensity and growth in cancer center.
Los Angeles	12.4	3.9%	Increase due to higher pharmaceutical costs as a result of an increase in the usage of expensive medications. Additionally, medical supplies increased as a result of surgical volumes and laboratory supply costs.
San Diego	41.5	13.5%	The increase was due to higher patient volumes, inflation and an increase in usage of higher cost pharmaceuticals.
San Francisco	38.1	7.5%	Increase due to higher patient volumes and growth of surgical cases.

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

Increased (decreased) in millions of dollars			
Davis	$24.8	8.8%	Overall supply costs increase an average of 3%, as well as a 4% increase in inpatient volume.
Irvine	13.4	10.4%	Higher pharmaceutical expenses due to increase in inpatient and expansion in oncology areas.
Los Angeles	35.2	12.6%	Increase due to higher pharmaceutical costs as a result of an increase in the usage of expensive medications. Additionally, medical supplies increased as a result of surgical volumes and laboratory supply costs.
San Diego	14.7	5.0%	Increase was due to higher patient volume and expansion in oncology services.
San Francisco	66.5	15.2%	Increase due to higher patient volumes and an increase of higher cost pharmaceuticals.

Other Supplies and Purchased Services

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

Other supplies and purchased services changed in 2017 as follows:

Increased (decreased) in millions of dollars			
Davis	$(0.1)	(0.1%)	Other supplies and purchased services are consistent with prior year.
Irvine	3.3	2.3%	Increases mainly due to increase in non-medical services and increased campus services operations.
Los Angeles	41.6	11.5%	Purchased services increased as a result of more transplant cases. Additionally, non-medical supplies increased as a result of surgical volumes and laboratory supply costs.
San Diego	(7.0)	(4.5%)	The decrease was primarily due to the completion of process improvements that resulted in lower purchased services expense in the revenue cycle department as well as other areas.
San Francisco	24.5	10.3%	Increase due to higher repair and maintenance costs and higher externally purchased medical services due to greater patient volume.

Other supplies and purchased services changed in 2016 as follows:

Increased (decreased) in millions of dollars			
Davis	($1.8)	(1.2%)	Other supplies and purchased services remained stable during the year.
Irvine	28.4	25.1%	Increase is due to the combination of higher non-medical supplies, purchased services and facility costs.
Los Angeles	2.9	0.8%	Increase in repair and maintenance costs and collection services costs. Additionally, purchased services increased as a result of more transplant cases.
San Diego	(1.8)	(1.1%)	The decrease was partly due to process improvements that resulted in lower purchased services expense in the revenue cycle area, and partly due to a regrouping of expenses in 2016.
San Francisco	13.0	5.8%	Increase due to externally purchased medical services.

Depreciation and Amortization

Depreciation and amortization expense changed in 2017 as follows:

Increased (decreased) in millions of dollars			
Davis	$(0.5)	(0.6%)	Depreciation and amortization are consistent with prior year.
Irvine	0.6	0.8%	Slight increase due to capitalization of software projects involving health system security.
Los Angeles	8.7	6.5%	Increase due to completed projects and new equipment that were capitalized during the year.
San Diego	18.4	31.5%	The increase was due to the opening of Jacobs Medical Center in November 2016.
San Francisco	5.8	2.8%	Increase due to completed projects and new equipment placed in service during the year.

Depreciation and amortization expense changed in 2016 as follows:

Increased (decreased) in millions of dollars

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

Insurance

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

Income (Loss) from Operations

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

(in millions of dollars)

	2017		2016		2015	
	Income (loss) from Operations	Operating Margin	Income (loss) from Operations	Operating Margin	Income (loss) from Operations	Operating Margin
Davis	$163.7	7.6%	$(39.6)	(2.0)%	$(24.8)	(1.4)%
Irvine	65.5	5.9%	(25.5)	(2.5)%	31.1	3.3%
Los Angeles	117.8	4.7%	27.1	1.1%	150.0	6.7%
San Diego	19.6	1.2%	37.5	2.4%	147.3	9.9%
San Francisco	(51.7)	(1.3)%	(255.4)	(7.2)%	6.2	0.2%
Total	**314.9**		**$(255.9)**		**$309.8**	

In 2017, operating results improved due to increased volumes, higher supplemental revenues and lower pension and retiree health benefits expenses. In 2016, due to pressures in the health care market, revenue growth related to the higher volumes was outpaced by the growth in expenses at the Medical Centers. Additionally, lower than expected returns on the UCRP plan portfolio resulted in higher pension expenses by over $350.0 million in 2016.

Non-Operating Revenues (Expenses)

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
Total net non-operating revenues (expenses):						
2017	$9,467	$(17,961)	$(36,579)	$(10,470)	$24,067	$(31,476)
2016	(461)	(20,450)	(24,398)	16	(15,663)	(60,956)
2015	(5,262)	(5,170)	(11,833)	2,789	28,812	9,336

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

Change in millions of dollars			
Davis	$9.9	2153.6%	Capitalization of interest costs resulted in lower expense, while higher cash balances yielded more interest income. Additionally, joint venture income improved over last year.
Irvine	2.5	12.2%	Changes due to slight increase in interest income offset by decrease in interest expense.
Los Angeles	(12.2)	(49.9%)	Decrease in revenue due to the loss on termination of hedge. The decrease was partially offset by an increase in the net appreciation of fair value for long-term investments.
San Diego	(10.5)	(65537.5%)	Interest expense was greater as less total interest costs were capitalized during the year with the completion of Jacobs Medical Center in November 2016. This was partially offset by higher revenue from Hospital Fee Program grants and higher investment income.
San Francisco	39.7	253.7%	Investment income increased from the prior year.

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

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

Income (Loss) Before Other Changes in Net Position

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2017	$173,179	$47,589	$81,201	$9,106	($27,630)	$283,445
2016	(40,105)	(45,953)	2,736	37,473	(271,040)	(316,889)
2015	(30,070)	25,894	138,213	150,112	35,029	319,178

Changes in income(loss) before other changes in net position in 2017 were as follows:

Increased (decreased) in millions of dollars			
Davis	$213.3	531.8%	The increase is due to higher volume which outpaced expenses, along with one-time third-party settlements.
Irvine	93.5	203.6%	Increase in patient income from operations and Medi-Cal waiver program income.
Los Angeles	78.5	2867.9%	The increase is primarily due to growth in net patient service revenue attributed to increases from contracts and the Medicare and Medi-Cal programs.
San Diego	(28.4)	(75.7%)	This decrease is primarily due to additional costs for opening and operating the new Jacobs Medical Center that have not yet been fully covered by new revenues.
San Francisco	243.4	89.8%	Increase due to higher patient volumes, an increase of Medi-Cal supplemental funds approved in the year, a decrease of pension expense and higher investment income.

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

Increased (decreased) in millions of dollars			
Davis	$(10.0)	(33.4%)	Improved operational performance offset by higher pension expense and retiree health benefit expense.
Irvine	(71.8)	(277.5%)	Increased inpatient revenue was offset by increase in operating expenses with significantly higher pension cost as well as increase in non-operating expenses.
Los Angeles	(135.5)	(98.0%)	The decrease is primarily due to significant growth in the pension expense in fiscal year 2016.
San Diego	(112.6)	(75.0%)	Even with growth in patient volume, several factors led to a reduction in income before other changes: higher pension expense, one-time expenses in the fourth quarter for pre-opening and transition expenses related to the Jacobs Medical Center, and reduced Disproportionate Share Hospital (DSH) revenue from the Medi-Cal waiver program.
San Francisco	(306.1)	(873.8%)	Decrease due to higher pension costs, lower California Quality Assurance program revenues received and lower investment income.

Other Changes in Net Position

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

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2017	$(29,562)	$(50,705)	$(166,007)	$(88,902)	$(47,588)	$(382,764)
2016	(49,060)	(60,492)	(170,042)	(48,663)	(20,939)	(349,196)
2015	(38,351)	(57,455)	(123,202)	(83,900)	14,701	(288,207)

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

Other changes in net position changed in 2017 as follows:

Increased (decreased) in millions of dollars			
Davis	$19.5	39.7%	The change is primarily due to changes in strategic academic support. Additionally, the School of Medicine shared supplemental MediCal revenues with the Medical Center.
Irvine	9.8	16.2%	Change due to increase in pension payable to University offset by decrease in health system support.
Los Angeles	4.0	2.4%	Payments for health system support, representing transfers to the School of Medicine in support of the overall strategic plan.
San Diego	(40.2)	(82.7%)	This was primarily because capital contributions received for Jacobs Medical Center construction were lower than in the prior year, while health system support transfers increased.
San Francisco	(26.6)	(127.3%)	Change is primarily due to an increase of health system support.

Other changes in net position changed in 2016 as follows:

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

STATEMENTS OF NET POSITION

The statements of net position for 2016 and 2015 have been restated for an accounting change related to retiree health benefit liabilities that was implemented in 2017. The following tables are abbreviated statements of net position at June 30:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2017						
Current assets:						
Cash	$628,409	$342,862	$1,007,761	$394,822	$626,724	$3,000,578
Patient accounts receivable, net	242,561	122,480	317,226	254,358	554,803	1,491,428
Short-term investments and other current assets	128,055	61,809	146,281	91,587	154,000	581,732
Total current assets	**999,025**	**527,151**	**1,471,268**	**740,767**	**1,335,527**	**5,073,738**
Restricted assets	86,748	69,703	13,781	9,954	90,724	270,910
Capital assets, net	1,030,246	734,509	1,749,540	1,620,948	2,349,538	7,484,781
Investments and other noncurrent assets	18,194		308,331	21,426	181,801	529,752
Total assets	**2,134,213**	**1,331,363**	**3,542,920**	**2,393,095**	**3,957,590**	**13,359,181**
Deferred outflows of resources	**362,917**	**160,399**	**516,101**	**345,110**	**836,506**	**2,221,033**
Liabilities:						
Current liabilities	328,609	270,520	404,441	231,802	592,470	1,827,842
Long-term debt	362,743	338,340	934,794	754,170	928,264	3,318,311
Net retiree health benefits liability	1,227,803	574,394	1,422,069	835,720	1,777,540	5,837,526
Net pension liability	675,141	340,003	741,290	459,781	961,088	3,177,303
Other liabilities	242,313	115,732	400,951	240,242	368,317	1,367,555
Total liabilities	**2,836,609**	**1,638,989**	**3,903,545**	**2,521,715**	**4,627,679**	**15,528,537**
Deferred inflows of resources	**369,066**	**205,017**	**421,778**	**251,166**	**533,051**	**1,780,078**
Net position:						
Net investment in capital assets	640,415	393,404	790,467	860,058	1,396,747	4,081,091
Restricted	86,748	69,703	11,138		90,811	258,400
Unrestricted	(1,435,708)	(815,351)	(1,067,907)	(894,734)	(1,854,192)	(6,067,892)
Total net position	**$(708,545)**	**$(352,244)**	**$(266,302)**	**$(34,676)**	**$(366,634)**	**$(1,728,401)**

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2016						
Current assets:						
Cash	$464,908	$253,332	$903,617	$465,589	$450,701	$2,538,147
Patient accounts receivable, net	236,285	135,199	320,492	199,428	493,161	1,384,565
Short-term investments and other current assets	124,593	89,431	95,381	92,875	176,469	578,749
Total current assets	**825,786**	**477,962**	**1,319,490**	**757,892**	**1,120,331**	**4,501,461**
Restricted assets			14,038	24,015	61,546	99,599
Capital assets, net	1,004,073	718,179	1,813,446	1,471,118	2,381,726	7,388,542
Investments and other noncurrent assets	18,837		285,880	13,058	163,044	480,819
Total assets	**1,848,696**	**1,196,141**	**3,432,854**	**2,266,083**	**3,726,647**	**12,470,421**
Deferred outflows of resources	**630,774**	**303,895**	**774,292**	**422,288**	**1,003,134**	**3,134,383**
Liabilities:						
Current liabilities	374,616	240,452	421,741	234,871	510,171	1,781,851
Long-term debt	268,671	267,344	837,071	684,672	829,519	2,887,277
Net retiree health benefits liability	1,385,392	678,034	1,531,589	873,597	1,810,693	6,279,305
Net pension liability	895,967	456,616	990,520	564,996	1,237,418	4,145,517
Other noncurrent liabilities	212,198	102,884	398,707	158,108	371,515	1,243,412
Total liabilities	**3,136,844**	**1,745,330**	**4,179,628**	**2,516,244**	**4,759,316**	**16,337,362**
Deferred inflows of resources	**194,788**	**103,834**	**209,014**	**127,007**	**261,881**	**896,524**
Net position:						
Net investment in capital assets	701,366	446,355	959,252	749,527	1,475,111	4,331,611
Restricted			11,360		63,785	75,145
Unrestricted	(1,553,528)	(795,483)	(1,152,108)	(704,407)	(1,830,312)	(6,035,838)
Total net position	**$(852,162)**	**$(349,128)**	**$(181,496)**	**$45,120**	**$(291,416)**	**$(1,629,082)**

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2015						
Current assets:						
Cash	$409,254	$282,757	$734,777	$402,045	$452,342	$2,281,175
Patient accounts receivable , net	239,997	125,697	312,585	202,929	453,002	1,334,210
Short-term investments and other current assets	85,532	88,308	81,487	122,828	154,420	532,575
Total current assets	**734,783**	**496,762**	**1,128,849**	**727,802**	**1,059,764**	**4,147,960**
Restricted assets			15,005	73,643	62,150	150,798
Capital assets, net	1,003,080	727,311	1,845,365	1,284,776	2,405,012	7,265,544
Investments and other noncurrent assets	21,540		286,550	8,518	165,694	482,302
Total assets	**1,759,403**	**1,224,073**	**3,275,769**	**2,094,739**	**3,692,620**	**12,046,604**
Deferred outflows of resources	**299,645**	**143,920**	**391,238**	**188,119**	**440,709**	**1,463,631**
Liabilities:						
Current liabilities	351,615	260,713	326,049	179,233	439,843	1,557,453
Long-term debt	294,564	271,824	810,389	693,410	833,600	2,903,787
Net retiree health benefits liability	1,174,370	576,719	1,304,836	721,260	1,455,873	5,233,058
Net pension liability	627,561	308,211	697,260	385,387	828,623	2,847,042
Other noncurrent liabilities	174,007	85,453	329,114	116,187	306,980	1,011,741
Total liabilities	**2,622,117**	**1,502,920**	**3,467,648**	**2,095,477**	**3,864,919**	**13,553,081**
Deferred inflows of resources	**199,928**	**107,756**	**213,549**	**131,071**	**267,847**	**920,151**
Net position:						
Net investment in capital assets	683,085	441,838	1,027,330	648,136	1,511,561	4,311,950
Restricted			12,213		64,263	76,476
Unrestricted	(1,446,082)	(684,521)	(1,053,733)	(591,826)	(1,575,261)	(5,351,423)
Total net position	**$(762,997)**	**$(242,683)**	**$(14,190)**	**$56,310**	**$563**	**$(962,997)**

Cash

Cash changed in 2017 as follows:

Increased (decreased) in millions of dollars			
Davis	$163.5	35.2%	Increase in cash is due to the strong operational performance.
Irvine	89.5	35.3%	Increase in cash due to improved operating income and reduced patient accounts receivable.
Los Angeles	104.1	11.5%	Increase in cash is due to higher patient A/R cash collections, cash from third-party settlements and capital financing activities.
San Diego	(70.8)	(15.2%)	The decrease is primarily the result of revenues not yet matching the pre-opening and operating costs of Jacobs Medical Center, which opened in November 2016.
San Francisco	176.0	39.1%	Increase due to an increase of cash from hospital operations.

Cash changed in 2016 as follows:

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

Patient Accounts Receivable

Patient accounts receivable, net of estimated uncollectible accounts, changed in 2017 as follows:

Increased (decreased) in millions of dollars			
Davis	$6.3	2.7%	Higher volume was offset by improved collections.
Irvine	(12.7)	(9.4%)	Reduced receivables due to improved billing and collection efforts.
Los Angeles	(3.3)	(1.0%)	The decrease was due to continued revenue cycle improvements during the year.
San Diego	54.9	27.5%	The increase was due to increased patient volumes after the opening of Jacobs Medical Center in November 2016, and to the timing difference of a large adjustment to the Medicare interim payment rate that was not received until early July.
San Francisco	61.6	12.5%	Increase due to higher patient volumes.

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

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

Capital Assets

Net capital assets changed in 2017 as follows:

Increased (decreased) in millions of dollars			
Davis	$26.2	2.6%	Ongoing construction resulted in higher capital expenditures.
Irvine	16.3	2.3%	Increased capital expenditures and equipment purchases.
Los Angeles	(63.9)	(3.5%)	Annual depreciation exceeded capital projects for the year.
San Diego	149.8	10.2%	Net of depreciation, this increase was primarily for construction costs of the Jacobs Medical Center and the Outpatient Pavilion, as well as for equipment for those new buildings.
San Francisco	(32.2)	(1.4%)	Depreciation increased with the opening of the Mission Bay facility in 2015 and has exceeded capital projects for the past two years.

