2016
Annual Financial Report

UCSF

PATIENT CARE EDUCATION RESEARCH

At UCSF, we are united by a driving passion to improve health. Through every promising graduate, every breakthrough discovery and every grateful patient, we are making a profound impact from San Francisco to every corner of the world.

Excellence is in our DNA. From heart disease and immunology to specialty services for women and children, UCSF brings together the world's leading experts in nearly every specialty. We are home to five Nobel laureates who have advanced the understanding of cancer, neurodegenerative diseases, HIV/AIDS, aging and stem cell research. The UCSF Medical Center, UCSF Benioff Children's Hospitals, all four of our professional schools — dentistry, medicine, nursing and pharmacy — and many UCSF graduate programs consistently rank among the best in the country, according to the latest surveys by *U.S. News & World Report.*

Table of Contents

Letter from the Senior Vice Chancellor

At the University of California San Francisco, we are driven by the idea that when the best research, the best teaching and the best patient care converge, we can deliver breakthroughs that help heal the world. These principles guide our institution to achieve excellence and pursue our mission of advancing health worldwide. Fiscal year 2016 has proven to be another year of continued positive success for UCSF.

Advancing health worldwide

In May 2016, UCSF was delighted to receive its largest single gift in our institutions history, a $185 million donation from Sanford and Joan Weill to launch the UCSF Weill Institute for Neurosciences. This new institute will provide resources to our neuroscience researchers and physicians to advance our knowledge and treatment options for diseases affecting the brain and nervous system. The Weill's generous gift embodies the spirit of advancing health worldwide through collaboration across education, research and patient care.

In November 2015, The Atlantic Philanthropies, founded by Charles Feeney, awarded $177 million to UCSF and Trinity College Dublin, the University of Dublin, to create the Global Brain Health Institute (GBHI), a groundbreaking venture to stem the precipitous rise in dementia. Co-led by UCSF and Trinity College Dublin, the GBHI initiative will train leaders across the world to carry out dementia research, deliver health care, and change policies and practices in their regions. The GBHI will be engaging with other institutions and partners, connecting a new generation of leaders worldwide.

Achieving excellence in education, research and patient care

In the latest *U.S. News & World Report* survey of best graduate schools, UCSF's School of Medicine is ranked in the top five nationally. Our medical school is fourth in training medical students in biomedical research and third in primary care education, the two broad categories in which medical schools are rated nationally. In these two ratings, UCSF's medical school ranks as the top public institution for research training and the only medical school in the nation, public or private, ranked in the top five in both categories.

UCSF's School of Nursing is also highly rated in the *U.S. News & World Report* survey. UCSF is in the top ten in all five of the nursing programs offered by our school ranked in the report: adult gerontology acute care; adult gerontology primary care; family; pediatric primary care; and psychiatric/mental health across the lifespan.

For the sixth consecutive year, UCSF has earned our place as the top-funded public academic institution by the National Institutes of Health. UCSF brings together the world's leading experts in the realm of research and continues to help establish the Bay Area as the nation's premier biotech hub. We are proud to be home to five Nobel laureates who have advanced the understanding of cancer, neurodegenerative diseases, HIV/AIDS, aging and stem cell research.

We celebrated our first full year successfully operating our new hospitals at the Mission Bay Campus. Our state of the art hospital complex allows us to focus on the patient experience while also allowing our physicians to be close to our researchers and nearby biotechnology and pharmaceutical companies.

For the 15th consecutive year, UCSF Medical Center was named among the nation's premier medical institutions, ranking as the seventh best hospital in the country in *U.S. News & World Report's* most recent Best Hospitals survey. Overall, UCSF ranked in the top ten nationally in eight adult specialties, all of which also ranked first in Northern California: cancer; diabetes and endocrinology; gynecology; nephrology; neurology and neurosurgery; orthopedics; rheumatology; and urology. These significant recognitions continue to show our commitment to providing excellent care to all our patients.

Economic investment in our community

UCSF is invested in our community. We are a driving force of the San Francisco Bay Area economy with an $8.9 billion economic impact sustaining nearly 43,000 jobs throughout the region. In 2016, we released a new economic and fiscal impact study, which outlines UCSF's contributions to the community and financial strength, allowing us to fulfill our missions in education, research and patient care.

UCSF is also San Francisco's second-largest employer attracting talented faculty and staff who mirror the energy and entrepreneurial spirit of the Bay Area. Our diverse community of people individually contribute with their diverse backgrounds, experiences and perspectives and our ability to recruit top talent leads to a constant influx of new ideas and approaches across our institution.

We end our year with a drive to continue in our mission, a mission that has led us to be recognized throughout the world as leaders converging education, research and patient care. Our collaborative spirit will allow us to continue to translate innovations into real-world patient treatments, truly advancing health worldwide.

PAUL JENNY
Senior Vice Chancellor, Finance and Administration

Management Discussion and Analysis

The Management Discussion and Analysis presented in this document is intended to help readers of the financial statements of the University of California, San Francisco (UCSF) better understand the financial position and operating activities for the fiscal year ended June 30, 2016, and includes selected comparative information for the year ended June 30, 2015. As an unaudited discussion prepared by management, it should be read in conjunction with the financial statements and notes to the financial statements. Unless otherwise indicated, years 2016 and 2015 in this discussion refer to the fiscal years ended June 30.

Using the Annual Report

UCSF is one of ten campuses within the University of California (University) system. As such, the UCSF Annual Financial Report is prepared from official University records and accounts maintained in accordance with University policies and relevant accounting principles, generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

UCSF's financial statements have not been separately audited but are included as part of the University financial statement audit. The three basic financial statements in this report, the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows, are presented for UCSF, and the University of California San Francisco Foundation (the Foundation). Additionally, the financial statements include notes that are considered integral to the statements and provide information on the primary accounting principles applied to develop the statements.

The University of California

The University was founded in 1868 as a public, constitutionally empowered, state-supported institution. The University is one of the largest and most acclaimed institutions of higher learning in the world, dedicated to excellence in teaching, research, health care and public service. The University has annual resources of nearly $31.2 billion, and encompasses ten campuses, five medical schools and medical centers, four law schools, and a statewide Division of Agriculture and Natural Resources. The University is also involved in the operation and management of three national laboratories for the U.S. Department of Energy. The University's financial statements are presented as a discrete component of the state's general-purpose financial statements and are available at http://reportingtransparency.universityofcalifornia.edu.

PATIENT CARE EDUCATION RESEARCH

Walking Again. Following the loss of most of his right leg due to a rare nerve tumor, George Kocelj tried several external prostheses, but most proved unworkable due to long-term fit leaving him wheelchair-bound. Richard J. O'Donnell, MD, professor of clinical orthopaedic surgery and chief of the Orthopaedic Oncology Service suggested a revolutionary approach — the *Osseoanchored Prosthesis for the Rehabilitation of Amputees* (OPRA). An alternative to traditional sockets, OPRA links directly to the patient's remaining bone through a permanently implanted titanium screw that comes through the skin. The result? A prosthesis attaches correctly, remains firmly in place, leaving the patient free from pressure sores, pain, heat, chafing and general discomfort found with traditional solutions. UCSF is the first U.S. center with an OPRA program and is collaborating closely with physicians at the Walter Reed National Military Medical Center on osseointegration treatments.

The University of California, San Francisco

UCSF is a leading public university dedicated to promoting health worldwide through advanced biomedical research, graduate-level education in the life sciences and health professions, and excellence in patient care. It is significantly different from the other nine University campuses, as UCSF:

- Focuses exclusively on the health sciences
- Enrolls approximately 3,050 graduate and professional students, and no undergraduate students
- Receives 1 percent of revenues from student tuition and fees, net of allowances
- Receives 3 percent of revenues from the state, generally supporting the educational mission and 15 percent of faculty
- Receives approximately 85 percent of revenues from its clinical and research enterprises
- Operates a large, not-for-profit medical center in a highly competitive market
- Creates an approximate $9 billion annual impact on the Bay Area and is San Francisco's second-largest employer, after the city itself

UCSF achieves its mission of advancing health worldwide™ through innovations in health sciences education, discovery and patient care that address the five goals outlined in our strategic plan through 2017-2018. These goals are:

- Provide unparalleled care to our patients
- Improve health worldwide through innovative science
- Attract and support the most talented and diverse trainees in the health sciences
- Be the workplace of choice for diverse, top-tier talent
- Create a financially sustainable enterprise-wide business model

UCSF Medical Center is a world-renowned research and teaching hospital with facilities located throughout San Francisco and the Bay Area, and is one of the leading hospitals in the United States. It 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 provides patient care at Moffitt-Long Hospital on the Parnassus campus, at UCSF Mount Zion and at Benioff Children's Hospital in San Francisco's Mission Bay neighborhood. UCSF Faculty Practices is the faculty practice organization for the more than 1,100 UCSF faculty physicians. Langley Porter Psychiatric Hospital and Clinics (LPPH&C) consists of an adult inpatient unit, an adult Partial Hospitalization Program and adult/child outpatient services and serves all ethnic and socio-economic groups who reside in San Francisco and the greater Bay Area, as well as those referred from areas throughout the western United States. Effective January 1, 2014, the 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 102-year old hospital retains its status as a private, not-for-profit 501(c)(3) medical center, offering children and their families outstanding medical, surgical and mental health care. It is one of only five American College of Surgeons Pediatric Level 1 Trauma Centers in the state, and has one of the largest pediatric intensive care units in Northern California. It is a leading teaching hospital with an outstanding pediatric residency program and a number of unique pediatric subspecialty fellowship programs. BCHO's research arm, Children's Hospital Oakland Research Institute, is internationally known for its basic and clinical research. To help clarify the financial position of UCSF Health, many tables in the financial statements show information on UCSF Health separately from information for the rest of the UCSF enterprise (referred to as "Campus").

UCSF Medical Center, UCSF Faculty Clinical Practices, Langley Porter Psychiatric Hospitals and Clinics, and UCSF Benioff Children's Hospital Oakland are also included in the UCSF financial statements and are collectively referred to as "UCSF Health." BCHO, including its Foundation, was previously reported as a discreetly presented component unit of UCSF Health. In accordance with GASB statement No. 80, BCHO became a blended component of UCSF Health. FY2015 financial statements have been restated for purposes of presenting comparative information for the year ended June 30, 2016.

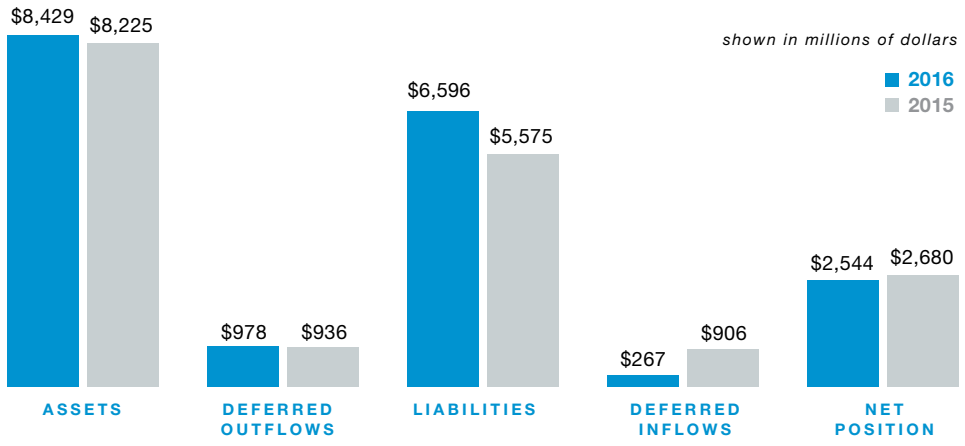
The financial statements also include information on the Campus Facilities Improvement Association (CFIA). This legally separate, not-for-profit public benefit corporation was established for charitable and educational purposes. It currently provides services for the benefit of the Regents on behalf of UCSF, including the development, financing, construction, and management of buildings and facilities.

The Medical Center and CFIA have each issued separate financial statements containing additional information.

The University of California, San Francisco Foundation

The Foundation was incorporated in 1982 as a not-for-profit corporation, dedicated to providing valuable assistance in fundraising, public outreach and other support to UCSF. Although governed by an independent board, the Foundation is affiliated with, and its assets are dedicated for, the sole benefit of UCSF. The Foundation holds and invests gifts and Foundation expenditures are generally limited to distributions to support UCSF and normal administrative costs. This support is recorded as gift revenue by UCSF. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the Foundation's financial statements are presented in UCSF's financial statements in a separate column titled "UCSF Foundation." In addition, this document summarizes information on the Foundation in a separate section.

UCSF's Financial Position



The Statements of Net Position present the financial position of UCSF at the end of each year. The statements display all of UCSF's assets, deferred outflows, liabilities and deferred inflows. The difference between assets, deferred outflows, liabilities and deferred inflows is net position, representing a measure of the current financial condition of UCSF.

The major components of the assets, deferred outflows, liabilities, deferred inflows and net position, compared with the prior year, are as follows:

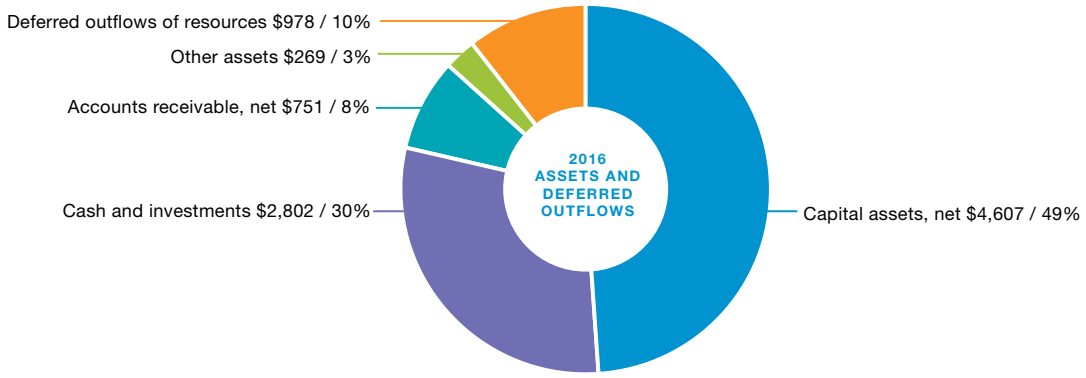
(in millions of dollars)	2016	2015	$ Change	% Change
ASSETS				
Cash and cash equivalents	$2,648	$2,402	$246	10%
Investments	154	230	(76)	(33)
Accounts receivable, net	751	640	111	18
Capital assets, net	4,607	4,580	27	1
Other assets	269	373	(104)	(28)
Total assets	**8,429**	**8,225**	**204**	**2**
DEFERRED OUTFLOWS OF RESOURCES	**978**	**936**	**42**	**4**
LIABILITIES				
Debt	2,385	2,327	58	2
Due to University	572	461	111	24
Pension liability	2,492	1,707	785	46
Other liabilities	1,147	1,080	67	6
Total liabilities	**6,596**	**5,575**	**1,021**	**18**
DEFERRED INFLOWS OF RESOURCES	**267**	**906**	**(639)**	**(71)**
NET POSITION				
Invested in capital assets, net of related debt	2,359	2,405	(46)	(2)
Restricted nonexpendable	25	25	-	-
Restricted expendable	375	359	16	4
Unrestricted	(215)	(109)	(106)	(97)
Total net position	**$2,544**	**$2,680**	**$(136)**	**(5)%**

PATIENT CARE **EDUCATION** RESEARCH

Lean Management and Process Improvements — All in Pursuit of Better.

UCSF was one of eight medical training sites nationally to receive the competitive grant to train medical residents and fellows in lean management principles. As part of a broader institutional commitment to continuous quality improvement, the effort is being supported in part with a grant from the Accreditation Council for Graduate Medical Education (ACGME) through its Pursuing Excellence in Clinical Learning Environments initiative. The new effort will enlist residents and fellows to help ensure patients make safe transitions from one level of care to the next, identify intermediate outcomes, design improvement experiments, analyze results and propose practical counter measures. Talmadge E. King, Jr., MD, Dean of the UCSF School of Medicine and Vice Chancellor for Medical Affairs is leading this key initiative.

UCSF's Assets and Deferred Outflows



shown in millions of dollars

UCSF's total assets and deferred outflows increased $246 million, or 3 percent, to $9.4 billion in 2016 from $9.2 billion in 2015. Assets consist primarily of capital assets, cash and investments, accounts receivable and, to a lesser extent, investments held by trustee and inventory.

The sections below provide more details on the various components of UCSF's assets and deferred outflows of resources, comparing the 2016 and 2015 positions where meaningful.