Net capital assets changed in 2016 as follows:

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

Long-term Debt

Long-term debt, including the current portion, changed in 2017 as follows:

Increased (decreased) in millions of dollars			
Davis	$90.0	30.6%	Increase is due to issuance of new debt exceeding refunding of old debt.
Irvine	69.4	25.6%	Increase due to issuance of new bonds.
Los Angeles	104.8	12.2%	The increase is due to the refinancing of debt with new pooled revenue bonds and other borrowings.
San Diego	72.3	10.3%	The increase, net of debt service payments, is due to a new bond issue in August 2016 that refunded the 2007 A and 2009 E bonds and provided additional funds for Jacobs Medical Center construction, as well as two new equipment financing arrangements.
San Francisco	99.5	11.9%	New debt was issued in the year to fund capital construction and to refinance short term commercial paper.

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

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

Net Retiree Health Benefits Liability

The University has a financial responsibility for retiree health benefits. The net retiree health benefits liability is allocated to Medical Centers based on their proportionate share of covered compensation for the fiscal year.

(in thousands of dollars)

	2017		2016		2015	
	Proportionate Share	Net Retiree Health Benefits Liability	Proportionate Share	Net Retiree Health Benefits Liability	Proportionate Share	Net Retiree Health Benefits Liability
Davis	6.6%	$1,227,803	6.6%	$1,385,392	6.5%	$1,174,370
Irvine	3.1%	574,394	3.2%	678,034	3.2%	576,719
Los Angeles	7.6%	1,422,069	7.3%	1,531,589	7.2%	1,304,836
San Diego	4.5%	835,720	4.1%	873,597	4.0%	721,260
San Francisco	9.5%	1,777,540	8.6%	1,810,693	8.1%	1,455,873
Total	**31.3%**	**$5,837,526**	**29.8%**	**$6,279,305**	**29.0%**	**$5,233,058**

The changes in net retiree health benefits liability have been primarily driven by the changes in discount rates used to estimate the net retiree health benefits liability. The discount rate used to estimate the net retiree health benefits liability as of June 30, 2017, 2016 and 2015 was 3.58 percent, 2.85 percent and 3.80 percent, respectively. The discount rate was based on the Bond Buyer 20-Bond General Obligation index since UCRHBT plan assets are not sufficient to make benefit payments.

Net Pension Liability

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

(in thousands of dollars)

	2017		2016		2015	
	Proportionate Share	Net Pension Liability	Proportionate Share	Net Pension Liability	Proportionate Share	Net Pension Liability
Davis	6.7%	$675,141	6.6%	$895,967	6.5%	$627,561
Irvine	3.2%	321,946	3.2%	438,524	3.2%	308,211
Los Angeles	7.3%	741,290	7.3%	990,520	7.2%	697,260
San Diego	4.5%	459,781	4.1%	564,996	4.0%	385,387
San Francisco	9.1%	919,943	8.6%	1,171,002	8.1%	777,948
Total	**30.8%**	**$3,118,101**	**29.8%**	**$4,061,009**	**29.0%**	**$2,796,367**

The changes in net pension liability have been primarily driven by the investment performance of the UCRP investment portfolio. UCRP's total investment rate of return was positive 14.5 percent in 2017, negative 2.0 percent in 2016 and positive 4.5 percent in 2015. The discount rate used to estimate the net pension liability was 7.25 percent in 2017, 2016 and 2015.

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

CHRCO is the sponsor of a single employer defined benefit plan subject to Employee Retirement Income Security Act (ERISA) that covers substantially all full-time employees. The net pension liability for CHRCO is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The net pension liability for CHRCO was $41.1 million, $66.4 million and $50.7 million as of June 30, 2017, 2016 and 2015, respectively.

Net Position

Net position represents the residual interest in the Medical Centers' assets and deferred outflows after all liabilities and deferred inflows are deducted. Net position is reported in the following categories: net investment in capital assets, restricted, nonexpendable; restricted, expendable; and unrestricted.

Under generally accepted accounting principles, net position that is not subject to externally imposed restrictions governing their use must be classified as unrestricted for reporting purposes. Unrestricted net position is negative primarily due to obligations for pension and retiree health benefits exceeding the Medical Centers' reserves.

LIQUIDITY AND CAPITAL RESOURCES

Days Cash on Hand

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

Days cash on hand are as follows:

	2017	2016	2015
Davis	120	90	90
Irvine	128	96	123
Los Angeles	164	150	136
San Diego	91	118	114
San Francisco	77	61	72

Days of Revenue in Accounts Receivable

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

	2017	2016	2015
Davis	42	46	52
Irvine	41	50	51
Los Angeles	48	52	53
San Diego	58	50	52
San Francisco	54	54	54

Debt Service Coverage

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

	2017	2016	2015
Davis	6.4	1.3	1.4
Irvine	6.5	1.3	3.0
Los Angeles	4.4	3.5	6.0
San Diego	1.9	2.0	4.5
San Francisco	4.0	(0.3)	3.8

LOOKING FORWARD

Payments from Federal and State Health Care Programs

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

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

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

University of California Retirement Plans

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

Hospital Facilities Seismic Safety Act

State of California Senate Bill 1953 (SB 1953), the Hospital Facilities Seismic Safety Act, requires hospitals to meet certain standards designed to yield predictable seismic performance, whether at the essential life safety level or post-earthquake continued operations level. Buildings used for acute care patient services must either be retrofitted by 2030 or the acute care services must be relocated and the building must be closed, repurposed or demolished. The Medical Centers are continuing to address these seismic building requirements; however, the cost to comply with the statutory requirements by 2030 cannot be estimated at this time.

Cautionary Note Regarding Forward-Looking Statements

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

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

Report of Independent Auditors

TO THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

We have audited the accompanying individual financial statements of the University of California - Davis Medical Center, the University of California - Irvine Medical Center, the University of California - Los Angeles Medical Center, the University of California - San Diego Medical Center, and the University of California - San Francisco Medical Center (collectively referred to as the "University of California Medical Centers"), each of which is a department of the University of California (the "University"), which comprise the individual statements of net position as of June 30, 2017 and 2016, and the related individual statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Individual Financial Statements

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

Auditors' Responsibility

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

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

Opinions

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the individual financial positions of the University of California - Davis Medical Center, the University of California - Irvine Medical Center, the University of California - Los Angeles Medical Center, the University of California - San Diego Medical Center, and the University of California - San Francisco Medical Center as of June 30, 2017 and 2016, and their individual changes in financial position and their individual cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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

As discussed in Note 1 to the financial statements, the University of California Medical Centers changed the manner in which they account for postemployment benefit plans other than pension plans as of July 1, 2016. Our opinions are not modified with respect to this matter.

Other Matter

The accompanying management's discussion and analysis on pages 24 through 49, the schedules of the University of California Medical Centers' proportionate share of UCRP's net pension liability, the schedule of changes in the net pension liability for the CHRCO Pension Plan, the schedule of net pension liability for the CHRCO Pension Plan, the schedule of employer contributions for the CHRCO Pension Plan and related notes, the schedule of Irvine's proportionate share of OCERS's net pension liability and the schedule of the Medical Centers' proportionate share of UCRHBT's net retiree health benefits liability on pages 115 through 119 are required by accounting principles generally accepted in the United States of America to supplement the individual financial statements. Such information, although not a part of the individual financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the individual financial statements in the appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the individual financial statements and other knowledge we obtained during our audit of the individual financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP
San Francisco, California
October 12, 2017

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF NET POSITION

At June 30, 2017 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
ASSETS						
Current assets						
Cash	$628,409	$342,862	$1,007,761	$394,822	$626,724	$3,000,578
Net patient accounts receivable	242,561	122,480	317,226	254,358	554,803	1,491,428
Other receivables	21,940	306	21,382	16,133	40,391	100,152
Third-party payor settlements, net	34,821	24,720	46,824	31,421	9,273	147,059
Inventory	31,346	19,437	33,727	28,428	50,620	163,558
Prepaid expenses and other assets	39,948	17,346	44,348	15,605	53,716	170,963
Total current assets	**999,025**	**527,151**	**1,471,268**	**740,767**	**1,335,527**	**5,073,738**
Restricted assets						
Deposits held for hospital construction	86,748	69,703	2,643	9,954	5,639	174,687
Donor funds			11,138		85,085	96,223
Capital assets, net	1,030,246	734,509	1,749,540	1,620,948	2,349,538	7,484,781
Investments in joint ventures	18,194		1,392	20,136	9,370	49,092
Investments			278,294		171,102	449,396
Other assets			28,645	1,290	1,329	31,264
Total assets	**2,134,213**	**1,331,363**	**3,542,920**	**2,393,095**	**3,957,590**	**13,359,181**
DEFERRED OUTFLOWS OF RESOURCES	**362,917**	**160,399**	**516,101**	**345,110**	**836,506**	**2,221,033**
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	61,349	46,617	182,055	111,674	210,552	612,247
Accrued salaries and benefits	98,700	61,389	157,557	69,579	199,673	586,898
Third-party payor settlements, net	119,816	121,267	30,262	28,510	116,133	415,988
Current portion of long-term debt and financing obligations	21,834	2,765	26,920	19,511	4,869	75,899
Other current liabilities	26,910	38,482	7,647	2,528	61,243	136,810
Total current liabilities	**328,609**	**270,520**	**404,441**	**231,802**	**592,470**	**1,827,842**
Long-term debt and financing obligations, net of current portion	362,743	338,340	934,794	754,170	928,264	3,318,311
Net retiree health benefits liability	1,227,803	574,394	1,422,069	835,720	1,777,540	5,837,526
Net pension liability	675,141	340,003	741,290	459,781	961,088	3,177,303
Notes payable to campus			75,000	73,664		148,664
Pension payable to University	242,313	115,732	264,013	162,747	329,111	1,113,916
Interest rate swap agreements			61,938		9,423	71,361
Self insurance					18,459	18,459
Other noncurrent liabilities				3,831	11,324	15,155
Total liabilities	**2,836,609**	**1,638,989**	**3,903,545**	**2,521,715**	**4,627,679**	**15,528,537**
DEFERRED INFLOWS OF RESOURCES	**369,066**	**205,017**	**421,778**	**251,166**	**533,051**	**1,780,078**
NET POSITION						
Net investment in capital assets	640,415	393,404	790,467	857,221	1,396,747	4,078,254
Restricted: Nonexpendable endowments and gifts			611		26,204	26,815
Restricted: Expendable capital projects and other	86,748	69,703	10,527		64,607	231,585
Unrestricted	(1,435,708)	(815,351)	(1,067,907)	(891,897)	(1,854,192)	(6,065,055)
Total net position	**$(708,545)**	**$(352,244)**	**$(266,302)**	**$(34,676)**	**$(366,634)**	**$(1,728,401)**

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF NET POSITION

At June 30, 2016 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
ASSETS						
Current assets						
Cash	$464,908	$253,332	$903,617	$465,589	$450,701	$2,538,147
Net patient accounts receivable	236,285	135,199	320,492	199,428	493,161	1,384,565
Other receivables	14,413	309	16,993	14,199	58,533	104,447
Third-party payor settlements, net	43,594	56,581	16,314	38,994	17,655	173,138
Inventory	28,180	18,717	30,381	24,321	49,319	150,918
Prepaid expenses and other assets	38,406	13,824	31,693	15,361	50,962	150,246
Total current assets	**825,786**	**477,962**	**1,319,490**	**757,892**	**1,120,331**	**4,501,461**
Restricted assets						
Deposits held for hospital construction			2,678	24,015	2,201	28,894
Donor funds			11,360		59,345	70,705
Capital assets, net	1,004,073	718,179	1,813,446	1,471,118	2,381,726	7,388,542
Investments in joint ventures	18,837		965	11,488	4,130	35,420
Investments			255,191		153,825	409,016
Other assets			29,724	1,570	5,089	36,383
Total assets	**1,848,696**	**1,196,141**	**3,432,854**	**2,266,083**	**3,726,647**	**12,470,421**
DEFERRED OUTFLOWS OF RESOURCES	**630,774**	**303,895**	**774,292**	**422,288**	**1,003,134**	**3,134,383**
LIABILITIES						
Current liabilities						
Accounts payable and accrued expenses	68,575	31,736	143,484	110,835	202,035	556,665
Accrued salaries and benefits	104,026	54,794	143,522	62,989	179,799	545,130
Third-party payor settlements, net	149,953	148,116	18,408		77,145	393,622
Current portion of long-term debt and financing obligations	25,893	4,325	19,799	16,735	4,081	70,833
Other current liabilities	26,169	1,481	96,528	44,312	47,111	215,601
Total current liabilities	**374,616**	**240,452**	**421,741**	**234,871**	**510,171**	**1,781,851**
Long-term debt and financing obligations, net of current portion	268,671	267,344	837,071	684,672	829,519	2,887,277
Net retiree health benefits liability	1,385,392	678,034	1,531,589	873,597	1,810,693	6,279,305
Net pension liability	895,967	456,616	990,520	564,996	1,237,418	4,145,517
Notes payable to campus			75,000	23,347		98,347
Pension payable to University	212,198	102,884	234,704	131,820	276,499	958,105
Interest rate swap agreements			89,003		14,188	103,191
Self insurance					18,829	18,829
Other noncurrent liabilities				2,941	61,999	64,940
Total liabilities	**3,136,844**	**1,745,330**	**4,179,628**	**2,516,244**	**4,759,316**	**16,337,362**
DEFERRED INFLOWS OF RESOURCES	**194,788**	**103,834**	**209,014**	**127,007**	**261,881**	**896,524**
NET POSITION						
Net investment in capital assets	701,366	446,355	959,252	749,527	1,475,111	4,331,611
Restricted: Nonexpendable endowments and gifts			621		25,242	25,863
Restricted: Expendable capital projects and other			10,739		38,543	49,282
Unrestricted	(1,553,528)	(795,483)	(1,152,108)	(704,407)	(1,830,312)	(6,035,838)
Total net position	**$(852,162)**	**$(349,128)**	**$(181,496)**	**$45,120**	**$(291,416)**	**$(1,629,082)**

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended June 30, 2017 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
Net patient service revenue	$2,105,499	$1,088,317	$2,388,924	$1,595,867	$3,748,100	$10,926,707
Other operating revenue:						
Clinical teaching support		7,882	13,467			21,349
Grants and contracts					46,195	46,195
Other	41,875	20,128	100,161	92,295	157,459	411,918
Total other operating revenue	**41,875**	**28,010**	**113,628**	**92,295**	**203,654**	**479,462**
Total operating revenue	**2,147,374**	**1,116,327**	**2,502,552**	**1,688,162**	**3,951,754**	**11,406,169**
Operating expenses:						
Salaries and wages	844,408	407,671	972,473	620,548	1,496,989	4,342,089
Pension benefits	138,692	65,965	157,056	102,403	223,821	687,937
Retiree health benefits	104,795	46,113	127,609	79,684	177,865	536,066
Other employee benefits	163,447	118,183	201,544	173,917	272,697	929,788
Professional services	119,988	24,240	40,363	49,322	660,395	894,308
Medical supplies	310,960	155,943	326,994	348,549	543,119	1,685,565
Other supplies and purchased services	141,370	144,902	402,568	147,549	262,839	1,099,228
Depreciation and amortization	78,839	69,271	142,841	76,779	210,913	578,643
Insurance and other	81,163	18,489	13,324	69,835	154,813	337,624
Total operating expenses	**1,983,662**	**1,050,777**	**2,384,772**	**1,668,586**	**4,003,451**	**11,091,248**
Income (loss) from operations	**163,712**	**65,550**	**117,780**	**19,576**	**(51,697)**	**314,921**
Non-operating revenues (expenses):						
Hospital Fee Program grants	2,583	593	2,229	5,379	2,519	13,303
Investment income	7,548	3,621	16,540	5,644	12,884	46,237
Build America Bonds federal interest subsidies		3,322	3,048	2,354	15,041	23,765
Private gifts, net					19,523	19,523
Net appreciation in fair value of investments			18,978		24,541	43,519
Interest expense	(8,881)	(13,405)	(42,129)	(23,595)	(47,595)	(135,605)
Loss on disposal of capital assets	128	(58)	(636)	(252)	(1,696)	(2,514)
Decrease upon hedge termination			(41,249)			(41,249)
Other	8,089	(12,034)	6,640		(1,150)	1,545
Total net non-operating revenues (expenses)	**9,467**	**(17,961)**	**(36,579)**	**(10,470)**	**24,067**	**(31,476)**
Income (loss) before other changes in net position	**173,179**	**47,589**	**81,201**	**9,106**	**(27,630)**	**283,445**
Other changes in net position:						
Donated assets			3,500	30,533	12,934	46,967
Contributions for building programs	983	1,756		(315)	17,781	20,205
Transfers (to) from University, net	(4,349)			(404)	89	(4,664)
Changes in allocation for pension payable to University	1,892	7,266	5,834	(9,130)	6,506	12,368
Health system support	(28,088)	(59,727)	(175,341)	(109,586)	(84,898)	(457,640)
Total other changes in net position	**(29,562)**	**(50,705)**	**(166,007)**	**(88,902)**	**(47,588)**	**(382,764)**
Increase (decrease) in net position	**143,617**	**(3,116)**	**(84,806)**	**(79,796)**	**(75,218)**	**(99,319)**
Net position - beginning of year	(852,162)	(349,128)	(181,496)	45,120	(291,416)	(1,629,082)
Net position - end of year	**$(708,545)**	**$(352,244)**	**$(266,302)**	**$(34,676)**	**$(366,634)**	**$(1,728,401)**