Cash and investments

Cash and investments increased $170 million, or 6 percent, in 2016 and consist of the following:

(in millions of dollars)	Campus		UCSF Health		Total			
	2016	2015	2016	2015	2016	2015	$ Change	% Change
Bank depository accounts	$ 1	$ 1	$ -	$ -	$ 1	$ 1	$ -	0%
Short-term investment pool	964	1,060	383	318	1,347	1,378	(31)	(2)
Total return investment pool	1,233	952	67	71	1,300	1,023	277	27
Investments	-	-	154	230	154	230	(76)	(33)
Cash and investments	**$2,198**	**$2,013**	**$604**	**$619**	**$2,802**	**$2,632**	**$170**	**6%**

Cash and investments for the Campus increased $185 million, or 9 percent, primarily due to upfront cash funding received for investment in capital projects and a payout of gains accumulated during previous fiscal years. Cash and investments for UCSF Health decreased $15 million, or 2 percent, primarily due to a decrease in long-term investments reflecting market volatility during the year.

Cash and investments are invested and managed by the Treasurer of the Regents of the University and BCHO investments are managed by the UCSF Foundation. All balances in demand deposit accounts are considered to be cash. Other highly liquid cash equivalents with original maturities less than one year, are considered short-term investments and consist of generally fixed or variable income securities in the Short Term Investment Pool (STIP), and Total Return Investment Pool (TRIP). In addition, TRIP has an allocation to foreign and domestic equity securities. STIP has a maximum maturity date of 5.5 years. TRIP is managed to a total return objective and is intended to supplement STIP. Investments have maturity dates greater than one year and consist of investments in private equities, absolute return funds, real estate, real asset and certain corporate asset-backed securities. Investment income is reported as nonoperating revenue in the Statements of Revenues, Expenses and Changes in Net Position.

Accounts receivable, net

Accounts receivable, net of allowance for uncollectible accounts, increased $111 million, or 17 percent, and consist of the following:

(in millions of dollars)	2016	2015	$ Change	% Change
Federal government	$ 46	$ 37	$ 9	24%
State government	18	18	-	-
Local and private	78	46	31	66
Patient receivables	552	515	41	8
Other	57	24	30	111
Accounts receivable, net	**$751**	**$640**	**$111**	**17%**

Details on the key components of accounts receivable are as follows:

- Federal, state and local government, as well as private support, primarily relates to contract and grants receivables and fluctuates based on timing of invoicing and payment cycles.
- UCSF Health accounts receivable primarily consists of patient receivables which increased year over year due to higher patient volumes resulting from the first full year of operations for the UCSF Medical Center at Mission Bay.
- Other accounts receivable primarily consists of campus clinical revenue and fluctuates based on timing of services performed in clinics.

Capital assets, net

Capital assets, net of accumulated depreciation, increased $27 million, or 1 percent, in 2016. Capital assets include land, infrastructure, buildings and improvements, equipment, software, libraries, collections, and construction in progress. UCSF continues to invest in capital spending as part of the ongoing effort to provide facilities to support UCSF's teaching, research and patient care missions. These facilities include core academic research and teaching buildings, patient care facilities, student services facilities, housing and other auxiliary enterprises, infrastructure, and remote centers for educational research and outreach.

Capital asset balances by category consist of the following:

(in millions of dollars)	2016			2015	TOTAL	
	Campus	UCSF Health	Total	Total	$ Change	% Change
Land	$ 325	$ 143	$ 468	$ 380	$ 88	23%
Infrastructure	53	-	53	52	1	2
Buildings and improvements	2,843	2,539	5,382	5,272	110	2
Equipment	427	1,068	1,495	1,415	80	6
Libraries and collections	113	-	113	112	1	1
Construction in progress	75	185	260	197	63	32
Capital assets, at original cost	**3,836**	**3,935**	**7,771**	**7,428**	**343**	**5**
Less: accumulated depreciation	(1,611)	(1,553)	(3,164)	(2,848)	(316)	(11)
Capital assets, net	**$2,225**	**$2,382**	**$4,607**	**$4,580**	**$ 27**	**1%**

The original cost for capital assets, net of disposals, increased $343 million, or 5 percent, primarily due to continued building and improvements at UCSF Medical Center at Mission Bay and Parnassus, purchase of land for future development at Mission Bay and equipment purchases for both the Campus and UCSF Health. Accumulated depreciation increased $316 million, or 11 percent.

The following major facilities and projects were capitalized in 2016:

- Additions to UCSF Medical Center and UCSF Benioff Children's Hospital at Mission Bay for $184 million, including $65 million in medical equipment. The majority of the additions to land, building and improvements for UCSF Medical Center relate to Mission Bay Hospital, Mission Bay 4th Street Plaza, and various facility upgrades for aging facilities.

- Two approximately 40,000 square foot parcels located south of the Mission Bay Hospital for $56 million which will be the future site of student housing.
- One approximately 40,000 square foot parcel and existing improvements located south of the Mission Bay campus site with multiple potential campus uses such as housing or programmatic use.

At June 30, 2016, capital projects in progress includes numerous projects for both the Campus and Medical Center including seismic renovations for the Parnassus Health Sciences building, Clinical Sciences building, and various projects at Mission Bay.

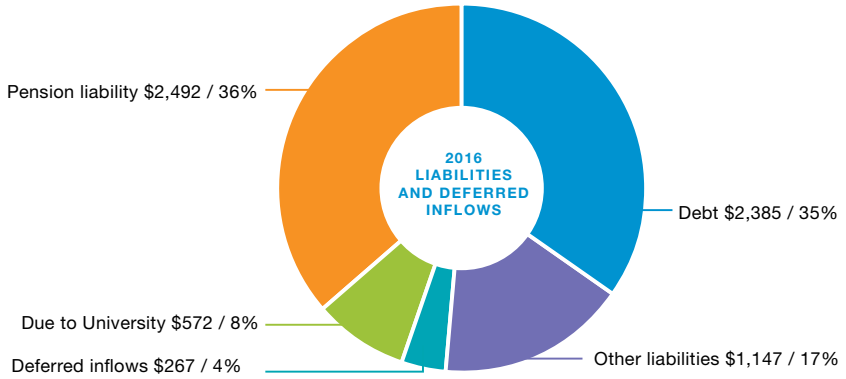
Other assets

Other assets include investments held by trustees, pledge receivables, note and mortgage receivables, inventories and other smaller assets. The decrease in other assets of $104 million, or 28 percent, is primarily related to a decrease in investments held by trustee.

Deferred outflows of resources

Changes in the net pension liability and changes in fair values of the University's interest rate swaps that are determined to be hedging derivatives are reported as deferred outflows of resources. The increase of $42 million, or 4 percent, in deferred outflows of resources is related to lower than expected investment returns in the University of California Retirement Plan (UCRP).

UCSF's Liabilities and Deferred Inflows



shown in millions of dollars

UCSF's total liabilities and deferred inflows increased $382 million, or 6 percent, to $6.9 billion in 2016 from $6.5 billion in 2015. Liabilities primarily consist of debt, long-term pension liability, a payable due to the University and, to a lesser extent, accounts payable to vendors for goods and services, accrued compensation for services performed, and unearned revenue.

The sections below provide more details on the various components of UCSF's liabilities, comparing the 2016 and 2015 positions where meaningful.

Debt

Capital expenditures are financed from a variety of sources, including UCSF restricted gifts, federal and state support, revenue bonds, bank loans, leases, and other expendable resources. Commercial paper and bank loans provide interim financing.

At $2.4 billion in 2016, outstanding debt increased $58 million, or 2 percent, from 2015. The debt activity is as follows:

(in millions of dollars)	2016			2015		
	Campus	UCSF Health	Total	Campus	UCSF Health	Total
ADDITIONS TO OUTSTANDING DEBT						
Commercial paper and bank loans	$69	$19	$88	$131	$-	$131
University of California General Revenue Bonds	64	-	64	237	-	237
University of California Limited Project Revenue Bonds	-	-	-	-	-	-
University of California Medical Center Pooled Revenue Bonds	-	-	-			
Other capital lease obligations	-	-	-	2	-	2
Additions to outstanding debt	**134**	**19**	**152**	**370**	**-**	**370**
REDUCTIONS TO OUTSTANDING DEBT						
Refinancing	(69)		(69)	(121)	-	(121)
Scheduled principal payments	(19)	(4)	(23)	(21)	(5)	(26)
Payments on commercial paper and bank loans	-	**(2)**	(2)	(20)	-	(20)
Reductions to outstanding debt	**(88)**	**(6)**	**(94)**	**(162)**	**(5)**	**(167)**
Net increase (decrease) in outstanding debt	**$46**	**$13**	**$58**	**$208**	**$(5)**	**$203**

Details on the debt activities in 2016 are as follows:

- The Campus received proceeds of $69 million from commercial paper and bank loans to provide short-term financing primarily to purchase parcels of land near Mission Bay for future development.
- The Campus received proceeds of $70 million from University General Revenue Bonds to refinance the above commercial paper to use for future capital expenditures related to the seismic renovation of the Clinical Sciences building.