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
Net patient service revenue	$1,888,702	$984,161	$2,266,980	$1,465,431	$3,370,854	$9,976,128
Other operating revenue:						
Clinical teaching support		7,882	13,467			21,349
Grants and contracts					46,469	46,469
Other	46,572	17,608	83,591	79,227	149,994	376,992
Total other operating revenue	**46,572**	**25,490**	**97,058**	**79,227**	**196,463**	**444,810**
Total operating revenue	**1,935,274**	**1,009,651**	**2,364,038**	**1,544,658**	**3,567,317**	**10,420,938**
Operating expenses:						
Salaries and wages	800,159	406,619	924,643	528,171	1,389,825	4,049,417
Pension benefits	185,667	91,575	211,154	119,576	247,971	855,943
Retiree health benefits	124,210	60,645	136,790	80,253	170,434	572,332
Other employee benefits	161,394	87,581	197,504	150,406	288,656	885,541
Professional services	103,469	13,608	44,725	51,058	608,724	821,584
Medical supplies	307,472	142,439	314,613	307,050	505,000	1,576,574
Other supplies and purchased services	141,457	141,628	360,980	154,564	238,361	1,036,990
Depreciation and amortization	79,291	68,706	134,100	58,391	205,146	545,634
Insurance and other	71,799	22,353	12,395	57,732	168,577	332,856
Total operating expenses	**1,974,918**	**1,035,154**	**2,336,904**	**1,507,201**	**3,822,694**	**10,676,871**
Income (loss) from operations	**(39,644)**	**(25,503)**	**27,134**	**37,457**	**(255,377)**	**(255,933)**
Non-operating revenues (expenses):						
Hospital Fee Program grants	5,567	901	1,594	1,394	5,681	15,137
Investment income	5,257	3,185	14,587	4,628	10,978	38,635
Build America Bonds federal interest subsidies		3,345	3,076	2,367	15,059	23,847
Private gifts, net					10,918	10,918
Net depreciation in fair value of investments			(5,797)		(9,392)	(15,189)
Interest expense	(15,419)	(15,595)	(39,339)	(7,948)	(48,172)	(126,473)
Loss on disposal of capital assets	(74)	(59)	(3,198)	(425)	(1,074)	(4,830)
Other	4,208	(12,227)	4,679		339	(3,001)
Total net non-operating revenues (expenses)	**(461)**	**(20,450)**	**(24,398)**	**16**	**(15,663)**	**(60,956)**
Income (loss) before other changes in net position	**(40,105)**	**(45,953)**	**2,736**	**37,473**	**(271,040)**	**(316,889)**
Other changes in net position:						
Donated assets			16,212	33,120	27,511	76,843
Contributions (distributions) building programs	2,074	822		19,135	19,779	41,810
Transfers (to) from University, net	(8,563)	3,086	(8,950)	(2,735)	8,240	(8,922)
Changes in allocation for pension payable to University	(1,184)	681	(452)	(1,613)	(12,414)	(14,982)
Health system support	(41,387)	(65,081)	(176,852)	(96,570)	(64,055)	(443,945)
Total other changes in net position	**(49,060)**	**(60,492)**	**(170,042)**	**(48,663)**	**(20,939)**	**(349,196)**
Decrease in net position	**(89,165)**	**(106,445)**	**(167,306)**	**(11,190)**	**(291,979)**	**(666,085)**
Net position - beginning of year:						
Beginning of year, as previously reported	332,469	295,287	1,202,976	729,110	1,358,617	3,918,459
Cumulative effect of accounting change	(1,095,466)	(537,970)	(1,217,166)	(672,800)	(1,358,054)	(4,881,456)
Beginning of year, as restated	(762,997)	(242,683)	(14,190)	56,310	563	(962,997)
Net position - end of year	**$(852,162)**	**$(349,128)**	**$(181,496)**	**$45,120**	**$(291,416)**	**$(1,629,082)**

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF CASH FLOWS

For the year ended June 30, 2017 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
Cash flows from operating activities:						
Receipts from patients and third-party payors	$2,082,050	$1,074,187	$2,371,606	$1,577,020	$3,733,828	$10,838,691
Payments to employees	(846,604)	(504,716)	(966,540)	(613,960)	(1,480,225)	(4,412,045)
Payments to suppliers	(667,106)	(321,751)	(842,031)	(646,009)	(1,589,811)	(4,066,708)
Payments for benefits	(316,720)	(82,081)	(359,259)	(268,213)	(508,063)	(1,534,336)
Other receipts	37,410	91,433	100,305	117,223	235,242	581,613
Net cash provided by operating activities	**289,030**	**257,072**	**304,081**	**166,061**	**390,971**	**1,407,215**
Cash flows from noncapital financing activities:						
Health system support	(28,088)	(59,727)	(175,341)	(109,586)	(84,898)	(457,640)
Grants from the Hospital Fee Program	3,041	593	2,229	5,379	2,519	13,761
Transfers (to) University, net	(4,349)			(8,154)		(12,503)
Gifts received for other than capital purposes					19,523	19,523
Net cash used by noncapital financing activities	**(29,396)**	**(59,134)**	**(173,112)**	**(112,361)**	**(62,856)**	**(436,859)**
Cash flows from capital and related financing activities:						
Contributions for building program	983	1,756		(315)	17,781	20,205
Proceeds from financing obligations and other borrowings	383,893	134,493	284,789	65,886	92,979	962,040
Build America Bonds federal interest subsidies		3,322	3,048	2,354	15,041	23,765
Proceeds from sale of capital assets	35		16,842	18	208	17,103
Purchases of capital assets	(100,823)	(91,245)	(89,714)	(159,044)	(175,536)	(616,362)
Refinancing or prepayment of outstanding debt	(269,040)	(58,585)	(202,725)	(17,787)	(41,854)	(589,991)
Scheduled principal paid on long-term debt and financing obligations	(28,225)	(5,540)	(14,215)	(18,615)	(4,560)	(71,155)
Interest paid on long-term debt and financing obligations	(12,488)	(14,493)	(46,139)	(38,555)	(53,752)	(165,427)
Gifts and donated funds			3,500	30,533	12,934	46,967
Payment from swap counterparty			82,455			82,455
Payment to swap counterparty			(81,047)			(81,047)
Net cash used by capital and related financing activities	**(25,665)**	**(30,292)**	**(43,206)**	**(135,525)**	**(136,759)**	**(371,447)**
Cash flows from investing activities:						
Investment income received	7,435	3,621	16,540	5,645	12,884	46,125
Distributions from (contributions to) investments in joint ventures, net	4,682		3,708	(8,648)	(5,240)	(5,498)
Purchase of investments			(4,124)		7,264	3,140
Change in restricted assets	(86,748)	(69,703)	257	14,061	(29,178)	(171,311)
Other non-operating receipts (payments)	4,163	(12,034)			(1,063)	(8,934)
Net cash provided (used) by investing activities	**(70,468)**	**(78,116)**	**16,381**	**11,058**	**(15,333)**	**(136,478)**
Net increase (decrease) in cash	**163,501**	**89,530**	**104,144**	**(70,767)**	**176,023**	**462,431**
Cash - beginning of year	464,908	253,332	903,617	465,589	450,701	2,538,147
Cash - end of year	**$628,409**	**$342,862**	**$1,007,761**	**$394,822**	**$626,724**	**$3,000,578**

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF CASH FLOWS *continued*

For the year ended June 30, 2017 (in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
Reconciliation of income (loss) from operations to net cash provided by operating activities:						
Income (loss) from operations	$163,712	$65,550	$117,780	$19,576	$(51,697)	$314,921
Adjustments to reconcile income from operations to net cash provided by operating activities:						
Depreciation and amortization expense	78,839	69,271	142,841	76,779	210,913	578,643
Provision for uncollectible accounts	108,876	23,415	25,282	27,229	40,706	225,508
Changes in operating assets and liabilities:						
Patient accounts receivable	(115,152)	(10,696)	(22,016)	(82,159)	(102,348)	(332,371)
Other receivables	(7,985)	31,864	(4,390)	(1,934)	18,142	35,697
Inventory	(3,166)	(720)	(3,346)	(4,107)	(1,301)	(12,640)
Prepaid expenses and other assets	(1,542)	(3,522)	(12,977)	36	1,007	(16,998)
Accounts payable and accrued expenses	(9,056)	20,467	35,562	(3,128)	9,063	52,908
Accrued salaries and benefits	(5,326)	6,595	14,036	6,590	19,874	41,769
Third-party payor settlements	(21,364)	(26,849)	(18,656)	36,083	47,370	16,584
Other liabilities	7,698	37,157	(88,882)	3,305	16,664	(24,058)
Retiree health benefits	77,490	33,335	95,981	61,097	138,332	406,235
Pension benefits	16,006	11,205	22,866	26,694	44,246	121,017
Net cash provided by operating activities	**$289,030**	**$257,072**	**$304,081**	**$166,061**	**$390,971**	**$1,407,215**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION						
Payables for property and equipment	$14,387	$7,545	$9,584	$8,403	$10,969	$50,888
Bond retirements		(46,080)	(2,680)	(13,360)	(1,150)	(63,270)
Amortization of bond premium	3,566	1,088	4,184	1,408	747	10,993
Capital asset transfers from the University	144	1,756				1,900
Change in fair value of interest rate swaps			(27,065)		(4,765)	(31,830)
Swap fair value amortization			(354)			(354)
Refinancing of University and campus payable with long-term debt	(6,951)		(87,000)	(55,521)	(53,715)	(203,187)
Advances from University				38,995		38,995

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF CASH FLOWS

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

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

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTERS

STATEMENTS OF CASH FLOWS *continued*

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

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL *(memorandum only)*
Reconciliation of income (loss) from operations to net cash provided by operating activities:						
Income (loss) from operations	$(39,644)	$(25,503)	$27,134	$37,457	$(255,377)	$(255,933)
Adjustments to reconcile income from operations to net cash provided by operating activities:						
Depreciation and amortization expense	79,291	68,706	134,100	58,391	205,146	545,634
Provision for uncollectible accounts	96,770	27,494	26,323	33,406	54,944	238,937
Changes in operating assets and liabilities:						
Patient accounts receivable	(93,058)	(36,996)	(34,230)	(29,905)	(95,103)	(289,292)
Other receivables	1,193	4,997	(733)	(2,691)	(273)	2,493
Inventory	(2,649)	(2,498)	(957)	(114)	(4,737)	(10,955)
Prepaid expenses and other assets	(3,898)	(3,622)	(7,739)	453	(15,487)	(30,293)
Accounts payable and accrued expenses	10,011	110	28,906	29,214	7,594	75,835
Accrued salaries and benefits	(23,905)	(14,535)	(24,828)	(9,867)	27,227	(45,908)
Third-party payor settlements	(6,886)	3,100	3,960	23,210	15,654	39,038
Other liabilities	12,258	(11)	77,298	43,403	119,673	252,621
Retiree health benefits	98,404	47,535	107,075	64,021	135,137	452,172
Pension benefits	79,836	59,486	94,490	57,006	20,425	311,243
Net cash provided by operating activities	**$207,723**	**$128,263**	**$430,799**	**$303,984**	**$214,823**	**$1,285,592**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION						
Payables for property and equipment	$12,557	$1,959	$6,576	$4,436	$11,515	$37,043
Amortization of bond premium	762	155	401	596	21	1,935
Capital asset transfers from (to) the University	314	822	(8,950)			(7,814)
Change in fair value of interest rate swaps			28,227		3,080	31,307
Swap fair value amortization			424			424
Advances from University	6,951			62,078		69,029

See accompanying notes to financial statements.

UNIVERSITY OF CALIFORNIA MEDICAL CENTER POOLED GROUP

Notes to Financial Statements

Year ended June 30, 2017

1. ORGANIZATION

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

To implement Statement No. 75, the Medical Centers recorded their pro rata share of the University's net retiree health benefits liability. The Medical Centers restated the 2016 financial statements for purposes of presenting comparative information for the year ended June 30, 2017. The effects of the changes from the adoption of Statement No. 75 on the Medical Center's financial statements as of and for the year ended June 30, 2016 were as follows:

(in thousands of dollars)

	DAVIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2016		
	As Previously Reported	Effect of Adoption of Statement No. 75	As Restated
Statement of Net Position			
Deferred outflows of resources	$329,360	$301,414	$630,774
Net retiree health benefits liability		1,385,392	1,385,392
Total liabilities	1,751,452	1,385,392	3,136,844
Deferred inflows of resources	84,896	109,892	194,788
Unrestricted net position	(359,658)	(1,193,870)	(1,553,528)
Total net position	341,708	(1,193,870)	(852,162)
Statement of Revenues, Expenses and Changes in Net Position			
Retiree health benefits	20,334	103,876	124,210
Other employee benefits	166,866	(5,472)	161,394
Total operating expenses	1,876,514	98,404	1,974,918
Income (loss) from operations	58,760	(98,404)	(39,644)
Income (loss) before other changes in net position	58,299	(98,404)	(40,105)
Change in net position	9,239	(98,404)	(89,165)

(in thousands of dollars)

	IRVINE AS OF AND FOR THE YEAR ENDED JUNE 30, 2016		
	As Previously Reported	**Effect of Adoption of Statement No. 75**	**As Restated**
Statement of Net Position			
Deferred outflows of resources	$157,583	$146,312	$303,895
Net retiree health benefits liability		678,034	678,034
Total liabilities	1,067,296	678,034	1,745,330
Deferred inflows of resources	50,051	53,783	103,834
Unrestricted net position	(209,978)	(585,505)	(795,483)
Total net position	236,377	(585,505)	(349,128)
Statement of Revenues, Expenses and Changes in Net Position			
Retiree health benefits	10,433	50,212	60,645
Other employee benefits	90,258	(2,677)	87,581
Total operating expenses	987,619	47,535	1,035,154
Income (loss) from operations	22,032	(47,535)	(25,503)
Income (loss) before other changes in net position	1,582	(47,535)	(45,953)
Change in net position	(58,910)	(47,535)	(106,445)

(in thousands of dollars)

	LOS ANGELES AS OF AND FOR THE YEAR ENDED JUNE 30, 2016		
	As Previously Reported	**Effect of Adoption of Statement No. 75**	**As Restated**
Statement of Net Position			
Deferred outflows of resources	$445,456	$328,836	$774,292
Net retiree health benefits liability		1,531,589	1,531,589
Total liabilities	2,648,039	1,531,589	4,179,628
Deferred inflows of resources	87,526	121,488	209,014
Unrestricted net position	172,133	(1,324,241)	(1,152,108)
Total net position	1,142,745	(1,324,241)	(181,496)
Statement of Revenues, Expenses and Changes in Net Position			
Retiree health benefits	23,664	113,126	136,790
Other employee benefits	203,555	(6,051)	197,504
Total operating expenses	2,229,829	107,075	2,336,904
Income (loss) from operations	134,209	(107,075)	27,134
Income (loss) before other changes in net position	109,811	(107,075)	2,736
Change in net position	(60,231)	(107,075)	(167,306)

(in thousands of dollars)

	SAN DIEGO AS OF AND FOR THE YEAR ENDED JUNE 30, 2016		
	As Previously Reported	Effect of Adoption of Statement No. 75	As Restated
Statement of Net Position			
Deferred outflows of resources	$216,217	$206,071	$422,288
Net retiree health benefits liability		873,597	873,597
Total liabilities	1,642,647	873,597	2,516,244
Deferred inflows of resources	57,712	69,295	127,007
Unrestricted net position	32,414	(736,821)	(704,407)
Total net position	781,941	(736,821)	45,120
Statement of Revenues, Expenses and Changes in Net Position			
Retiree health benefits	12,780	67,473	80,253
Other employee benefits	153,858	(3,452)	150,406
Total operating expenses	1,443,180	64,021	1,507,201
Income (loss) from operations	101,478	(64,021)	37,457
Income (loss) before other changes in net position	101,494	(64,021)	37,473
Change in net position	52,831	(64,021)	(11,190)

(in thousands of dollars)

	SAN FRANCISCO AS OF AND FOR THE YEAR ENDED JUNE 30, 2016		
	As Previously Reported	Effect of Adoption of Statement No. 75	As Restated
Statement of Net Position			
Deferred outflows of resources	$542,005	$461,129	$1,003,134
Net retiree health benefits liability		1,810,693	1,810,693
Total liabilities	2,948,623	1,810,693	4,759,316
Deferred inflows of resources	118,254	143,627	261,881
Unrestricted net position	(337,121)	(1,493,191)	(1,830,312)
Total net position	1,201,775	(1,493,191)	(291,416)
Statement of Revenues, Expenses and Changes in Net Position			
Retiree health benefits	28,147	142,287	170,434
Other employee benefits	295,806	(7,150)	288,656
Total operating expenses	3,687,557	135,137	3,822,694
Income (loss) from operations	(120,240)	(135,137)	(255,377)
Income (loss) before other changes in net position	(135,903)	(135,137)	(271,040)
Change in net position	(156,842)	(135,137)	(291,979)

(in thousands of dollars)	**TOTAL** *(memorandum only)* AS OF AND FOR THE YEAR ENDED JUNE 30, 2016		
	As Previously Reported	**Effect of Adoption of Statement No. 75**	**As Restated**
Statement of Net Position			
Deferred outflows of resources	$1,690,621	$1,443,762	$3,134,383
Net retiree health benefits liability		6,279,305	6,279,305
Total liabilities	10,058,057	6,279,305	16,337,362
Deferred inflows of resources	398,439	498,085	896,524
Unrestricted net position	(702,210)	(5,333,628)	(6,035,838)
Total net position	3,704,546	(5,333,628)	(1,629,082)
Statement of Revenues, Expenses and Changes in Net Position			
Retiree health benefits	95,358	476,974	572,332
Other employee benefits	910,343	(24,802)	885,541
Total operating expenses	10,224,699	452,172	10,676,871
Income (loss) from operations	196,239	(452,172)	(255,933)
Income (loss) before other changes in net position	135,283	(452,172)	(316,889)
Change in net position	(213,913)	(452,172)	(666,085)

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for the Medical Centers' fiscal year beginning July 1, 2016. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. Implementation of Statement No. 78 had no impact on the financial statements.

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

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

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

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

Additional information on cash and investments can be obtained from the University's 2016-2017 annual report.

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

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

valued at the quoted bid price of a dealer who regularly trades in the security being valued. Certain securities may be valued on a basis of a price provided by a single source.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Contributions received by CHRCO may be designated by the donor for restricted purposes or may be without restriction as to their use. Contributions restricted by donors as to use or time period are reported as restricted until used in a manner designated or upon expiration of the time period. Under California law, income and gains on permanently restricted net position are

maintained in restricted expendable net position until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by the Prudent Management of Institutional Funds Act. Income and gains on permanently restricted net position that are available for expenditure are $7.8 million and $4.7 million as of June 30, 2017 and 2016, respectively.

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

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

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

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

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

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

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

Net Retiree Health Benefits Liability. The University provides retiree health benefits to retired employees of the Medical Centers. The University established the UCRHBT to allow certain University locations and affiliates, including the Medical Centers, to share the risks, rewards and costs of providing for retiree health benefits and to accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. Contributions from the Medical Centers to the UCRHBT are effectively made to a single-employer health plan administered by the University as a cost-sharing plan. The Medical Centers are required to contribute at a rate assessed each year by the University.

Net retiree health benefits liability includes the Medical Centers' share of the University's net retiree health benefits liability for UCRHBT. The Medical Centers' share of net retiree health benefits liability, deferred inflows of resources, deferred outflows of resources and retiree health benefits expense have been determined based upon their proportionate share of UCRP's covered compensation for the fiscal year. The fiduciary net position and changes in net position of UCRHBT have been measured consistent with the accounting policies used by the trust. For purposes of measuring UCRHBT's fiduciary net position, investments are reported at fair value and benefit payments are recognized when due and payable in accordance with the benefit terms.

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

Net pension liability also includes the net pension liability for the Retirement Plan for Children's Hospital & Research Center Oakland ("CHRCO Plan"). The net pension liability is measured as the total pension liability, less the amount of the pension

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

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

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

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

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

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

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

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

Reclassifications. Certain reclassifications have been made to the 2016 financial information to conform to the 2017 financial statement presentation, including reclassifying certain operating expenses to improve consistency across all the medical centers. There were no changes in 2016 total operating expenses. For 2017, Irvine operating expenses include $24.1 million of other employee benefits related to prior periods.

New Accounting Pronouncements

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

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

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

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

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

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

2. INVESTMENTS

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

(in thousands of dollars)	FAIR VALUE LEVEL	LOS ANGELES		SAN FRANCISCO	
		2017	2016	2017	2016
Fixed- or variable-income securities:					
U.S. government-guaranteed:					
U.S. Treasury bills, notes and bonds	2			$434	$300
U.S. government-guaranteed				**434**	**300**
Other U.S. dollar-denominated:					
U.S. agencies - asset-backed securities	2			29	193
Other U.S. dollar-denominated				**29**	**193**
Commingled funds:					
U.S. equity funds	1			1,059	1,549
Non-U.S. equity funds	1			528	254
U.S. bond funds	1			307	125
Non-U.S. bond funds	1			152	286
Money market funds	1			106	87
Balanced funds	NAV	$278,294	$255,191	212,704	191,374
Commingled funds		**278,294**	**255,191**	**214,856**	**193,675**
Publicly traded real estate investment trusts	1			264	478
Real estate	3			589	
Total investments		**278,294**	**255,191**	**216,172**	**194,646**
Less: Reported as restricted assets in donor funds				(45,070)	(40,821)
Noncurrent portion		**$278,294**	**$255,191**	**$171,102**	**$153,825**

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

TRIP. The Total Return Investment Pool (TRIP) allows participants the opportunity to maximize the return on their long-term working capital by taking advantage of the economies of scale of investing in a large pool across a broad range of asset classes. TRIP supplements STIP by investing in an intermediate-term, higher-risk portfolio allocated across equities, fixed-income and liquid alternative strategies, and allows participants to maximize the return on their long-term capital. The objective of TRIP is to generate a rate of return above the policy benchmark, after all costs and fees, consistent with liquidity, cash flow requirements and the risk. UCLA Medical Center's investment in TRIP is classified as commingled balanced funds. TRIP is considered to be an external investment pool from the Medical Center's perspective. The fair value of the UCLA Medical Center's investment in TRIP was $220.2 million and $204.6 million at June 30, 2017 and 2016, respectively.

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

GEP. The General Endowment Pool (GEP) is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scales. GEP is a balanced portfolio of equities, fixed-income securities and alternative investments. The primary goal is to maximize long-term total return, growth of principal and a growing payout stream to ensure that future funding for endowment-supported activities can be maintained. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements. UCLA Medical Center's investment in GEP is classified as commingled funds. GEP is considered to be an external investment pool from the Medical Center's perspective. The fair value of the UCLA Medical Center's investment in GEP was $58.1 million and $50.6 million at June 30, 2017 and 2016, respectively.

EIP. UCSF invests primarily in the UCSF Foundation's Endowed Investment Pool (EIP) and STIP. STIP is classified as a money market fund. EIP is the UCSF Foundation's primary investment vehicle for endowed gifts. The Foundation's primary investment objective is growth of principal sufficient to preserve purchasing power and provide income to support current and future activities. Investments in EIP include high-quality, readily marketable equity and fixed-income securities; other

types of investments, including derivative instruments such as financial futures, may be made at the direction of the UCSF Foundation's Investment Committee. EIP represents investments in a unitized pool. UCSF's investment in EIP is classified as commingled funds. Transactions within each individual endowment in the pool are based on the unit market value at the beginning or end of the month during which the transaction takes place for withdrawals and additions, respectively.

Investments in the EIP by the UCSF Foundation require at least twelve months' prior written notice of intention to terminate as of a date specified in the notice. Withdrawals will occur on the last business day of the month and are subject to certain withdrawal guidelines such as providing a forecasted schedule of cash withdrawals 90 days prior to the start of each fiscal year.

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

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

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

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

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

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

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

Investment Risk Factors

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

Credit Risk

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

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

Certain fixed-income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are considered to have minimal credit risk. The credit risk profile for investments at June 30, 2017 and 2016 are as follows:

(in thousands of dollars)	SAN FRANCISCO	
	2017	**2016**
Fixed- or variable-income securities:		
U.S. government-guaranteed	$436	$300
Other U.S. dollar-denominated:		
Not rated	29	193
Commingled funds:		
U.S. bond funds: Not rated	307	125
Non-U.S. bond funds: Not rated	152	286
Money market funds: Not rated	106	87

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

Custodial credit risk

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

Concentration of credit risk

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

Interest rate risk

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

The effective durations for fixed- or variable-income securities at June 30, 2017 and 2016 are as follows:

	SAN FRANCISCO	
	2017	**2016**
U.S. government-guaranteed:		
U.S. Treasury bills, notes and bonds	3.8	3.8

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

Investments include other asset-backed securities, which generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. At June 30, 2017 and 2016, the fair value of UCSF's other asset backed securities were $29 and $193, respectively with an effective duration of 2.7.

Foreign Currency Risk

The University's strategic asset allocation policy for TRIP and GEP as well as the UCSF Foundation's asset allocation strategy includes allocations to non-U.S. equities and non-dollar-denominated bonds. Exposure from foreign currency risk results from investments in foreign currency-denominated equity, fixed-income and private equity securities. At June 30, 2017 and 2016, UCSF was subject to foreign currency risk as a result of holding various currency denominations in the following investments:

(in thousands of dollars)	SAN FRANCISCO	
	2017	**2016**
Commingled funds:		
Various currency denominations:		
Non-U.S. equity funds	$528	$254
Non U.S. bond funds	152	286
Real estate investment trusts	105	
Total exposure to foreign currency risk	**$785**	**$540**

3. NET PATIENT SERVICE REVENUE

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

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

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

The Medical Centers are reimbursed for cost reimbursable items at a tentative rate with final settlement of such items determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The Medical Centers' classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Centers have received final notices from the Medicare fiscal intermediary through June 30, 2010 for UC Davis Medical Center; through June 30, 2008, for UC Irvine Medical Center; through June 30, 2008, for Ronald Reagan UCLA Medical Center; through June 30, 2013, for the Santa Monica Hospital; through June 30, 2015, for the Resnick Neuropsychiatric Hospital; through June 30, 2011, for UCSD Medical Center; through June 30, 2002 and for the year ended June 30, 2006, for UCSF Medical Center; and through June 30, 2015, for CHRCO. The fiscal intermediary is in the process of conducting their audits of the subsequent cost reports. The results of these audits have yet to be finalized and any amounts due to or from Medicare have not been determined. Estimated receivables and payables related to all open cost reporting periods are included in the statements of net position as third-party payor settlements.

Medi-Cal. The Medicaid program is referred to as Medi-Cal in California. Medi-Cal fee-for-service ("FFS") inpatient hospital payments are made in accordance with the federal Medicaid hospital financing waiver and legislation enacted by the state of California ("The Waiver Program"). The Waiver Program was enacted in two five-year phases, the first covering 2006 through 2010 and the second covering 2011 through 2015. The Waiver Program was extended and is effective from January 1, 2016 to December 31, 2020. The total payments made to the Medical Centers will include a combination of Medi-Cal inpatient FFS payments, Medi-Cal Disproportionate Share Hospital ("DSH") payments and the Safety Net Care Pool ("SNCP"). Effective November 2011, the Medical Centers are also eligible to receive incentive payments designed to encourage delivery system innovation in connection with federal health care reform. The Medical Centers are reimbursed at tentative settlement amounts with final settlement of such items determined after submission of annual filings and audits thereof by the state. Certain payments under the Waiver Program are based on allocation of pooled funds amongst all participating public hospitals in the state and are subject to change based on the audit results of the other participating public hospitals. The Medical Centers have received final settlement through 2007. The state is in the process of conducting their audits of the subsequent years of the

Waiver Program. The results of these audits have yet to be finalized and any amounts due to or from Medi-Cal have not been determined. Estimated receivables and payables related to all Waiver Program reporting periods are included in the statements of net position as third-party payor settlements.

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

Assembly Bill 1383. State of California Assembly Bill 1383 of 2009, as amended by AB 1653 on September 8, 2010, and extended through 2013, established a series of Medicaid supplemental payments funded through a Quality Assurance Fee and a Hospital Fee Program, which are imposed on certain California hospitals. The effective date of the Hospital Fee Program was April 1, 2009 through December 31, 2013, and was predicated, in part, on the enhanced Federal Medicaid Assistance Percentage contained in the American Reinvestment and Recovery Act ("ARRA"). The Hospital Fee Program was extended for three years starting on January 1, 2014 with SB 239. The Hospital Fee Program makes supplemental payments to hospitals for various health care services and supports the state's effort to maintain health care coverage for children. The Hospital Fee Program is funded by a Quality Assurance Fee paid by participating hospitals and matching federal funds. All of the Medical Centers, except CHRCO, are designated as public hospitals, and are exempt from paying the Quality Assurance Fee. CHRCO recognized $54.5 million and $55.9 million of patient service revenue under the Hospital Fee Program for the years ended June 30, 2017 and 2016, respectively. CHRCO paid $14.7 million and $15.6 million in Quality Assurance Fees for the years ended June 30, 2017 and 2016, respectively. The Medical Centers, including CHRCO, receive supplemental payments under the Hospital Fee Program.

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

Senate Bill 1732. State of California Senate Bill 1732 provides for supplemental Medi-Cal reimbursement to DSH for costs (i.e., principal and interest) of qualified patient care capital construction. For the years ended June 30, 2017 and 2016, the Medical Centers applied for and received additional revenue related to the reimbursement of costs for certain debt-financed construction projects based on the Medical Centers' Medi-Cal utilization rate.

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

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

- Counties in the state of California that reimburse the Medical Centers for certain indigent patients covered under county contracts.
- CHCRO receives Medi-Cal supplemental payments, which are comprised of both federal and non-federal components. CHRCO received $85.0 million and $2.0 million under these programs for the years ended June 30, 2017 and 2016, respectively. Included in the $85.0 million is $59.7 million approved in 2017 for prior periods.

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

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

(shown as percentage)	MEDICARE		MEDI-CAL	
	2017	**2016**	**2017**	**2016**
Davis	19.8%	19.1%	17.3%	17.5%
Irvine	25.0	24.0	17.4	24.6
Los Angeles	11.1	12.2	5.7	5.4
San Diego	29.5	25.0	13.6	16.5
San Francisco	10.3	11.3	11.1	10.4

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

(in thousands of dollars)		
	2017	**2016**
Davis	$65,345	$31,537
Irvine*	45,361	17,665
Los Angeles	36,651	(1,774)
San Diego	34,898	15,533
San Francisco	16,319	32,010
Total	**$198,574**	**$94,971**

** Includes $11.5 million of favorable adjustments to correct a prior period.*

Net patient accounts receivable and net patient service revenues at June 30 are presented net of uncollectible accounts as follows:

(in thousands of dollars)	PATIENT ACCOUNTS RECEIVABLE ALLOWANCE at June 30		PATIENT SERVICE REVENUE ALLOWANCE for the year ending June 30	
	2017	**2016**	**2017**	**2016**
Davis	$61,991	$49,962	$108,876	$96,770
Irvine	33,757	29,662	23,415	27,494
Los Angeles	44,060	50,563	25,282	26,323
San Diego	40,952	56,348	27,229	33,406
San Francisco	55,412	48,532	40,706	54,944
Total	**$236,172**	**$235,067**	**$225,508**	**$238,937**

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2017						
Medicare	$517,226	$231,953	$506,431	$406,581	$590,910	$2,253,101
Medi-Cal	432,762	307,908	303,393	388,363	564,773	1,997,199
Contract (discounted or per-diem)	1,015,785	545,915	1,509,690	798,524	2,508,066	6,377,980
Contract (capitated)	137,163		48,485		36,118	221,766
Non-sponsored/self-pay	2,563	2,541	20,925	2,399	48,233	76,661
Total	**$2,105,499**	**$1,088,317**	**$2,388,924**	**$1,595,867**	**$3,748,100**	**$10,926,707**
2016						
Medicare	$453,938	$252,911	$502,098	$380,480	$532,338	$2,121,765
Medi-Cal	378,360	220,856	248,695	334,471	490,934	1,673,316
Contract (discounted or per-diem)	922,541	497,432	1,428,328	747,212	2,305,887	5,901,400
Contract (capitated)	131,642		73,404		5,673	210,719
Non-sponsored/self-pay	2,221	12,962	14,455	3,268	36,022	68,928
Total	**$1,888,702**	**$984,161**	**$2,266,980**	**$1,465,431**	**$3,370,854**	**$9,976,128**

4. CHARITY CARE

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2017						
Charity care at established rates	$19,683	$36,347	$10,007	$49,863	$135,801	$251,701
Estimated cost of charity care	3,904	9,497	4,672	16,950	55,480	90,503
Estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs	185,277	50,898	126,894	155,208	396,685	914,962
2016						
Charity care at established rates	$36,155	$38,105	$13,194	$56,128	$114,119	$257,701
Estimated cost of charity care	7,182	9,717	6,135	19,222	43,274	85,530
Estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs	180,168	119,468	168,890	122,141	345,388	936,055

Included within the table above are the estimated cost of charity care for self-pay patients presumed to qualify for charity care in the amounts of $0.8 million for UC Davis Medical Center, $8.9 million for UC Irvine Medical Center and $1.9 million for UC San Diego Medical Center for the year ended June 30, 2017. Included within the table above are the estimated costs of charity care for self-pay patients presumed to qualify for charity care in the amounts of $0.9 million for UC Davis Medical Center, $1.6 million for UC Irvine Medical Center and $2.1 million for UC San Diego Medical Center for the year ended June 30, 2016. At June 30, 2017, San Francisco includes CHRCO amounts: $96.5 million charity care at established rates, $44.8 million estimated cost of charity care and $23.9 million estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs. At June 30, 2016, San Francisco includes CHRCO amounts: $80.5 million charity care at established rates, $34.0 million estimated cost of charity care and $16.6 million estimated cost in excess of reimbursement for indigent patients under publicly sponsored programs.