PATIENT CARE EDUCATION **RESEARCH**

Sweets, Not Calories, Are Key Culprits in Cardiovascular Risk for Obese Children.

Cutting calories, reducing starch and losing weight are all positive steps toward a healthier life, but it's a reduction in sugar consumption that is proving the most critical move for reducing the precursors of adult heart disease. Researchers from Touro University California and UCSF reported that triglycerides dropped 33% and ApoC-III by 49% in just 10 days of sugar restriction. The work expands on previous research published last year in Obesity that found restricting sugar — without restricting calories or total carbs — reversed a cluster of metabolic diseases in children, including high cholesterol and blood pressure. Sugar is uniquely metabolized to fat in the liver, which leads to fat accumulation in the bloodstream, driving heart disease. As long as we focus on total calories rather than on what those calories are and how they are metabolized, the obesity, diabetes and heart disease epidemics will continue. Funding for the research was provided by the National Institutes of Health, UCSF Clinical and Translational Science Institute, and Touro University California.

Details on the debt activities in 2015 are as follows:

- The Campus received proceeds of $33 million from commercial paper to provide short-term financing primarily for construction of the Mission Bay Central Utility Plant.
- The Campus received proceeds of $189 million from University General Revenue Bonds to refinance previously issued State Public Works Bonds of approximately $80 million and commercial paper related to various Campus projects.

Ratings for University bonds are as follows:

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

Pension liability

Pension liability increased in 2016 by $785 million, or 46 percent, from $1.7 billion in 2015 to $2.5 billion in 2016. UCSF has a financial responsibility for pension benefits associated with its defined benefit plans. The change in net pension liability is primarily driven by the investment performance of the UCRP investment portfolio. UCRP's total investment rate of return was (2.0) percent in 2016 and 4.5 percent in 2015. The discount rate used to estimate the net pension liability was 7.5 percent as of June 30, 2016 and 2015, respectively.

Due to University

Due to University represents an amount owed to the University for reimbursement of contributions made by the University to the pension plan assets. Due to University increased in 2016 by $111 million, or 24 percent, primarily due to an additional investment to the plan by the University.

Other liabilities

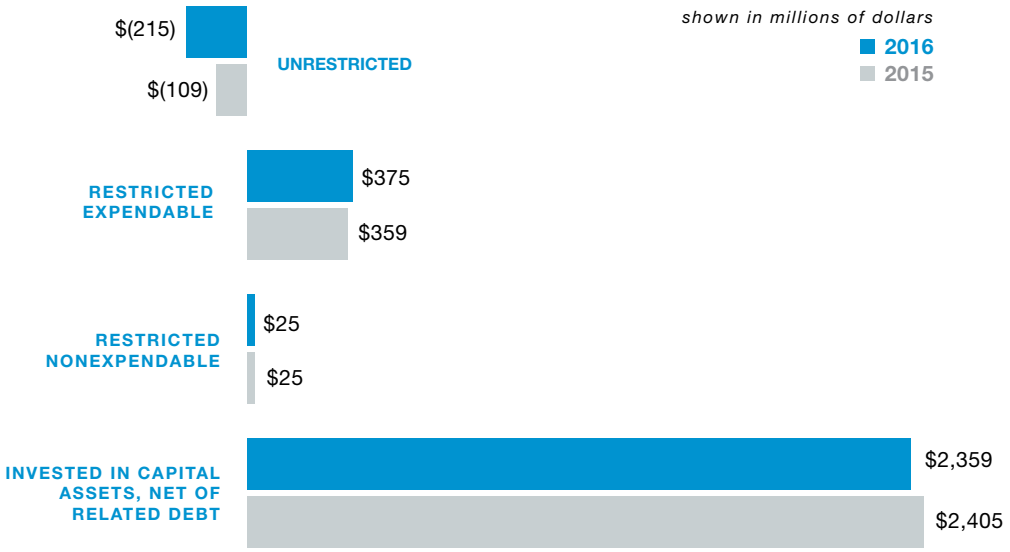
Other liabilities consist of accounts payable, accrued salaries and employee benefits, unearned revenue, funds held for others, federal refundable loans, and other smaller liabilities. Other liabilities increased in 2016 by $67 million, or 6 percent, primarily due to an increase in accounts payable and deferral of contract and grant revenue which has not yet been earned partially offset by a decrease in accrued salaries.

Deferred inflows

Deferred inflows of resources are related to changes in the net pension liability and decreased in 2016 by $639 million, or 71 percent, due to lower than expected earnings on the UCRP investments.

UCSF's Net Position

UCSF's net position represents the residual interest in assets and deferred outflows after all liabilities and deferred inflows are satisfied. Net position decreased $136 million, or 5 percent, to $2.5 billion in 2016. Net position is reported in four categories: invested in capital assets, restricted non-expendable, restricted expendable, and unrestricted. The sections below discuss each of these categories.



PATIENT CARE EDUCATION RESEARCH

Giving Our Future the Best Future.

In the largest-ever gift to UCSF, the Weill Family Foundation and Joan and Sanford I. "Sandy" Weill donated $185 million to establish the UCSF Weill Institute for Neurosciences and launch an ambitious effort to accelerate the development of new therapies for diseases affecting the brain and nervous system, including psychiatric disorders. The gift is one of the largest ever made to support the neurosciences in the United States; it raises philanthropic commitments to UCSF's neuroscience programs in the last year alone to more than $500 million. The Institute headquarters, state-of-the-art research laboratories, as well as clinics for patients with brain and nervous system disorders will be located in a new 270,000 square foot facility at UCSF's Mission Bay campus. A new UCSF Weill Innovation Fund will provide support for high-risk, high-reward research projects aimed at finding new treatments for neurological and psychiatric illnesses by offering UCSF neuroscientists the freedom and flexibility to advance their most innovative research goals. The gift will also fuel a new UCSF Weill Fellows program offering crucial financial support to PhD students in the Neuroscience Graduate Program, allowing UCSF to continue its success in attracting the very best young scientists to its doctoral programs. With this gift, the Weills have made more than $1 billion in gifts to educational, medical, cultural and arts institutions during the last four decades.

Invested in capital assets, net of related debt

The portion of net position invested in capital assets net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of these capital assets remained consistent at $2.4 billion in 2016 and 2015, respectively.

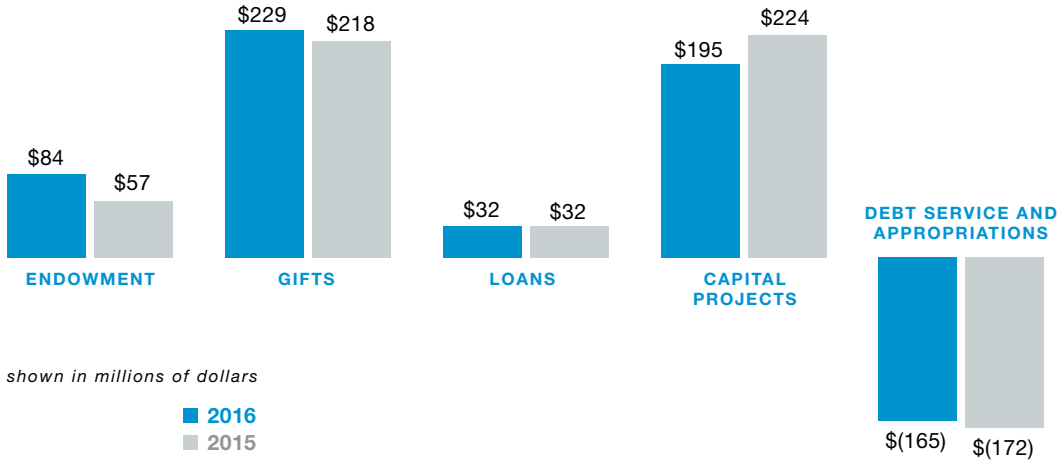
Restricted, nonexpendable

Restricted, nonexpendable net position includes the corpus of BCHO's Foundation permanent endowments and the estimated fair value of certain planned giving arrangements. Restricted nonexpendable net position remained consistent in 2016 and 2015.