5. RESTRICTED ASSETS, DONOR FUNDS

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

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

(in thousands of dollars)

	LOS ANGELES	SAN FRANCISCO	TOTAL
2017			
Cash and STIP	$4,177	$40,014	$44,191
General Endowment Pool	6,366	41,602	47,968
Mutual funds	30		30
Charitable remainder trusts	565	3,469	4,034
Total	**$11,138**	**$85,085**	**$96,223**
2016			
Cash and STIP	$3,634	$18,523	$22,157
General Endowment Pool	7,011	37,550	44,561
Mutual funds	30		30
Charitable remainder trusts	685	3,272	3,957
Total	**$11,360**	**$59,345**	**$70,705**

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

(in thousands of dollars)

	LOS ANGELES	SAN FRANCISCO	TOTAL
2017			
Capital projects	$1,000	$22,413	$23,413
Endowments	611	26,204	26,815
Operations	9,527	36,468	45,995
Total	**$11,138**	**$85,085**	**$96,223**
2016			
Capital projects	$1,089	$3,525	$4,614
Endowments	621	25,242	25,863
Operations	9,650	30,578	40,228
Total	**$11,360**	**$59,345**	**$70,705**

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

6. CAPITAL ASSETS

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

(in thousands of dollars)

DAVIS	2015	ADDITIONS	DISPOSALS	2016	ADDITIONS	DISPOSALS	2017
ORIGINAL COST							
Land	$36,675			$36,675			$36,675
Buildings and improvements	1,320,806	$30,914	$(1,152)	1,350,568	$17,488		1,368,056
Equipment	406,262	39,107	(30,647)	414,722	35,448	$(30,228)	419,942
Construction in progress	26,149	11,133	(966)	36,316	52,127		88,443
Capital assets, at cost	**$1,789,892**	**$81,154**	**$(32,765)**	**$1,838,281**	**$105,063**	**$(30,228)**	**$1,913,116**

	2015	DEPRECIATION	DISPOSALS	2016	DEPRECIATION	DISPOSALS	
ACCUMULATED DEPRECIATION							
Buildings and improvements	$519,267	$39,546	$(1,101)	$557,712	$40,846		$598,558
Equipment	267,545	39,745	(30,794)	276,496	37,993	$(30,177)	284,312
Accumulated depreciation	786,812	**$79,291**	**$(31,895)**	834,208	**$78,839**	**$(30,177)**	882,870
Capital assets, net	**$1,003,080**			**$1,004,073**			**$1,030,246**

(in thousands of dollars)

IRVINE	2015	ADDITIONS	DISPOSALS	2016	ADDITIONS	DISPOSALS	2017
ORIGINAL COST							
Land	$12,418			$12,418	$441		$12,859
Buildings and improvements	838,990	$16,229		855,219	24,955		880,174
Equipment	324,395	38,466	$(1,564)	361,297	60,822	$(302)	421,817
Construction in progress	14,374	4,974		19,348	(559)		18,789
Capital assets, at cost	**$1,190,177**	**$59,669**	**$(1,564)**	**$1,248,282**	**$85,659**	**$(302)**	**$1,333,639**

	2015	DEPRECIATION	DISPOSALS	2016	DEPRECIATION	DISPOSALS	
ACCUMULATED DEPRECIATION							
Buildings and improvements	$271,482	$34,474		$305,956	$34,481		$340,437
Equipment	191,384	34,232	$(1,469)	224,147	34,790	$(244)	258,693
Accumulated depreciation	462,866	**$68,706**	**$(1,469)**	530,103	**$69,271**	**$(244)**	599,130
Capital assets, net	**$727,311**			**$718,179**			**$734,509**

(in thousands of dollars)

LOS ANGELES	2015	ADDITIONS	DISPOSALS	2016	ADDITIONS	DISPOSALS	2017
ORIGINAL COST							
Land	$51,924	$10,550		$62,474	$(5,873)	$(9,683)	$46,918
Buildings and improvements	1,935,627	61,913	$(12,477)	1,985,063	29,376	(4,297)	2,010,142
Equipment	650,872	67,152	(25,718)	692,306	60,107	(29,401)	723,012
Construction in progress	50,988	(25,285)	(2,559)	23,144	9,941		33,085
Capital assets, at cost	**$2,689,411**	**$114,330**	**$(40,754)**	**$2,762,987**	**$93,551**	**$(43,381)**	**$2,813,157**

	2015	DEPRECIATION	DISPOSALS	2016	DEPRECIATION	DISPOSALS	
ACCUMULATED DEPRECIATION							
Buildings and improvements	$444,882	$62,811	$(3,817)	$503,876	$56,567	$(801)	$559,642
Equipment	399,164	71,289	(24,788)	445,665	86,274	(27,964)	503,975
Accumulated depreciation	844,046	**$134,100**	**$(28,605)**	949,541	**$142,841**	**$(28,765)**	1,063,617
Capital assets, net	**$1,845,365**			**$1,813,446**			**$1,749,540**

(in thousands of dollars)

SAN DIEGO	2015	ADDITIONS	DISPOSALS	2016	ADDITIONS	DISPOSALS	2017
ORIGINAL COST							
Land	$8,641			$8,641			$8,641
Buildings and improvements	806,320	$19,418		825,738	$844,584		1,670,322
Equipment	294,432	64,383	$(12,631)	346,184	97,926	$(9,820)	434,290
Construction in progress	673,835	161,357		835,192	(715,649)		119,543
Capital assets, at cost	**$1,783,228**	**$245,158**	**$(12,631)**	**$2,015,755**	**$226,861**	**$(9,820)**	**$2,232,796**

	2015	DEPRECIATION	DISPOSALS	2016	DEPRECIATION	DISPOSALS	2017
ACCUMULATED DEPRECIATION							
Buildings and improvements	$313,921	$29,487		$343,408	$42,935		$386,343
Equipment	184,531	28,904	$(12,206)	201,229	33,844	$(9,568)	225,505
Accumulated depreciation	498,452	**$58,391**	**$(12,206)**	544,637	**$76,779**	**$(9,568)**	611,848
Capital assets, net	**$1,284,776**			**$1,471,118**			**$1,620,948**

(in thousands of dollars)

SAN FRANCISCO	2015	ADDITIONS	DISPOSALS	2016	ADDITIONS	DISPOSALS	2017
ORIGINAL COST							
Land	$135,422	$7,846		$143,268			$143,268
Buildings and improvements	2,499,510	43,445	$(3,471)	2,539,484	$100,300		2,639,784
Equipment	1,006,318	65,389	(22,066)	1,049,641	45,009	$(28,841)	1,065,809
Construction in progress	116,615	67,314	(218)	183,711	35,331	(1,013)	218,029
Capital assets, at cost	**$ 3,757,865**	**$183,994**	**$(25,755)**	**$3,916,104**	**$180,640**	**$(29,854)**	**$4,066,890**

	2015	DEPRECIATION	DISPOSALS	2016	DEPRECIATION	DISPOSALS	2017
ACCUMULATED DEPRECIATION							
Buildings and improvements	$838,717	$92,245	$(2,746)	$928,216	$89,565		$1,017,781
Equipment	514,136	112,901	(20,875)	606,162	121,348	$(27,939)	699,571
Accumulated depreciation	1,352,853	**$205,146**	**$(23,621)**	1,534,378	**$210,913**	**$(27,939)**	1,717,352
Capital assets, net	**$2,405,012**			**$2,381,726**			**$2,349,538**

(in thousands of dollars)

TOTAL	2015	ADDITIONS	DISPOSALS	2016	ADDITIONS	DISPOSALS	2017
ORIGINAL COST							
Land	$245,080	$18,396		$263,476	$(5,432)	$(9,683)	$248,361
Buildings and improvements	7,401,253	171,919	$ (17,100)	7,556,072	1,016,703	(4,297)	8,568,478
Equipment	2,682,279	274,497	(92,626)	2,864,150	299,312	(98,592)	3,064,870
Construction in progress	881,961	219,493	(3,743)	1,097,711	(618,809)	(1,013)	477,889
Capital assets, at cost	**$11,210,573**	**$684,305**	**$(113,469)**	**$11,781,409**	**$691,774**	**$(113,585)**	**$12,359,598**

	2015	DEPRECIATION	DISPOSALS	2016	DEPRECIATION	DISPOSALS	2017
ACCUMULATED DEPRECIATION							
Buildings and improvements	$2,388,269	$258,563	$(7,664)	$2,639,168	$264,394	$(801)	$2,902,761
Equipment	1,556,760	287,071	(90,132)	1,753,699	314,249	(95,892)	1,972,056
Accumulated depreciation	3,945,029	**$545,634**	**$(97,796)**	4,392,867	**$578,643**	**$(96,693)**	4,874,817
Capital assets, net	**$7,265,544**			**$7,388,542**			**$7,484,781**

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	TOTAL
2017					
Equipment under financing obligations	$59,370	$19,700	$107,905	$61,352	$248,327
Accumulated amortization	(36,152)	(19,070)	(35,000)	(18,524)	(108,746)
Total	**$23,218**	**$630**	**$72,905**	**42,828**	**$139,581**
2016					
Equipment under financing obligations	$59,370	$31,054	$108,589	$44,000	$243,013
Accumulated amortization	(33,344)	(27,684)	(25,519)	(23,000)	(109,547)
Total	**$26,026**	**$3,370**	**$83,070**	**$21,000**	**$133,466**

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

7. PAYABLES TO UNIVERSITY AND CAMPUS

The UCLA Medical Center has an internal line of credit in the amount of $75.0 million from the UCLA campus Chancellor reported as a note payable to the campus. The line of credit is due in June 2024 and bears interest at the STIP rate of an annual average of 1.2 percent for the years ended June 30, 2017 and 2016. As of June 30, 2017 and 2016, $75.0 million was outstanding. Interest expense of $5.2 million and $0 has been recorded on the line of credit for the years ended June 30, 2017 and 2016, respectively.

The UCSD Medical Center has an internal loan of up to $95.0 million from the UCSD campus funded from the campus' allocation of proceeds from a series of General Revenue Bonds of The Regents. The loan is to fund a portion of the costs for an outpatient pavilion. The loan is due in May 2047 and bears interest at a rate of 5.0 percent. As of June 30, 2017 and 2016, balances of $73.7 million and $23.3 million, respectively, were outstanding and are reported as a note payable to the campus on the statements of net position. Interest payments of $2.5 million and $0.4 million were made on the loan for the years ended June 30, 2017 and 2016, respectively.

Advances from the University, financed through the University's bank lines, were made to the Medical Centers to finance capital projects. The following payables are reported as other current liabilities in the statements of net position as of June 30:

(in thousands of dollars)

	2017	2016
Davis		$6,951
Los Angeles		87,000
San Diego		44,199
San Francisco	$19,684	73,015*
Total	**$19,684**	**$211,165**

**$51,515 is classified as other noncurrent liabilities*

8. INTEREST RATE SWAP AGREEMENTS

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

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

In September 2016, the UCLA Medical Center replaced the counterparty for its interest rate swap agreements and recognized a decrease in net position upon hedge termination of $41.2 million on the statement of revenues, expenses and changes in net position. The new counterparty's credit rating is Aa2/AA- and is considered as a new hedge derivative upon the date of the transaction. At the time of pricing the new interest rate swaps, the fixed rate on each of the swaps was off-market such that the UCLA Medical Center received an up-front payment. As such, the swaps consist of an at-the-market interest rate swap derivative instrument and a borrowing, represented by the up-front payment. The unamortized amount of the borrowing was $79.0 million at June 30, 2017.

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

(in thousands of dollars)

	NOTIONAL AMOUNT		FAIR VALUE – POSITIVE (NEGATIVE)			CHANGES IN FAIR VALUE		
	2017	2016	CLASSIFICATION	2017	2016	CLASSIFICATION	2017	2016
Los Angeles	$124,775	$124,775	Other noncurrent liabilities	$(40,420)	$(57,604)	Deferred outflows	$17,184	$(17,392)
	24,250	24,250	Other noncurrent liabilities	(10,252)	(14,901)	Deferred outflows	4,649	(5,092)
	25,750	25,750	Other noncurrent liabilities	(11,266)	(16,498)	Deferred outflows	5,232	(5,743)
San Francisco	67,540	70,880	Other noncurrent liabilities	(9,423)	(14,188)	Deferred outflows	4,765	(3,080)

Because interest rates have changed since the execution of the swaps, financial institutions have estimated the fair value of the swaps using quoted market prices when available or a forecast of expected discounted future net cash flows. The swaps are classified as level 2 on the fair value hierarchy. The fair value of the interest rate swap is the estimated amount the Medical Centers would have either (paid) or received if the swap agreement was terminated on June 30, 2017 or 2016.

Additional terms with respect to the outstanding interest rate swaps, classified as hedging derivatives, along with the credit rating of the counterparty, are as follows:

(in thousands of dollars)

TERMS	NOTIONAL AMOUNT		EFFECTIVE DATE	MATURITY DATE	CASH PAID OR RECEIVED	COUNTERPARTY CREDIT RATING
	2017	2016				
LOS ANGELES						
Pay fixed 4.550 percent; receive 67 percent of 3-Month LIBOR* + 0.61 percent	$31,610	$31,610	2008	2030	None	Aa2/AA-
Pay fixed 4.625 percent; receive 67 percent of 3-Month LIBOR* + 0.67 percent	38,670	38,670	2008	2037	None	Aa2/AA-
Pay fixed 4.6935 percent; receive 67 percent of 3-Month LIBOR* + 0.74 percent	54,495	54,495	2008	2043	None	Aa2/AA-
Pay fixed 4.741 percent; receive 67 percent of 3-Month LIBOR* + 0.79 percent	24,250	24,250	2013	2045	None	Aa2/AA-
Pay fixed 4.741 percent; receive 67 percent of 3-Month LIBOR* + 0.79 percent	25,750	25,750	2013	2047	None	Aa2/AA-
SAN FRANCISCO						
Pay fixed 3.5897 percent; receive 58 percent of 1-Month LIBOR* + 0.48 percent	67,540	70,880	2007	2032	None	A1/A+

** London Interbank Offered Rate (LIBOR)*

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

There are no collateral requirements related to the swaps held by the UCSF Medical Center. Depending on the fair value and the counterparty credit rating for the UCLA Medical Center swaps, the University may be entitled to receive collateral to the extent the positive fair value exceeds $30.0 million. At June 30, 2017 and 2016, there was no collateral required.

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

Basis Risk. There is no basis or tax risk related to two of the swaps classified as hedging derivatives with a total notional amount of $149.0 million since the variable rate the UCLA Medical Center pays to the bond holders matches the variable-rate payments received from the swap counterparty.

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

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

9. LONG-TERM DEBT AND FINANCING OBLIGATIONS

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2017						
University of California Medical Center Pooled Revenue Bonds:						
2007 Series B*					$67,540	$67,540
2007 Series C-2*			$149,025			149,025
2009 Series F Build America Bonds		$155,855	143,320	$110,355	19,620	429,150
2010 Series G & I			9,490	14,100		23,590
2010 Series H Build America Bonds					700,000	700,000
2013 Series J	$15,415	4,360	81,535	497,935	525	599,770
2013 Series K*			31,300			31,300
2016 Series L	260,690	121,050	267,185	88,695	107,780	845,400
2016 Series M	61,465	36,605	47,970		19,345	165,385
Financing obligations	621	630	103,112	44,466		148,829
Other borrowings			79,048			79,048
Total outstanding debt and financing obligations	**338,191**	**318,500**	**911,985**	**755,551**	**914,810**	**3,239,037**
Unamortized bond premium	46,386	22,605	49,729	18,130	18,323	155,173
Total debt and financing obligations	**384,577**	**341,105**	**961,714**	**773,681**	**933,133**	**3,394,210**
Less: Current portion	(21,834)	(2,765)	(26,920)	(19,511)	(4,869)	(75,899)
Noncurrent portion of debt and financing obligations	**$362,743**	**$338,340**	**$934,794**	**$754,170**	**$928,264**	**$3,318,311**

** Variable-rate bonds*

(in thousands of dollars)

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

** Variable-rate bonds*

Significant terms of the Medical Centers' outstanding debt are as follows:

	INTEREST RATE	INTEREST PAYMENT FREQUENCY	PRINCIPAL PAYMENT TERMS
University of California Medical Center Pooled Revenue Bonds:			
2007 Series B*	0.63 percent	Monthly	Through 2032
2007 Series C-2*	1.4 percent to 1.6 percent	Quarterly	Through 2045
2009 Series F "Build America Bonds"	4.3 percent, after 35 percent federal subsidy	Semi-annually	Through 2049
2010 Series G & I	3.0 percent to 5.8 percent	Semi-annually	Through 2025
2010 Series H "Build America Bonds"	4.2 percent, after 35 percent federal subsidy	Semi-annually	Through 2048
2013 Series J	4.0 percent to 5.3 percent	Semi-annually	Through 2048
2013 Series K*	0.88 percent	Monthly	Beginning 2045 through 2047
2016 Series L	2.5 percent to 5.0 percent	Semi-annually	Through 2047
2016 Series M	0.9 percent to 3.5 percent	Semi-annually	Through 2047
Financing obligations (primarily for computer and medical equipment, collateralized by underlying equipment)	Fixed interest rates of 1.1 percent to 6.0 percent	Monthly, Quarterly	Through 2042

**Variable-rate bonds*

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

(in thousands of dollars)

	2017		2016	
	INTEREST EXPENSE	INTEREST CAPITALIZED	INTEREST EXPENSE	INTEREST CAPITALIZED
Davis	$8,881	$2,266	$15,419	$411
Irvine	13,405	1,070	15,595	
Los Angeles	42,129	830	39,339	784
San Diego	23,595	13,551	7,948	27,519
San Francisco	47,595	6,107	48,172	3,605
Total	**$135,605**	**$23,824**	**$126,473**	**$32,319**

The activity with respect to current and noncurrent debt is as follows:

(in thousands of dollars)

DAVIS	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2017			
Long-term debt and financing obligations at June 30, 2016	$287,463	$7,101	$294,564
New obligations	390,844		390,844
Principal payments and bond retirements	(290,785)	(6,480)	(297,265)
Amortization of bond premium	(3,566)		(3,566)
Long-term debt and financing obligations at June 30, 2017	**383,956**	**621**	**384,577**
Less: Current portion	(21,213)	(621)	(21,834)
Noncurrent portion of long-term debt and financing obligations at June 30, 2017	**$362,743**		**$362,743**
Year ended June 30, 2016			
Long-term debt and financing obligations at June 30, 2015	$306,440	$17,449	$323,889
Principal payments and bond retirements	(18,215)	(10,348)	(28,563)
Amortization of bond premium	(762)		(762)
Long-term debt and financing obligations at June 30, 2016	**287,463**	**7,101**	**294,564**
Less: Current portion	(19,413)	(6,480)	(25,893)
Noncurrent portion of long-term debt and financing obligations as June 30, 2016	**$268,050**	**$621**	**$268,671**

(in thousands of dollars)

IRVINE	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2017			
Long-term debt and financing obligations at June 30, 2016	$268,299	$3,370	$271,669
New obligations	183,013		183,013
Principal payments and bond retirements	(109,749)	(2,740)	(112,489)
Amortization of bond premium	(1,088)		(1,088)
Long-term debt and financing obligations at June 30, 2017	**340,475**	**630**	**341,105**
Less: Current portion	(2,426)	(339)	(2,765)
Noncurrent portion of long-term debt and financing obligations at June 30, 2017	**$338,049**	**$291**	**$338,340**
Year ended June 30, 2016			
Long-term debt and financing obligations at June 30, 2015	$276,684	$8,634	$285,318
Principal payments and bond retirements	(8,230)	(5,264)	(13,494)
Amortization of bond premium	(155)		(155)
Long-term debt and financing obligations at June 30, 2016	**268,299**	**3,370**	**271,669**
Less: Current portion	(1,585)	(2,740)	(4,325)
Noncurrent portion of long-term debt and financing obligations as June 30, 2016	**$266,714**	**$630**	**$267,344**

(in thousands of dollars)

LOS ANGELES	REVENUE BONDS	FINANCING OBLIGATIONS	OTHER BORROWINGS	TOTAL
Year ended June 30, 2017				
Long-term debt and financing obligations at June 30, 2016	$705,574	$111,317	$39,979	$856,870
New obligations	374,469		82,455	456,924
Principal payments and bond retirements	(296,305)	(8,205)	(43,386)	(347,896)
Amortization of bond premium	(4,184)			(4,184)
Long-term debt and financing obligations at June 30, 2017	**779,554**	**103,112**	**79,048**	**961,714**
Less: Current portion	(14,555)	(8,561)	(3,804)	(26,920)
Noncurrent portion of long-term debt and financing obligations at June 30, 2017	**$764,999**	**$94,551**	**$75,244**	**$934,794**
Year ended June 30, 2016				
Long-term debt and financing obligations at June 30, 2015	$715,575	$64,169	$41,083	$820,827
New obligations		46,482		46,482
Principal payments and bond retirements	(9,600)	666	(1,104)	(10,038)
Amortization of bond premium	(401)			(401)
Long-term debt and financing obligations at June 30, 2016	**705,574**	**111,317**	**39,979**	**856,870**
Less: Current portion	(10,451)	(8,205)	(1,143)	(19,799)
Noncurrent portion of long-term debt and financing obligations as June 30, 2016	**$695,123**	**$103,112**	**$38,836**	**$837,071**

(in thousands of dollars)

SAN DIEGO	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL
Year ended June 30, 2017			
Long-term debt and financing obligations at June 30, 2016	$662,014	$39,393	$701,407
New obligations	106,974	16,471	123,445
Principal payments and bond retirements	(38,365)	(11,398)	(49,763)
Amortization of bond premium	(1,408)		(1,408)
Long-term debt and financing obligations at June 30, 2017	**729,215**	**44,466**	**773,681**
Less: Current portion	(8,149)	(11,362)	(19,511)
Noncurrent portion of long-term debt and financing obligations at June 30, 2017	**$721,066**	**$33,104**	**$754,170**
Year ended June 30, 2016			
Long-term debt and financing obligations at June 30, 2015	$667,795	$42,488	$710,283
New obligations		8,093	8,093
Principal payments and bond retirements	(5,185)	(11,188)	(16,373)
Amortization of bond premium	(596)		(596)
Long-term debt and financing obligations at June 30, 2016	**662,014**	**39,393**	**701,407**
Less: Current portion	(5,996)	(10,739)	(16,735)
Noncurrent portion of long-term debt and financing obligations as June 30, 2016	**$656,018**	**$28,654**	**$684,672**

(in thousands of dollars)

SAN FRANCISCO	REVENUE BONDS	TOTAL
Year ended June 30, 2017		
Long-term debt and financing obligations at June 30, 2016	$833,600	$833,600
New obligations	146,694	146,694
Principal payments and bond retirements	(46,414)	(46,414)
Amortization of bond premium	(747)	(747)
Long-term debt and financing obligations at June 30, 2017	**933,133**	**933,133**
Less: Current portion	(4,869)	(4,869)
Noncurrent portion of long-term debt and financing obligations at June 30, 2017	**$928,264**	**$928,264**
Year ended June 30, 2016		
Long-term debt and financing obligations at June 30, 2015	$837,536	$837,536
Principal payments and bond retirements	(3,915)	(3,915)
Amortization of bond premium	(21)	(21)
Long-term debt and financing obligations at June 30, 2016	**833,600**	**833,600**
Less: Current portion	(4,081)	(4,081)
Noncurrent portion of long-term debt and financing obligations as June 30, 2016	**$829,519**	**$829,519**

(in thousands of dollars)

TOTAL	REVENUE BONDS	FINANCING OBLIGATIONS	OTHER BORROWINGS	TOTAL
Year ended June 30, 2017				
Long-term debt and financing obligations at June 30, 2016	$ 2,756,950	$ 161,181	$ 39,979	$ 2,958,110
New obligations	1,201,994	16,471	82,455	1,300,920
Principal payments and bond retirements	(781,618)	(28,823)	(43,386)	(853,827)
Amortization of bond premium	(10,993)			(10,993)
Long-term debt and financing obligations at June 30, 2017	**3,166,333**	**148,829**	**79,048**	**3,394,210**
Less: Current portion	(49,986)	(20,883)	(3,804)	(74,673)
Noncurrent portion of long-term debt and financing obligations at June 30, 2017	**$3,116,347**	**$127,946**	**$75,244**	**$3,319,537**
Year ended June 30, 2016				
Long-term debt and financing obligations at June 30, 2015	$2,804,030	$132,740	$41,083	$2,977,853
New obligations		54,575		54,575
Principal payments and bond retirements	(45,145)	(26,134)	(1,104)	(72,383)
Amortization of bond premium	(1,935)			(1,935)
Long-term debt and financing obligations at June 30, 2016	**2,756,950**	**161,181**	**39,979**	**2,958,110**
Less: Current portion	(41,526)	(28,164)	(1,143)	(70,833)
Noncurrent portion of long-term debt and financing obligations as June 30, 2016	**$2,715,424**	**$133,017**	**$38,836**	**$2,887,277**

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

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

(in thousands of dollars)

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

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

The Medical Centers' Pooled Revenue Bonds are issued to finance the University's Medical Centers and are collateralized by a joint and several pledges of certain operating and non-operating revenues, as defined in the indentures, of all five of the University's Medical Centers. The Medical Center Pooled Revenue Bond Indenture requires the Medical Centers to set rates, charges and fees each year sufficient for the Medical Centers' total operating and non-operating revenues to pay for the annual principal and interest on the bonds and sets forth requirements for certain other financial covenants. Pledged revenues for the Medical Centers for the year ended June 30, 2017 was $11.4 billion.

The Medical Center Pooled Revenue Bonds 2007 Series B and 2013 Series K totaling $67.5 million and $31.3 million, respectively, are variable-rate demand obligations subject to daily and weekly remarketing, respectively. The University had entered into a standby bond purchase agreement if a failed remarketing was to occur and the purchase of any of the 2007 Series B bonds was required. The standby bond purchase agreement terminated in August 2016 as described above. The University has not entered into a standby bond purchase agreement for the 2013 Series K bonds. The UCSF and UCLA Medical Centers have access to the hospital working capital program from the University described below for any amounts that would be obligated for repayment to the University.

The Medical Centers' revenues are not pledged for any other purpose than under the indentures for the Medical Center Pooled Revenue Bonds. The pledge of the Medical Centers' revenues under the Medical Center Pooled Revenue Bonds is on parity with interest rate swap agreements.

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

Future Debt Service and Interest Rate Swaps

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

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

(in thousands of dollars)

DAVIS	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2018	$31,599	$624	$32,223	$18,436	$13,787
2019	31,210		31,210	17,900	13,310
2020	30,818		30,818	18,125	12,693
2021	30,392		30,392	18,325	12,067
2022	29,989		29,989	18,710	11,279
2023– 2027	138,539		138,539	94,070	44,469
2028– 2032	60,148		60,148	29,245	30,903
2033– 2037	60,123		60,123	35,455	24,668
2038 – 2042	60,111		60,111	44,305	15,806
2043 – 2047	49,198		49,198	43,620	5,578
Total future debt service	**522,127**	**624**	**522,751**	**$338,191**	**$184,560**
Less: Interest component of future payments	(184,557)	(3)	(184,560)		
Principal portion of future payments	337,570	621	338,191		
Adjusted by:					
Unamortized bond premium	46,386		46,386		
Total debt	**$383,956**	**$621**	**$384,577**		

(in thousands of dollars)

IRVINE	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2018	$18,211	$354	$18,565	$1,539	$17,026
2019	18,218	295	18,513	1,531	16,982
2020	21,397		21,397	4,465	16,932
2021	21,410		21,410	4,620	16,790
2022	21,382		21,382	4,790	16,592
2023– 2027	108,893		108,893	29,355	79,538
2028– 2032	115,670		115,670	43,925	71,745
2033– 2037	113,938		113,938	54,385	59,553
2038 – 2042	111,038		111,038	67,975	43,063
2043 – 2047	105,741		105,741	83,400	22,341
2048 – 2049	24,753		24,753	22,515	2,238
Total future debt service	**680,651**	**649**	**681,300**	**$318,500**	**$362,800**
Less: Interest component of future payments	(362,781)	(19)	(362,800)		
Principal portion of future payments	317,870	630	318,500		
Adjusted by:					
Unamortized bond premium	22,605		22,605		
Total debt	**$340,475**	**$630**	**$341,105**		

(in thousands of dollars)

LOS ANGELES	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2018	$46,819	$13,434	$60,253	$20,231	$40,022
2019	47,633	13,573	61,206	21,778	39,428
2020	50,173	13,717	63,890	25,176	38,714
2021	48,836	13,867	62,703	24,805	37,898
2022	48,496	4,052	52,548	15,498	37,050
2023– 2027	236,733	22,825	259,558	85,904	173,654
2028– 2032	231,111	27,770	258,881	108,543	150,338
2033– 2037	228,674	33,786	262,460	143,323	119,137
2038 – 2042	227,303	37,772	265,075	187,554	77,521
2043 – 2047	211,983		211,983	180,535	31,448
2048 – 2049	21,367		21,367	19,590	1,777
Total future debt service	**1,399,128**	**180,796**	**1,579,924**	**$832,937**	**$746,987**
Less: Interest component of future payments	(669,303)	(77,684)	(746,987)		
Principal portion of future payments	729,825	103,112	832,937		
Adjusted by:					
Unamortized bond premium	49,729		49,729		
Other borrowings	79,048		79,048		
Total debt	**$858,602**	**$103,112**	**$961,714**		

(in thousands of dollars)

SAN DIEGO	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year ending June 30					
2018	$43,738	$11,973	$55,711	$17,992	$37,719
2019	43,742	11,973	55,715	18,475	37,240
2020	43,733	11,553	55,286	18,540	36,746
2021	41,294	7,705	48,999	12,701	36,298
2022	41,284	2,701	43,985	8,023	35,962
2023– 2027	243,532		243,532	70,980	172,552
2028– 2032	251,460		251,460	101,785	149,675
2033– 2037	248,467		248,467	128,990	119,477
2038 – 2042	244,821		244,821	163,785	81,036
2043 – 2047	216,061		216,061	180,870	35,191
2048 – 2049	35,264		35,264	33,410	1,854
Total future debt service	**1,453,396**	**45,905**	**1,499,301**	**$755,551**	**$743,750**
Less: Interest component of future payments	(742,311)	(1,439)	(743,750)		
Principal portion of future payments	711,085	44,466	755,551		
Adjusted by:					
Unamortized bond premium	18,130		18,130		
Total debt	**$729,215**	**$44,466**	**$773,681**		

(in thousands of dollars)

SAN FRANCISCO	REVENUE BONDS	PRINCIPAL	INTEREST
Year ending June 30			
2018	$57,934	$4,210	$53,724
2019	57,951	4,355	53,596
2020	58,327	4,865	53,462
2021	72,359	19,050	53,309
2022	72,119	19,695	52,424
2023– 2027	355,958	109,345	246,613
2028– 2032	346,350	132,455	213,895
2033– 2037	329,043	156,575	172,468
2038 – 2042	313,410	192,675	120,735
2043 – 2047	285,257	228,110	57,147
2048 – 2049	46,397	43,475	2,922
Total future debt service	**1,995,105**	**$914,810**	**$1,080,295**
Less: Interest component of future payments	(1,080,295)		
Principal portion of future payments	914,810		
Adjusted by:			
Unamortized bond premium	18,323		
Total debt	**$933,133**		

(in thousands of dollars)

TOTAL	REVENUE BONDS	FINANCING OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Total *Year ending June 30*					
2018	$198,301	$26,385	$224,686	$62,408	$162,278
2019	198,754	25,841	224,595	64,039	160,556
2020	204,448	25,270	229,718	71,171	158,547
2021	214,291	21,572	235,863	79,501	156,362
2022	213,270	6,753	220,023	66,716	153,307
2023– 2027	1,083,655	22,825	1,106,480	389,654	716,826
2028– 2032	1,004,739	27,770	1,032,509	415,953	616,556
2033– 2037	980,245	33,786	1,014,031	518,728	495,303
2038 – 2042	956,683	37,772	994,455	656,294	338,161
2043 – 2047	868,240		868,240	716,535	151,705
2048 – 2049	127,781		127,781	118,990	8,791
Total future debt service	**6,050,407**	**227,974**	**6,278,381**	**$3,159,989**	**$3,118,392**
Less: Interest component of future payments	(3,039,247)	(79,145)	(3,118,392)		
Principal portion of future payments	3,011,160	148,829	3,159,989		
Adjusted by:					
Unamortized bond premium	155,173		155,173		
Other borrowings	79,048		79,048		
Total debt	**$3,245,381**	**$148,829**	**$3,394,210**		

Additional information on the revenue bonds can be obtained from the 2016–2017 annual report of the University of California.