Restricted expendable

UCSF's restricted expendable net position of $375 million is subject to externally imposed restrictions governing use. This net position may be spent only in accordance with external restrictions and may include support received from gifts, appropriations, loans for specific programs, capital projects or other third-party receipts.

Restricted expendable net position by type of restriction is as follows:



Restricted expendable net position increased $16 million, or 4 percent, primarily due to contributions of gifts and endowments.

Unrestricted

Under generally accepted accounting principles, net position components that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although UCSF's unrestricted net position is not subject to externally imposed restrictions, substantially all of the net position is designated internally for academic and research initiatives or programs, or for capital purposes.

Unrestricted net position is in a deficit position of $215 million at the end of the year. The deficit increase of $106 million, or 97 percent, is primarily due to changes in the net pension obligation related to weaker financial market performance.

UCSF's Results of Operations

The Statements of Revenues, Expenses and Changes in Net Position provided in the sections below are a presentation of UCSF's operating results, indicating whether the financial condition has improved or deteriorated. In accordance with GASB requirements, certain significant revenues budgeted for fundamental operational support of the core instructional mission of UCSF must be recorded as non-operating revenues, including state educational appropriations, private gifts and investment income.

Below is a comparison of operating results for 2016 and 2015, arranged to show revenue and expenses associated with UCSF core activities:

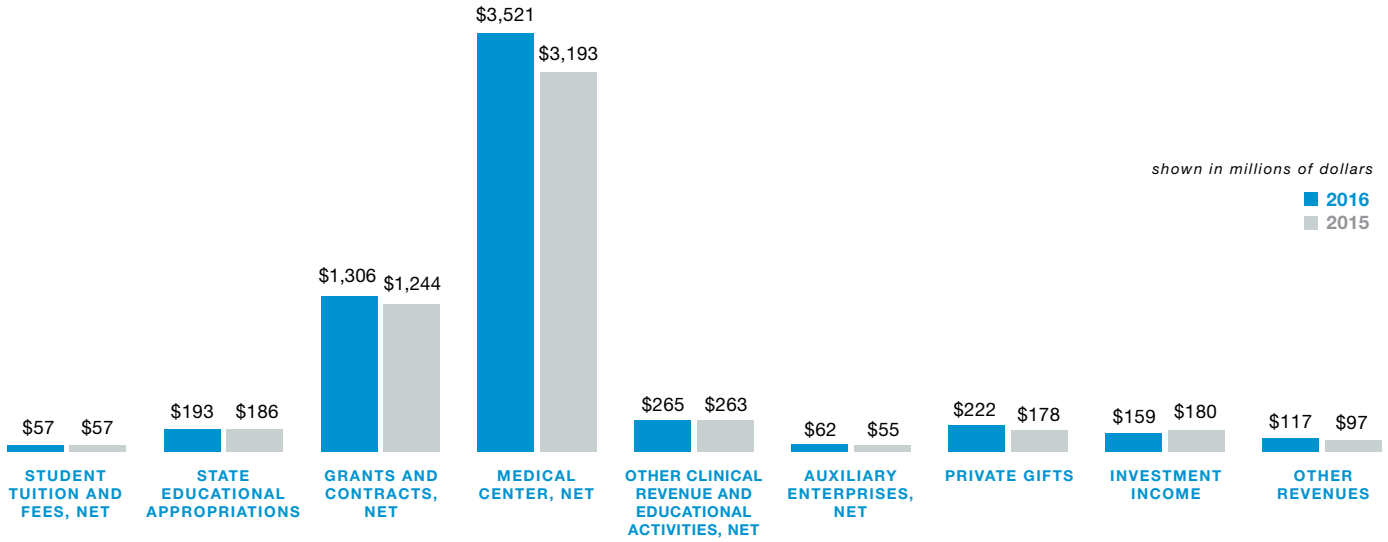
(in millions of dollars)	YEAR ENDED JUNE 30, 2016			YEAR ENDED JUNE 30, 2015			CHANGE	
	Operating	Non-Operating	Total	Operating	Non-Operating	Total	$	%
REVENUES								
Student tuition and fees, net	$ 57	$ -	$ 57	$ 57	$ -	$ 57	$ -	-%
State educational appropriations	-	193	193	-	186	186	7	4
Grants and contracts, net	1,306	-	1,306	1,244	-	1,244	62	5
Medical Center, net	3,521	-	3,521	3,193	-	3,193	328	10
Other clinical revenue and educational activities, net	265	-	265	263	-	263	2	1
Auxiliary enterprises, net	62	-	62	55	-	55	7	13
Private gifts	-	222	222	-	178	178	44	25
Investment income	-	159	159	-	180	180	(21)	(12)
Other revenues	63	54	117	68	29	97	20	21
Revenues supporting core activities	**5,274**	**628**	**5,902**	**4,880**	**573**	**5,453**	**449**	**8**
EXPENSES								
Salaries	2,852		2,852	2,585	-	2,585	267	10
Benefits	1,070		1,070	766	-	766	304	40
Scholarships and fellowships	26		26	24	-	24	2	8
Utilities	33		33	33	-	33	-	-
Supplies and materials	680		680	650	-	650	30	5
Depreciation	335		335	289	-	289	46	16
Interest expense		109	109	-	83	83	26	31
Other expenses	932	2	934	815	8	823	111	13
Expenses associated with core activities	**5,928**	**111**	**6,039**	**5,162**	**91**	**5,253**	**786**	**15**
Income (loss) from core activities	**(654)**	**517**	**(137)**	**(282)**	**482**	**200**	**(337)**	**(169)**
OTHER CHANGES IN NET POSITION								
State capital appropriations	-	4	4	-	2	2	2	100
Capital gifts and grants	-	45	45	-	115	115	(70)	(61)
Changes due to University	-	5	5	-	(4)	(4)	9	100
Transfers to Regents' endowments	-	(53)	(53)	-	(55)	(55)	2	(4)
Other changes in net position	**-**	**1**	**1**	**-**	**58**	**58**	**(57)**	**(98)**
Increase (decrease) in net position	**(654)**	**518**	**(136)**	**(282)**	**540**	**258**	**(394)**	**(153)**
NET POSITION								
Beginning of year			2,680			2,422	258	11
End of year			**$2,544**			**$2,680**	**$(136)**	**(5%)**

The sections below present more information on revenues, expenses and changes in net position associated with UCSF core activities.

Revenues Supporting Core Activities

Revenues supporting UCSF's core activities, including those classified as non-operating revenues, increased $449 million, or 8 percent, to $5.9 billion in 2016 compared with $5.5 billion in 2015.

Revenues in the various categories for fiscal years 2016 and 2015 are as follows:



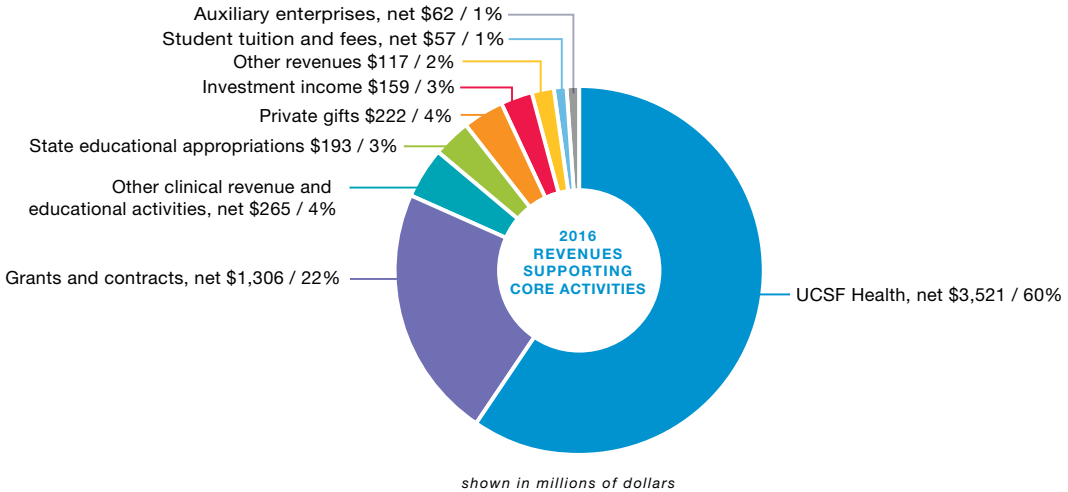
UCSF's diverse source of revenues, including student fees, federally sponsored grants and contracts, UCSF Health, private and local government support, the state of California, and self-supporting enterprises, represent a major financial strength for the organization. The variety of fund sources remains essential to our success.

PATIENT CARE **EDUCATION** RESEARCH

Medical Students Start New Bridges Curriculum.

The new School of Medicine Bridges curriculum is setting new standards of innovative training among medical schools nationwide. By linking an in-depth understanding of the foundational sciences and active clinical settings, students will be challenged to ask questions that advance not just their understanding of human health and disease but the very frontiers of science. Many have complained for years that by focusing on "tried and true" medical issues, medical schools were failing to create fully prepared professionals. "The reality is while we may learn in silos, when we get out into the workplace, we have to work with each other," said Stephanie Rennke, MD, who co-directs the CMC sites at UCSF Parnassus, Mt. Zion and Mission Bay. "Working in teams is essential to the care and well-being of our patients, so engaging and teaching skills around communication and teamwork with other healthcare professionals in the workplace should begin early in medical education."

Operating and non-operating revenues supporting UCSF's core activities in 2016 are as follows:



Student tuition and fees, net

Student tuition and fees, net of scholarship allowances, remained consistent at $57 million in 2016 and 2015, respectively. Scholarship allowances slightly decreased to $36 million in 2016 compared with $37 million in 2015.

Total primary curriculum enrollment is as follows:

	2016	2015
STUDENTS		
Graduate academic programs:		
Ph.D. programs	780	786
Masters programs	178	210
Graduate certificate programs	42	38
Graduate academic programs	**1,000**	**1,034**
Graduate professional students	2,043	2,043
Total students	**3,043**	**3,077**
TRAINEES		
Postdoctoral scholars	1,054	1,097
Residents	1,500	1,506
Total trainees	**2,554**	**2,603**
Total students and trainees	**5,597**	**5,680**

State educational appropriations

State educational appropriations increased $7 million, or 4 percent, and are a result of tax initiatives approved by the voters of California in November 2012. Appropriations are used to support the educational mission and University Office of the President administration. The amount of appropriation income received by UCSF fluctuates based on the negotiations between the Office of the President and the State of California.

Grants and contracts, net

Revenue from federal, state, private and local government grants and contracts increased $62 million or 5 percent and consists of the following:

(in millions of dollars)	2016	2015	$ Change	% Change
Federal	$ 699	$ 689	$ 10	1%
State	66	68	(2)	(3)
Private	356	317	39	12
Local	185	170	15	9
Grants and Contracts, net	**$1,306**	**$1,244**	**$62**	**5%**

Details on specific grant and contract revenues are as follows:

- Federal grant and contract revenues increased $10 million or 1 percent, as the government continues to limit growth in federal resources available for research. The Immune Tolerance Network grant expired at June 30, 2015 and has shifted from a prime National Institutes of Health contract to a private subcontract.
- State grant and contract revenues decreased $2 million, or 3 percent, and consist primarily of California Department of Public Health awards.
- Private grant and contract revenues increased $39 million or 12 percent, primarily due to new large, multi-year awards, work performed on significant awards received in prior years and additional funds received for clinical trials supporting health care research and development.
- Local government revenue increased $15 million or 9 percent, primarily due to growth in the San Francisco General Hospital contract.
- Facilities and administrative costs of federally sponsored programs are recovered at cost reimbursement rates negotiated with UCSF's federal cognizant agency, the U.S. Department of Health and Human Services. For the fiscal year ended June 30, 2016, the facilities and administrative cost recovery totaled $214 million: $152 million from federally sponsored programs and $62 million from other sponsors. For the fiscal year ended June 30, 2015, the facilities and administrative cost recovery totaled $197 million: $144 million from federally sponsored programs and $53 million from other sponsors.

UCSF Health

UCSF Health provides basic care, moderate care and highly complex care, including transplants, neurosurgery and cancer treatment. Most patients receiving basic and moderate acute care live relatively close to a UCSF Health facility. In contrast, patients receiving highly complex care may come to the center from greater distances.

PATIENT CARE EDUCATION **RESEARCH**

The Key to Drinking More Water? Provide the Cups.

School children drink more water when the traditional water fountain is replaced by a dispenser with cups, according to findings of a study led by UCSF researchers. Nearly 20% more children drank water at lunch in the schools that provided dispensers, cups and signage in cafeterias, compared to the schools that provided only traditional drinking fountains. U.S. legislation requires that schools offer drinking water where meals are served. While health efforts have focused on reducing access to sugary drinks in schools, few initiatives have aimed at improving access to drinking water, the authors noted. It's often difficult for children to drink more than a few sips from a fountain unless schools provide cups. The study is supported by funding from the Robert Wood Johnson Foundation Healthy Eating Research Program, and grants from the National Institutes of Health and the U.S. Department of Health and Human Services. The authors declare no conflicts of interest.

Total UCSF Health revenues increased $328 million, or 10 percent, to $3.5 billion in 2016. The increase was primarily due to improved inpatient and outpatient volumes, an increase in the complexity of cases, and a slight change in the mix of payors to those with better contracted rates. The table below summarizes the revenue sources of UCSF Health:

(in millions of dollars)	2016	2015	$ Change	% Change
Medicare	$ 523	$ 493	$ 30	6%
Medi-Cal	476	541	(65)	(12)
Contracts	2,338	1,999	339	17
County/uninsured/self-pay	54	51	3	6
Net patient service revenue	3,391	3,084	307	10
Other revenue	130	109	21	19
Medical Center, net	**$3,521**	**$3,193**	**$328**	**10%**

Details on the Medical Center revenue sources are as follows:

- Revenue for Medicare beneficiaries increased $30 million, or 6 percent, partially due to an increase of inpatient volume compared with 2015. Medicare payments to the Medical Center take many forms. Inpatient services provided to Medicare beneficiaries are reimbursed on a per-discharge basis at rates set at the national level, with adjustments for prevailing labor costs. Medicare also reimburses UCSF Health for the direct and indirect costs of graduate medical education, capital costs and outlier costs for cases with unusually high costs of care. Hospital outpatient care is reimbursed under a prospective payment system.
- Laws and regulations governing the Medicare program are complex and subject to interpretation, and UCSF Health continues to work with Medicare to resolve open cost-report issues. As a result, actual amounts could differ from the recorded estimates. UCSF Health revenue includes loss contingencies related to these open cost-report issues, as required by generally accepted accounting principles.
- Revenue for Medi-Cal, California's Medicaid program, patients decreased $65 million, or 12 percent. 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. Medi-Cal outpatient FFS services are reimbursed based on a fee schedule; UCSF Health also receives Medi-Cal inpatient FFS payments, Medi-Cal Disproportionate Share Hospital payments and Safety Net Care Pool payments. In addition, UCSF Health is eligible to receive incentive payments designed to encourage delivery system innovation in preparation for federal health care reform. The decrease in net revenue for Medi-Cal was due to an increase in Medi-Cal utilization which impacts the amount of average reimbursement received per day and a delay in approval of the provider fee program and Medi-Cal supplemental funds specifically related to Benioff Children's Hospital Oakland. Medi-Cal net revenues in 2016 and 2015 also include supplemental reimbursement for a portion of unreimbursed facility costs under the state of California Assembly Bill AB 915.
- UCSF Health receives most of its net patient service revenue from contracts with commercial health maintenance organizations and preferred provider organizations, which usually reimburse UCSF Health at contracted discount or per-diem rates. Net revenue earned on commercial contracts increased $339 million, or 17 percent, representing about 69 percent of total net patient service revenue in 2016, compared with 65 percent in 2015. Commercial inpatient days, outpatient visits and patient acuity all increased in both 2016 and 2015.
- Other revenues increased $3 million, or 6 percent, and consist of revenues generated through non-patient care activities, such as pharmacy, cafeteria and rebates.

Other clinical revenue and educational activities, net

Other clinical revenue and educational activities increased $2 million, or 1 percent, and is comprised of third-party affiliation agreements, patient services performed by non-Medical Center educational departments, dental clinic revenue, laboratory service fees and continuing education.

Auxiliary enterprises, net

Auxiliary enterprises increased $7 million, or 13 percent, and consists of housing, parking, permits and recreation program revenues. The increase is primarily attributable to increased parking capacity at Mission Bay.