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

(in thousands of dollars)

LOS ANGELES	VARIABLE-RATE BOND		INTEREST RATE SWAP, NET	TOTAL
	PRINCIPAL	INTEREST		
Year ending June 30				
2018		$2,502	$5,521	$8,023
2019		2,502	5,521	8,023
2020		2,509	5,521	8,030
2021		2,502	5,521	8,023
2022		2,502	5,521	8,023
2023– 2027	$18,415	11,992	26,496	56,903
2028– 2032	23,025	10,489	23,319	56,833
2033– 2037	28,840	8,597	19,332	56,769
2038 – 2042	48,755	6,049	13,943	68,747
2043 – 2047	61,290	1,918	4,506	67,714
Total future debt service	**$180,325**	**$51,562**	**$115,201**	**$347,088**

(in thousands of dollars)

SAN FRANCISCO	VARIABLE-RATE BOND		INTEREST RATE SWAP, NET	TOTAL
	PRINCIPAL	INTEREST		
Year ending June 30				
2018	$3,465	$422	$1,707	$5,594
2019	3,590	400	1,619	5,609
2020	3,725	378	1,532	5,635
2021	3,860	355	1,432	5,647
2022	3,995	331	1,334	5,660
2023– 2027	22,280	1,260	5,072	28,612
2028– 2032	26,625	509	2,026	29,160
Total future debt service	**$67,540**	**$3,655**	**$14,722**	**$85,917**

(in thousands of dollars)

TOTAL	VARIABLE-RATE BOND		INTEREST RATE SWAP, NET	TOTAL
	PRINCIPAL	INTEREST		
Year ending June 30				
2018	$3,465	$2,924	$7,228	$13,617
2019	3,590	2,902	7,140	13,632
2020	3,725	2,887	7,053	13,665
2021	3,860	2,857	6,953	13,670
2022	3,995	2,833	6,855	13,683
2023– 2027	40,695	13,252	31,568	85,515
2028– 2032	49,650	10,998	25,345	85,993
2033– 2037	28,840	8,597	19,332	56,769
2038 – 2042	48,755	6,049	13,943	68,747
2043 – 2047	61,290	1,918	4,506	67,714
Total future debt service	**$247,865**	**$55,217**	**$129,923**	**$433,005**

10. OPERATING LEASES

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

(in thousands of dollars)

	2017	2016
Davis	$21,349	$17,145
Irvine	4,769	3,746
Los Angeles	14,427	13,819
San Diego	16,116	13,162
San Francisco	46,597	44,265
Total	**$103,258**	**$92,137**

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
Year ending June 30						
2018	$21,681	$4,342	$11,321	$15,946	$35,981	$89,271
2019	18,757	3,118	10,060	13,928	29,612	75,475
2020	17,022	2,070	8,482	13,119	24,100	64,793
2021	14,065	1,798	5,795	12,509	23,019	57,186
2022	13,099	1,535	4,321	8,767	8,208	35,930
2023 – 2042	46,899	3,596	12,003	16,236	13,312	92,046
Total	**$131,523**	**$16,459**	**$51,982**	**$80,505**	**$134,232**	**$414,701**

11. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2017						
Deferred outflows of resources						
Net pension liability	$83,087	$35,110	$88,338	$93,406	$225,389	$525,330
Net retiree health benefits liability	270,698	125,289	365,825	251,704	600,977	1,614,493
Debt refunding	9,132				717	9,849
Interest rate swap agreements			61,938		9,423	71,361
Total	**$362,917**	**$160,399**	**$516,101**	**$345,110**	**$836,506**	**$2,221,033**
Deferred inflows of resources						
Net pension liability	$54,811	$35,282	$56,364	$37,264	$78,091	$261,812
Net retiree health benefits liability	314,255	169,735	363,978	213,902	454,960	1,516,830
Debt refunding			1,436			1,436
Total	**$369,066**	**$205,017**	**$421,778**	**$251,166**	**$533,051**	**$1,780,078**

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2016						
Deferred outflows of resources						
Net pension liability	$317,997	$157,583	$356,453	$216,217	$527,011	$1,575,261
Net retiree health benefits liability	301,414	146,312	328,836	206,071	461,129	1,443,762
Debt refunding	11,363				806	12,169
Interest rate swap agreements			89,003		14,188	103,191
Total	**$630,774**	**$303,895**	**$774,292**	**$422,288**	**$1,003,134**	**$3,134,383**
Deferred inflows of resources						
Net pension liability	$84,896	$50,051	$87,526	$57,712	$118,254	$398,439
Net retiree health benefits liability	109,892	53,783	121,488	69,295	143,627	498,085
Total	**$194,788**	**$103,834**	**$209,014**	**$127,007**	**$261,881**	**$896,524**

12. RETIREE HEALTH PLANS

The University administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision, to eligible retirees (and their eligible family members) of the University of California and its affiliates through UCRHBT. The Regents has the authority to establish and amend the plan. Additional information on the retiree health plans can be obtained from the 2016-2017 annual reports of the University of California.

The contribution requirements of the eligible retirees and the participating University locations, such as the Medical Centers, are established and may be amended by the University. Membership in UCRP is required to become eligible for retiree health benefits. Contributions toward benefits are shared with the retiree. The University determines the employer's contribution. Retirees are required to pay the difference between the employer's contribution and the full cost of the health insurance. Retirees who are employed by the University after July 1, 2013, and retire at the age of 56 or older, become eligible for a percentage of the University's contribution based on age and years of service. Retirees are eligible for the maximum University contribution at age 65 with 20 or more years of service. Retirees employed by the University prior to 1990 and not rehired after that date are eligible for the University's maximum contribution if they retire before age 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least 5 years of service. Retirees employed by the University after 1989 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum University contribution, increasing to 100 percent after 20 years of service.

Contributions

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

Participating University locations, such as the Medical Centers, are required to contribute at a rate assessed each year by the University. The contribution requirements are based upon projected pay-as-you-go financing requirements. The assessment rates were $2.93 and $2.98 per $100 of UCRP covered payroll effective July 1, 2016 and 2015, respectively.

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

(in thousands of dollars)

	2017	2016
Davis	$21,562	$20,334
Irvine	10,089	10,433
Los Angeles	24,975	23,664
San Diego	14,677	12,780
San Francisco	31,217	28,147
Total	**$102,520**	**$95,358**

Net Retiree Health Benefits Liability

The Medical Centers' proportionate share of the net retiree health benefits liability as of June 30 is as follows:

(in thousands of dollars)

	2017		2016	
	Proportion of the net retiree health benefits liability	Proportionate share of net retiree health benefits liability	Proportion of the net retiree health benefits liability	Proportionate share of net retiree health benefits liability
Davis	6.6%	$1,227,803	6.6%	$1,385,392
Irvine	3.1%	574,394	3.2%	678,034
Los Angeles	7.6%	1,422,069	7.3%	1,531,589
San Diego	4.5%	835,720	4.1%	873,597
San Francisco	9.5%	1,777,540	8.6%	1,810,693
Total	**31.3%**	**$5,837,526**	**29.8%**	**$6,279,305**

The Medical Centers' net retiree health benefits liability was measured as of June 30, 2017 and 2016 and calculated using the plan net position valued as of the measurement date and total retiree health benefits liability based upon rolling forward the results of the actuarial valuations as of July 1, 2016 and 2015, respectively. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future. Significant actuarial methods and assumptions used to calculate the Medical Centers' net retiree health benefits liability were:

(shown as percentage)

	2017	2016
Discount rate	3.58%	2.85%
Inflation	3.0	3.0
Investment rate of return	3.0	3.0
Health care cost trend rates	Initially ranges from 5.0 to 9.5 decreasing to an ultimate rate of 5.0 for 2032 and later years	Initially ranges from 6.3 to 9.0 decreasing to an ultimate rate of 5.0 for 2031 and later years

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

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

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

(in thousands of dollars)

	1% Decrease (4.0% to 8.5%) Decreasing to (4.0%)	Current trend (5.0% to 9.5%) Decreasing to (5.0%)	1% Increase (6.0% to 10.5%) Decreasing to (6.0%)
Davis	$1,043,474	$1,227,803	$1,482,643
Irvine	488,161	574,394	693,615
Los Angeles	1,208,575	1,422,069	1,717,232
San Diego	710,254	835,720	1,009,181
San Francisco	1,510,679	1,777,540	2,146,483
Total	**$4,961,143**	**$5,837,526**	**$7,049,154**

Discount Rate

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

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

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

(in thousands of dollars)

	1% Decrease (2.58%)	Current Discount (3.58%)	1% Increase (4.58%)
Davis	$1,471,092	$1,227,803	$1,047,844
Irvine	688,210	574,394	490,205
Los Angeles	1,703,852	1,422,069	1,213,637
San Diego	1,001,318	835,720	713,229
San Francisco	2,129,759	1,777,540	1,517,007
Total	**$6,994,231**	**$5,837,526**	**$4,981,922**

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources for retiree health benefits were related to the following sources as of the years ended June 30:

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2017						
Deferred outflows of resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$8,740	$2,739	$62,419	$73,399	$221,729	$369,026
Changes of assumptions or other inputs	256,150	119,833	296,679	174,352	370,839	1,217,853
Net difference between projected and actual earnings on plan investments	220	103	255	150	319	1,047
Difference between expected and actual experience	5,588	2,614	6,472	3,803	8,090	26,567
Total	**$270,698**	**$125,289**	**$365,825**	**$251,704**	**$600,977**	**$1,614,493**
Deferred inflows of resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions		$22,719				$22,719
Changes of assumptions or other inputs	$217,515	101,759	$251,931	$148,055	$314,905	1,034,165
Difference between expected and actual experience	96,740	45,257	112,047	65,847	140,055	459,946
Total	**$314,255**	**$169,735**	**$363,978**	**$213,902**	**$454,960**	**$1,516,830**

(in thousands of dollars)

	Davis	Irvine	Los Angeles	San Diego	San Francisco	TOTAL
2016						
Deferred outflows of resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$8,823	$3,114	$5,369	$21,570	$78,716	$117,592
Changes of assumptions or other inputs	292,435	143,122	323,295	184,403	382,209	1,325,464
Net difference between projected and actual earnings on plan investments	156	76	172	98	204	706
Total	**$301,414**	**$146,312**	**$328,836**	**$206,071**	**$461,129**	**$1,443,762**
Deferred inflows of resources						
Difference between expected and actual experience	$109,892	$53,783	$121,488	$69,295	$143,627	$498,085
Total	**$109,892**	**$53,783**	**$121,488**	**$69,295**	**$143,627**	**$498,085**

The net amount of deferred outflows of resources and deferred inflows of resources related to retiree health benefits that will be recognized in retiree health benefit expense during the years ending June 30 is as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2018	$(981)	$(3,373)	$5,095	$7,685	$24,727	$33,153
2019	(981)	(3,373)	5,095	7,685	24,727	33,153
2020	(1,003)	(3,384)	5,069	7,670	24,695	33,047
2021	(1,025)	(3,394)	5,044	7,655	24,663	32,943
2022	(1,053)	(3,407)	5,012	7,637	24,623	32,812
Thereafter	(38,514)	(27,515)	(23,468)	(530)	22,582	(67,445)
Total	**$(43,557)**	**$(44,446)**	**$1,847**	**$37,802**	**$146,017**	**$97,663**

13. RETIREMENT PLANS

Substantially all full-time employees of the Medical Centers participate in the University of California Retirement System ("UCRS") that is administered by the University. The UCRS consists of The University of California Retirement Plan ("UCRP"), a single-employer defined benefit pension plan, and the University of California Retirement Savings Program ("UCRSP") that includes four defined contribution pension plans with several investment portfolios generally funded with employee non-elective and elective contributions. The Regents has the authority to establish and amend the benefit plans. Additional information on the retirement plans can be obtained from the 2016-2017 annual reports of the University of California Retirement System.

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

Contributions

Contributions to the UCRP may be made by the Medical Centers and the employees. The rates for contributions as a percentage of payroll are determined annually pursuant to The Regents' funding policy and based upon recommendations of the consulting actuary. The Regents determine the portion of the total contribution to be made by the Medical Centers and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements. Effective July 1, 2015, employee member contributions range from 7.0 percent to 9.0 percent. The University pays a uniform contribution rate of 14.0 percent of covered payroll on behalf of all UCRP members.

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

Contributions were as follows during the years ended June 30:

(in thousands of dollars)

	2017			2016		
	Medical Center	**Employee**	**Total**	**Medical Center**	**Employee**	**Total**
Davis	$102,403	$58,672	$161,075	$95,435	$54,888	$150,323
Irvine	48,710	27,566	76,276	46,628	26,419	73,047
Los Angeles	111,966	63,142	175,108	105,103	59,559	164,662
San Diego	69,647	39,636	109,283	60,001	34,203	94,204
San Francisco	139,730	80,894	220,624	124,681	72,328	197,009
Total	**$472,456**	**$269,910**	**$742,366**	**$431,848**	**$247,397**	**$679,245**

Additional deposits were made by the University to UCRP of $481.0 million and $563.5 million for the fiscal years ended June 30, 2017 and 2016, respectively. The Medical Centers reported pension expense and an increase in the pension payable to the University for its portion of these additional deposits based upon their proportionate share of covered compensation for the year ended June 30 is as follows:

(in thousands of dollars)

	2017	2016
Davis	$32,007	$37,008
Irvine	15,263	18,113
Los Angeles	35,143	40,914
San Diego	21,797	23,337
San Francisco	43,612	48,369
Total	**$147,822**	**$167,741**

Net Pension Liability

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

(in thousands of dollars)

	2017		2016	
	Proportion of the net pension liability	Proportionate share of net pension liability	Proportion of the net pension liability	Proportionate share of net pension liability
Davis	6.7%	$675,141	6.6%	$895,967
Irvine	3.2	321,946	3.2	438,524
Los Angeles	7.3	741,290	7.3	990,520
San Diego	4.5	459,781	4.1	564,996
San Francisco	9.1	919,943	8.6	1,171,002
Total	**30.8%**	**$3,118,101**	**29.8%**	**$4,061,009**

The Medical Centers' net pension liability was measured as of June 30, 2017 and 2016 and calculated using the plan net position valued as of the measurement date and total pension liability determined based upon rolling forward the total pension liability from the results of the actuarial valuations as of July 1, 2016 and 2015, respectively. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of certain events occurring far into the future. The Medical Centers' net pension liability was calculated using the following methods and assumptions:

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

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in 2017 and 2016 were based upon the results of an experience study conducted for the period July 1, 2010 through June 30, 2014. For pre-retirement mortality rates, the RP-2014 White Collar Employee Mortality Tables (separate table for males and females) projected with the two-dimensional MP-2014 projection scale to 2029 were used. For post-retirement, healthy mortality rates are based on the RP-2014 White Collar Healthy Annuitant Mortality Table projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females.

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

(shown as percentage)

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

Discount Rate

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

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

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

(in thousands of dollars)

	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
Davis	$1,220,725	$675,141	$219,544
Irvine	582,113	321,946	104,691
Los Angeles	1,340,331	741,290	241,054
San Diego	831,332	459,781	149,512
San Francisco	1,663,354	919,943	299,149
Total	**$5,637,855**	**$3,118,101**	**$1,013,950**

Deferred Outflows of Resources and Deferred Inflows of Resources

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2017						
Deferred Outflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$18,863	$3,407	$17,823	$49,669	$110,206	$199,968
Changes of assumptions or other inputs	52,287	24,933	57,408	35,607	71,243	241,478
Difference between expected and actual experience	11,937	5,693	13,107	8,130	16,266	55,133
Total	**$83,087**	**$34,033**	**$88,338**	**$93,406**	**$197,715**	**$496,579**
Deferred Inflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$6,509	$11,103	$3,329	$4,369	$9,905	$35,215
Changes of assumptions or other inputs	25,208	12,020	27,677	17,167	34,347	116,419
Net difference between projected and actual earnings on pension plan investments	13,043	6,219	14,321	8,882	17,772	60,237
Difference between expected and actual experience	10,051	4,794	11,037	6,846	13,697	46,425
Total	**$54,811**	**$34,136**	**$56,364**	**$37,264**	**$75,721**	**$258,296**
2016						
Deferred Outflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$ 20,867	$ 10,107	$ 27,967	$ 28,847	$ 93,910	$ 181,698
Changes of assumptions or other inputs	117,557	57,537	129,962	74,131	153,643	532,830
Net difference between projected and actual earnings on pension plan investments	170,818	83,606	188,845	107,718	223,254	774,241
Difference between expected and actual experience	8,755	4,285	9,679	5,521	11,443	39,683
Total	**$ 317,997**	**$ 155,535**	**$ 356,453**	**$ 216,217**	**$ 482,250**	**$ 1,528,452**
Deferred Inflows of Resources						
Changes in proportion and differences between location's contributions and proportionate share of contributions	$ 9,521	$ 11,653	$ 4,197	$ 10,181	$ 16,712	$ 52,264
Changes of assumptions or other inputs	57,612	28,197	63,691	36,330	75,296	261,126
Difference between expected and actual experience	17,763	8,694	19,638	11,201	23,216	80,512
Total	**$ 84,896**	**$ 48,544**	**$ 87,526**	**$ 57,712**	**$ 115,224**	**$ 393,902**

Net deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the years ending June 30 as follows:

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2018	$(18,243)	$(13,756)	$(16,212)	$(7,257)	$(3,991)	$(59,459)
2019	58,071	24,399	64,814	51,258	105,139	303,681
2020	26,444	10,074	27,578	27,530	56,933	148,559
2021	(39,610)	(20,684)	(45,286)	(19,863)	(42,175)	(167,618)
2022	1,614	(136)	1,080	4,474	6,088	13,120
Total	**$28,276**	**$(103)**	**$31,974**	**$56,142**	**$121,994**	**$238,283**

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

Orange County Employees Retirement System

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

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

Additional information on OCERS can be obtained from the 2016-2017 annual reports of the Orange County Employee Retirement System.

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

Contributions

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

Net Pension Liability

The Irvine Medical Center's proportionate share of the net pension liability was $18.1 million as of June 30, 2017 and 2016. Irvine's net pension liability for OCERS was measured as of June 30, 2017 and 2016, and the total pension liability was determined by an actuarial valuation as of December 31, 2016 and 2015 rolled forward to June 30, 2017 and 2016, respectively. The actuarial assumptions used in 2017 and 2016 were based on the results of an experience study for the period from January 1, 2011 through December 31, 2013. The net pension liability for the Plan was calculated based upon the following assumptions as of June 30, 2017 and 2016: 3.0 percent inflation, 7.25 percent investment rate of return, 4.25-13.5 percent projected salary increases and 3.0 percent cost-of-living adjustments.

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

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

Discount Rate

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

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

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

(in thousands of dollars)	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension liability	$26,065	$18,057	$11,466

Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

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

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

Children's Hospital and Research Center Oakland Pension Plan

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

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

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

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

Condensed financial information for the CHRCO Pension Plan as of and for the years ended June 30, 2017 and 2016 are as follows:

(in thousands of dollars)	CHILDREN'S HOSPITAL & RESEARCH CENTER OAKLAND PENSION PLAN	
	2017	**2016**
CONDENSED STATEMENT OF PLAN FIDUCIARY NET POSITION		
Investments at fair value	$409,008	$353,446
Total assets	**409,008**	**353,446**
Net position held in trust	**$409,008**	**$353,446**
CONDENSED STATEMENT OF CHANGES IN PLAN'S FIDUCIARY NET POSITION		
Contributions	$28,800	$24,000
Investment and other income, net	41,256	214
Total additions	**70,056**	**24,214**
Benefit payment and participant withdrawals	11,767	9,509
Plan expense	2,727	1,816
Total deductions	**14,494**	**11,325**
Increase in net position held in trust	**55,562**	**12,889**
Net position held in trust		
Beginning of year	353,446	340,557
End of year	**$409,008**	**$353,446**
CHANGES IN TOTAL PENSION LIABILITY		
Service cost	$9,910	$10,410
Interest	29,672	27,782
Difference between expected and actual experience	33	(3,690)
Changes of benefit terms	2,442	24
Changes of assumptions or other inputs		3,613
Benefits paid, including refunds of employee contributions	(11,767)	(9,509)
Net change in total pension liability	**30,290**	**28,630**
Total pension liability		
Beginning of year	419,862	391,232
End of year	**450,152**	**419,862**
Net pension liability, end of year	**$41,144**	**$66,416**

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

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

Contributions

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

Net Pension Liability

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

(shown as percentage)	TOTAL ALLOCATION	LONG TERM EXPECTED REAL RATE OF RETURN
Asset class		
U.S. Equity	51.3%	5.2%
Developed International Equity	10.6	5.7
Emerging Market Equity	2.0	9.2
Core Fixed Income	36.1	0.8
Total	**100.0%**	

Discount Rate

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

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources

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

(in thousands of dollars)	2017	2016
DEFERRED OUTFLOWS OF RESOURCES		
Difference between expected and actual experience	$4,356	$3,528
Changes of benefit terms	195	254
Changes of assumptions	21,768	27,877
Net difference between projected and actual earnings on pension plan investments	1,355	13,103
Total	**$27,674**	**$44,762**
DEFERRED INFLOWS OF RESOURCES		
Difference between expected and actual experience	$2,370	$3,030
Total	**$2,370**	**$3,030**

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

(in thousands of dollars)	
Year Ending June 30	
2018	$5,459
2019	10,772
2020	8,411
2021	329
2022	333
Total	**$25,304**

14. SELF-INSURANCE

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

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

(in thousands of dollars)	**2017**	**2016**
Davis	$8,384	$7,600
Irvine	6,454	6,246
Los Angeles	22,675	19,906
San Diego	10,309	8,763
San Francisco	20,246	17,249
Total	**$68,068**	**$59,764**

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

(in thousands of dollars)

	MEDICAL MALPRACTICE	WORKERS' COMPENSATION	EMPLOYEE HEALTH CARE	TOTAL
Year Ended June 30, 2017				
Balance at June 30, 2016	$4,425	$12,540	$1,864	$18,829
Claims incurred and changes in estimates	730	2,469	7,965	11,164
Claim payments	(592)	(2,788)	(8,154)	(11,534)
Liabilities at June 30, 2017	**$4,563**	**$12,221**	**$1,675**	**$18,459**
Discount rate	**Undiscounted**	**5.0%**	**Undiscounted**	
Year Ended June 30, 2016				
Liabilities assumed at January 1, 2016	$ 4,427	$ 11,197	$ 2,522	$18,146
Claims incurred and changes in estimates	730	4,283	8,547	13,560
Claim payments	(732)	(2,940)	(9,205)	(12,877)
Liabilities at June 30, 2016	**$ 4,425**	**$ 12,540**	**$ 1,864**	**$ 18,829**
Discount rate	**Undiscounted**	**5.0%**	**Undiscounted**	
Year Ended June 30, 2015				
Liabilities assumed at January 1, 2015	$ 4,619	$ 9,341	$ 2,131	$16,091
Claims incurred and changes in estimates	562	5,337	9,359	15,258
Claim payments	(754)	(3,481)	(8,968)	(13,203)
Liabilities at June 30, 2015	**$ 4,427**	**$ 11,197**	**$ 2,522**	**$ 18,146**
Discount rate	**Undiscounted**	**5.0%**	**Undiscounted**	

CHRCO has two irrevocable letters of credit with a bank totaling $10.8 million as of June 30, 2017, which is security for the workers' compensation large dollar insurance deductible. No amounts were drawn on the letter of credit as of June 30, 2017.

15. TRANSACTIONS WITH OTHER UNIVERSITY ENTITIES

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2017						
Salaries and employee benefits	$8,384	$6,454	$22,675	$10,309	$16,877	$64,699
Professional services	76,550	5,225	1,602	45,986	540,858	670,221
Other supplies and purchased services	9,602	41,182	79,102	9,602	38,208	177,696
Insurance and other	9,602	5,598	6,208	9,014	9,143	39,565
Interest income (expense), net	(7,548)	(3,621)	(16,540)	(5,599)	(11,737)	(45,045)
Total	**$96,590**	**$54,838**	**$93,047**	**$69,312**	**$593,349**	**$907,136**
2016						
Salaries and employee benefits	$7,600	$6,246	$19,906	$8,763	$22,597	$65,112
Professional services	65,260	5,245	1,398	48,160	495,590	615,653
Other supplies and purchased services	10,947	37,646	82,528	14,066	41,459	186,646
Insurance and other	9,925	5,878	1,375	8,205	8,224	33,607
Interest income (expense), net	(5,257)	(3,185)	(14,554)	(4,585)	(10,103)	(37,684)
Total	**$88,475**	**$51,830**	**$90,653**	**$74,609**	**$557,767**	**$863,334**

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

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

(in thousands of dollars)

	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2017						
Reported as operating expenses	$96,590	$54,838	$93,047	$69,312	$593,349	$907,136
Reported as health system support	28,088	59,727	175,341	109,586	84,898	457,640
Total payments to the University	**$124,678**	**$114,565**	**$268,388**	**$178,898**	**$678,247**	**$1,364,776**
2016						
Reported as operating expenses	$88,475	$51,830	$90,653	$74,609	$557,767	$863,334
Reported as health system support	41,387	65,081	176,852	96,570	64,055	443,945
Total payments to the University	**$129,862**	**$116,911**	**$267,505**	**$171,179**	**$621,822**	**$1,307,279**

16. COMPONENT UNIT INFORMATION

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

(in thousands of dollars)

	2017	2016
CONDENSED STATEMENT OF NET POSITION		
Current assets	$249,445	$195,918
Capital assets, net	295,766	275,951
Other assets	253,335	211,710
Total assets	**798,546**	**683,579**
Total deferred outflows of resources	**27,674**	**44,762**
Current liabilities	104,878	98,477
Long-term debt	103,592	
Other noncurrent liabilities	70,927	147,244
Total liabilities	**279,397**	**245,721**
Total deferred inflows of resources	**2,370**	**3,030**
Net investment in capital assets	191,683	222,236
Restricted	81,017	55,036
Unrestricted	271,753	202,318
Total net position	**$544,453**	**$479,590**

(in thousands of dollars)

	2017	2016
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		
Operating revenues		
Net patient service revenue	$530,515	$417,128
Grants and contracts	46,195	46,469
Other operating revenue	20,854	19,468
Operating expenses	(558,460)	(524,445)
Depreciation expense	(33,842)	(34,274)
Operating income (loss)	**5,262**	**(75,654)**
Non-operating revenues, net	42,151	2,899
Income (loss) before other changes in net position	**47,413**	**(72,755)**
Other, including donated assets	17,450	20,808
Increase (decrease) in net position	**64,863**	**(51,947)**
Net position - beginning of year	479,590	531,537
Net position - end of year	**$544,453**	**$479,590**

CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	$37,041	$(13,671)
Noncapital financing activities	19,523	10,918
Capital and related financing activities	5,336	(19,092)
Investing activities	(14,452)	(289)
Net increase (decrease) in cash and cash equivalents	**47,448**	**(22,134)**
Cash and cash equivalents – beginning of year	71,414	93,548
Cash and cash equivalents – end of year	**$118,862**	**$71,414**

17. COMMITMENTS AND CONTINGENCIES

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

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

The Medical Centers have entered into various construction contracts. The remaining costs of the Medical Center projects, excluding interest, as of June 30, 2017 are estimated to be approximately:

(in thousands of dollars)	
Davis	$76,713
Los Angeles	7,074
San Diego	52,257
San Francisco	68,328
Total	**$204,372**

REQUIRED SUPPLEMENTARY INFORMATION
UCRP

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

(in thousands of dollars)

AS OF JUNE 30	Proportion of the net pension liability	Proportionate share of net pension liability	Covered payroll	Proportionate share of the net pension liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
DAVIS					
2017	6.7%	$675,141	$732,307	92.2%	84.0%
2016	6.6	895,967	682,784	131.2	77.2
2015	6.5	627,561	635,120	98.8	82.9
2014	6.6	468,810	603,824	77.6	86.3
2013	6.5	690,989	563,695	122.6	78.3
2012	6.3	880,516	522,988	168.4	71.3
IRVINE					
2017	3.2%	$321,946	$349,207	92.2%	84.0%
2016	3.2	438,524	334,184	131.2	77.2
2015	3.2	308,211	311,924	98.8	82.9
2014	3.3	235,813	303,726	77.6	86.3
2013	3.3	345,341	281,722	122.6	78.3
2012	3.3	466,849	277,288	168.4	71.3
LOS ANGELES					
2017	7.3%	$741,290	$804,058	92.2%	84.0%
2016	7.3	990,520	754,840	131.2	77.2
2015	7.2	697,260	705,659	98.8	82.9
2014	7.3	513,936	661,946	77.6	86.3
2013	7.0	739,451	603,229	122.6	78.3
2012	6.6	928,298	551,368	168.4	71.3
SAN DIEGO					
2017	4.5%	$459,781	$498,712	92.2%	84.0%
2016	4.1	564,996	430,563	131.2	77.2
2015	4.0	385,387	390,029	98.8	82.9
2014	3.9	271,458	349,636	77.6	86.3
2013	3.8	405,012	330,401	122.6	78.3
2012	4.2	587,011	348,659	168.4	71.3
SAN FRANCISCO					
2017	9.1%	$919,943	$997,838	92.2%	84.0%
2016	8.6	1,171,002	892,379	131.2	77.2
2015	8.1	777,948	787,319	98.8	82.9
2014	7.4	523,452	674,202	77.6	86.3
2013	7.8	822,056	670,617	122.6	78.3
2012	7.5	1,044,811	620,572	168.4	71.3
TOTAL					
2017	30.8%	$3,118,101	$3,382,122	92.2%	84.0%
2016	29.8	4,061,009	3,094,750	131.2	77.2
2015	29.0	2,796,367	2,830,051	98.8	82.9
2014	28.5	2,013,469	2,593,334	77.6	86.3
2013	28.4	3,002,849	2,449,664	122.6	78.3
2012	27.9	3,907,485	2,320,875	168.4	71.3

REQUIRED SUPPLEMENTARY INFORMATION
CHRCO PENSION PLAN

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

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

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

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

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

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

Notes to schedule

Methods and assumptions used to determine contribution rates:

Valuation date:

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

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

REQUIRED SUPPLEMENTARY INFORMATION
OCERS

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

(in thousands of dollars)

AS OF JUNE 30	Proportion of the net pension liability	Proportionate share of net pension liability	Covered payroll	Proportionate share of the net pension liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2017	0.3%	$18,057	$ 44	41038.6%	34.5%
2016	0.3	18,092	285	6347.5%	34.8

REQUIRED SUPPLEMENTARY INFORMATION
RETIREE HEALTH BENEFITS

The schedule of the Medical Centers' proportionate share of UCRHBT's net retiree health benefits liability is presented below:

(in thousands of dollars)

	Proportion of the net retiree health benefits liability	Proportionate share of net retiree health benefits liability	Covered payroll	Proportionate share of the net retiree health benefits liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total retiree health benefits liability
DAVIS					
2017	6.6%	$1,227,803	$735,904	166.8%	0.6%
2016	6.6	1,385,392	682,784	202.9	0.3
2015	6.5	1,174,370	635,120	184.9	0.3
IRVINE					
2017	3.1%	$574,394	$344,334	166.8%	0.6%
2016	3.2	678,034	334,184	202.9	0.3
2015	3.2	576,719	311,924	184.9	0.3
LOS ANGELES					
2017	7.6%	$1,422,069	$852,389	166.8%	0.6%
2016	7.3	1,531,589	754,840	202.9	0.3
2015	7.2	1,304,836	705,659	184.9	0.3
SAN DIEGO					
2017	4.5%	$835,720	$500,922	166.8%	0.6%
2016	4.1	873,597	430,563	202.9	0.3
2015	4.0	721,260	390,029	184.9	0.3
SAN FRANCISCO					
2017	9.5%	$1,777,540	$1,065,427	166.8%	0.6%
2016	8.6	1,810,693	892,379	202.9	0.3
2015	8.1	1,455,873	787,319	184.9	0.3
TOTAL					
2017	31.3%	$5,837,526	$3,498,976	166.8%	0.6%
2016	29.8	6,279,305	3,094,750	202.9	0.3
2015	29.0	5,233,058	2,830,051	184.9	0.3

UNIVERSITY OF CALIFORNIA

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