Private gifts, net

Gifts are generally restricted to uses designated by the donor for research, instruction or institutional support. Private gifts are provided directly to UCSF or the BCHO Foundation from donors, or are administered and transferred to UCSF by the Foundation. The increase of $44 million, or 25 percent, is primarily attributed to private gifts transferred from the Foundation designated for institutional support and research.

Investment income

Investment income includes dividend and interest income from the earnings from STIP, TRIP, expendable endowment income from the general endowment pool (GEP) and BCHO Foundation investments. The Regents utilize asset allocation strategies intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. Investment income decreased $21 million, or 12 percent primarily due to market volatility during the year leading to a decrease in the fair value of BCHO's investments.

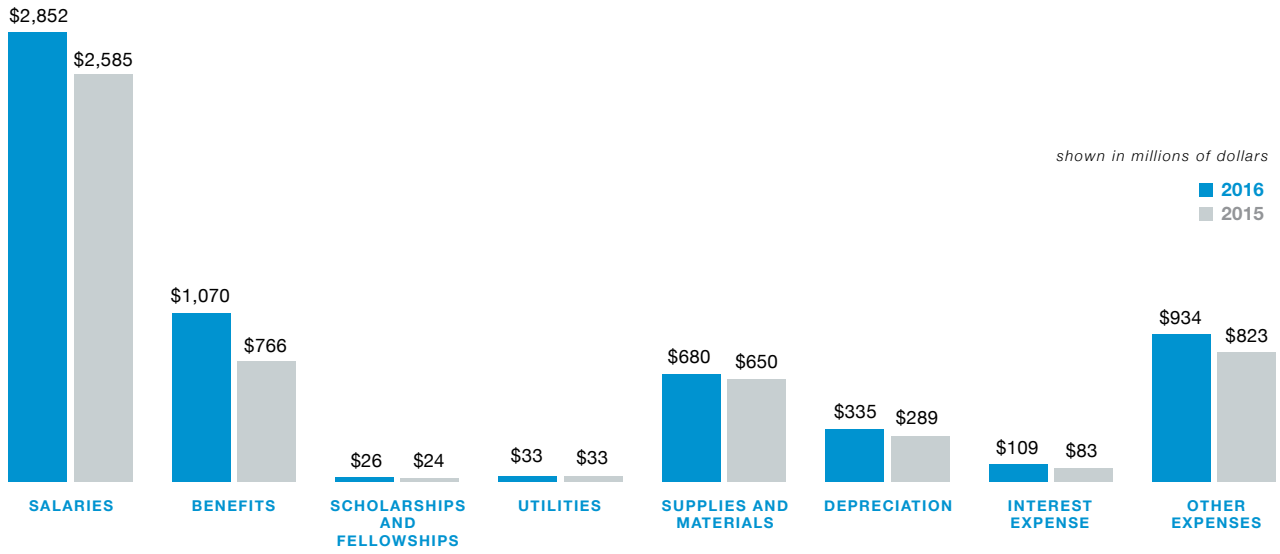
Other revenues

Other revenues consist of non-educational sales and services representing revenues received from a variety of sources including federal financing appropriations, patent income and state financing appropriations. Other revenues increased $20 million, or 21 percent, compared with 2015, primarily due to remediation settlements for Mission Bay construction and an increase in patent income.

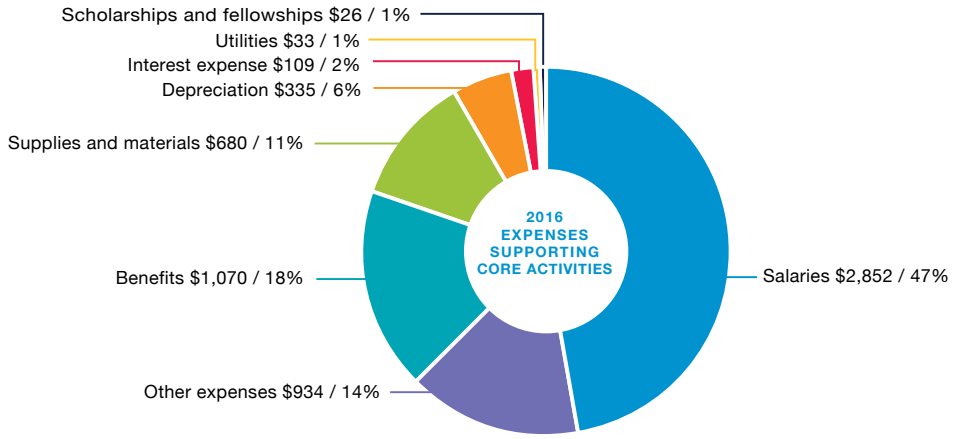
Expenses Associated with Supporting Core Activities

Expenses associated with UCSF's core activities, including those classified as non-operating expenses, increased $786 million, or 15 percent, to $6 billion in 2016.

Expenses in the various categories for fiscal years 2016 and 2015 are as follows:



Operating and non-operating expenses associated with supporting UCSF's core activities in 2016 are as follows:



shown in millions of dollars

Salaries and wages

Salaries account for 47 percent of UCSF's total expenses and increased $267 million, or 11 percent, resulting both from employee growth and salary increases. Additionally, the salaries category includes UCSF Health temporary employees who do not receive benefits.

Details on salaries expense are as follows:

- Campus salaries increased $102 million, or 7 percent, driven primarily by salary increases for faculty of $60 million, non-represented staff of $23 million, non-faculty academic of $9 million and represented employees of $7 million.
- UCSF Health salaries increased $165 million, or 18 percent, primarily driven by represented employee salaries of $113 million, non-represented staff of $37 million and temporary staff of $21 million.

Benefits

In 2016, benefits were 38 percent of salaries compared to 30 percent in 2015, and represent 18 percent of UCSF's total expenses. Benefits increased $304 million, or 40 percent, compared with 2015 and consist of the following:

(in millions of dollars)	Campus		UCSF Health		Total			
	2016	2015	2016	2015	2016	2015	$ Change	% Change
UC Retirement Plan	$351	$131	$231	$154	$582	$285	$297	104%
Retiree health benefits	28	24	28	22	56	46	10	22
Health, dental and vision	129	122	103	91	232	213	19	9
Social Security and Medicare	75	70	66	58	141	128	13	10
Workers' compensation and other	24	13	35	81	59	94	(35)	(37)
Benefits	**$607**	**$360**	**$463**	**$406**	**$1,070**	**$766**	**$304**	**40%**

Details on benefit costs are as follows:

- The University administers the University of California Retirement Plan (UCRP) on behalf of UCSF. UCSF and employees contribute to UCRP, as determined annually pursuant to the Regents' funding policy and are based on recommendations of the consulting actuary. The UCRP pension expense includes the employer contribution to the UCRP pension and a supplemental amount assessed to UCSF starting in fiscal year 2012 to cover the underfunded portion of the UCRP liability. The UCRP rate remained constant at 14% for 2016 and 2015, but the UCRP Supplement decreased from $0.72 per $100 in 2015 to $0.60 per $100 in 2016, a 17 percent decrease. UCRP pension expense increased due to rate increases, lower than expected investment returns, and assumption changes. Assumption changes were based on an experience study.

- Retiree health benefits increased $10 million, or 22 percent, and are funded separately by an assessment against covered compensation. This increase is attributable to the rate assessment increase to $2.98 per $100 of covered compensation in 2016 from $2.65 per $100 of covered compensation in 2015.
- Health, dental and vision benefits increased $19 million, or 9 percent, primarily due to benefit rate increases.

Scholarships and fellowships

UCSF places a high priority on student financial aid as a part of its commitment to access and affordability. Scholarship allowances represent UCSF fee waivers and are reported as an offset to student tuition and fee revenue, not as an operating expense. Scholarships and fellowships represent payments of financial aid made directly to students and are reported as operating expenses.

Scholarships and fellowships increased $2 million, or 8 percent, to $26 million in 2016 compared with $24 million in 2015, in addition to the scholarship allowances recorded as an offset to tuition of $36 million and $37 million for 2016 and 2015, respectively.

Supplies and materials

Supplies and materials increased $30 million, or 5 percent, to $680 million in 2016 compared with $650 million in 2015, primarily attributable to higher patient volumes and additional supply costs incurred with the first full year of operations of the UCSF Medical Center at Mission Bay.

Depreciation

Depreciation increased $46 million, or 16 percent, to $335 million in 2016 compared with $289 million in 2015. The depreciation increase is directly attributable to capital spending at the Mission Bay campus over the past several years.

Interest expense

Interest expense increased $26 million, or 31 percent, to $109 million in 2016 compared with $83 million in 2015. The increase is primarily related to debt for UCSF's continued Mission Bay expansion and seismic renovations at Parnassus.

Other expenses

Other expenses consist of a variety of expense categories including costs incurred by subcontractors who contribute to the overall completion of an award's scientific deliverables, professional fees, consultants, repairs and maintenance, rental of space, and travel. Other expenses also include an assessment fee from the University. UCSF retains all of its revenues directly, and Office of the President assessments are charged independently via a separately calculated fee. Other expenses increased $100 million, or 12 percent, to $934 million in 2016 compared with $834 million in 2015.

Other changes in net position

Similar to non-operating activities, other changes in net position are also not available to support UCSF's operating expenses in the current year. Other changes in net position decreased $57 million, or 98 percent, to $1 million in 2016 compared with $58 million in 2015. The decrease is primarily due to a decrease in capital gifts and grants.

Capital gifts and grants may only be used for the purchase or construction of specified capital assets. The Foundation transfers funds to UCSF that are recorded as capital gifts and grants revenue, as these funds are required to pay for specific facilities. Capital gifts and grants decreased $70 million, or 61 percent, to $45 million in 2016 compared to $115 million in 2015. This was primarily related to the completion of the UCSF Medical Center at Mission Bay in February 2015.

Transfers to Regents' endowment represent amounts transferred from UCSF to the University for investment as quasi-endowments to support academic programs. Transfers to Regents' endowment decreased $2 million to $53 million in 2016 compared with $55 million in 2015.

UCSF Cash Flows

The statements of cash flows present information about the significant sources and uses of cash. A summary comparison of cash flows for 2016 and 2015 is as follows:

(in millions of dollars)	2016	2015	$ Change
Cash received from operations	$5,331	$4,757	$574
Cash payments for operations	(5,474)	(4,795)	(679)
Net cash used by operating activities	**(143)**	**(38)**	**(105)**
Net cash provided by noncapital financing activities	367	319	48
Net cash used by capital and related financing activities	(340)	(257)	(83)
Net cash provided by investing activities	362	44	318
Net increase in cash and cash equivalents	**246**	**68**	**178**
Cash and cash equivalents, beginning of year	2,402	2,334	68
Cash and cash equivalents, end of year	**$2,648**	**$2,402**	**$246**

Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts managed by the University on a daily basis. Details on cash flows are as follows:

- Cash of $143 million was used by operating activities and is primarily attributable to increased operating costs associated with the first full year of operations for the UCSF Medical Center at Mission Bay.
- Cash of $367 million was provided by noncapital financing activities. As defined by GASB, noncapital financing activities include state educational appropriations of $193 million and private gifts of $222 million received to support operational, rather than capital, purposes.

PATIENT CARE EDUCATION RESEARCH

Be Yourself. Clues to a transgender identity can start early with children often making their identity known very young, long before any medical treatment is necessary to combat puberty. Those with an inner sense of gender not aligning with their biological sex often endure extreme psychological distress or gender dysphoria. Launched in 2010, the Child and Adolescent Gender Center is a collaboration between UCSF and community organizations to meet the growing demand for transgender youth health care. It serves as a one-stop, interdisciplinary clinic offering the wide range of services necessary for mental and physical evaluation and care and, if deemed appropriate, a healthy transition. Now with a $5.7 million National Institutes of Health grant, the Center will lead a first-time U.S. study of the long-term effects of medical treatments like puberty blockers and hormone replacement therapies for transgender youth. “These kids have a very high risk of depression, substance abuse, suicidal thoughts, and suicide attempts,” said Stephen Rosenthal, MD, a pediatric endocrinologist and medical director of the Child and Adolescent Gender Center at UCSF Benioff Children’s Hospital San Francisco. “Not treating is not a neutral option.”

- Cash of $340 million was used for capital and related financing activities. Of this, $349 million was used for capital spending and $206 million was used for debt service and refinancing. Use of cash for capital and related financing activities is partially offset by issuance of debt of $157 million, proceeds from the sale of capital assets of $14 million, capital gifts and grants of $45 million, and state and federal capital appropriations of $30 million.
- Cash of $362 million was provided by investing activities. Investing activities include investment income of $169 million consisting of endowment income of $45 million, STIP investment income of $12 million, TRIP investment income of $70 million and a TRIP distribution of $40 million as a result of a liquidity option to take advantage of market gains earned in the TRIP portfolio. Investing activities also includes net use of $9 million of funds invested with trustee.

UCSF Foundation Financial Position

The Foundation's Condensed Statements of Net Position provide information on the organization's current financial condition. Over time, increases or decreases in net position provide one indicator of the improvement or erosion of the Foundation's financial health when considered with other nonfinancial information.

In 2015, the Foundation's Board of Overseers formed the UCSF Foundation Investment Company (the "Company"), a nonprofit organization, to manage the Foundation's Endowed Investment Pool (EIP). The Company commenced operations in 2016. The Company is led by a Chief Investment Officer and is governed by a Board with extensive knowledge of the investment industry, finance and business. The Foundation is the sole member of the Company, and appoints the Board. Under GASB standards, the Company is presented as a blended component in the Foundation financial statements.

In 2015, the Foundation's Board of Overseers formed BVSF Holdings, Inc. (BVSF), a legally separate California corporation, to acquire, hold and manage certain interests in real estate assets held through a limited partnership. The Foundation is the sole shareholder of BVSF. The business and affairs of BVSF are managed by a board of directors, the majority of whom are independent. The fair value of the Foundation's investment in BVSF is $34 million and $33 million, as of June 30, 2016 and 2015, respectively, and the investment is included in investments shown on the Foundation's Statement of Net Position.

The table below summarizes the Foundation's net position, and sections following the table provide additional details.

(in millions of dollars)	2016	2015	$ Change	% Change
ASSETS				
Cash and investments	$1,565	$1,522	$43	3%
Pledges receivable, net	82	143	(61)	(43)
Other assets	3	19	(16)	(84)
Total assets	**1,650**	**1,684**	**(34)**	**(2)**
LIABILITIES				
Accounts payable and other liabilities	49	23	26	113
Funds held for others	200	219	(19)	(9)
Obligations under life income agreements	19	16	3	19
Total liabilities	**268**	**258**	**10**	**4**
NET POSITION				
Restricted nonexpendable	561	520	41	8
Restricted expendable	821	907	(86)	(9)
Total net position	**$1,382**	**$1,427**	**$(45)**	**(3%)**

Assets

The Foundation's assets decreased $34 million, or 2 percent, at $1.7 billion in 2016. Assets comprise cash and cash equivalents, investments, pledges, and other assets, including investment income receivable, receivable for investments sold, and all other assets.

Cash and investments increased $43 million, or 3 percent, to $1.6 billion in 2016 from $1.5 billion in 2015. The increase is primarily the result of cash flows from contributions and other revenues, additions to permanent endowments, proceeds from the sale of donated securities and disbursements to UCSF, and non-operating income.

Pledges receivable decreased $61 million, or 43 percent, to $82 million in 2016 from $143 million in 2015. New pledges totaling $9 million were offset by pledge payments and other reductions of $70 million. Additionally, pledge receivable balances do not reflect conditional pledges that will be recognized as conditions, and milestone events specified by donors are met by UCSF.

Other assets decreased $16 million, or 84 percent, to $3 million in 2016 from $19 million in 2015. This decrease is related to investment income receivable due to trade date versus settlement date differences with investment trades executed in late June 2015 where the cash settlement occurred after fiscal year-end in July 2015.

Liabilities

The Foundation's liabilities increased $10 million, or 4 percent, to $268 million in 2016 from $258 million in 2015 and include accounts payable and other liabilities, unearned revenue, funds held for others and obligations under life income agreements.

Accounts payable and other liabilities increased $26 million due primarily to an increase of $14 million in a payable to UCSF for transfers made at the end of 2016 that were not funded until the next fiscal year and an increase of $9 million in EIP payout due to external pool.

Funds held for others decreased $19 million which reflects market changes in fair value of the external pool participants investments.

Net position

Net position represents the residual interest in assets after all liabilities and deferred inflows of resources are deducted. Net position decreased $45 million, or 3 percent, and is $1.4 billion at 2016. Net position is classified and reported based on the presence, or absence, of donor-imposed restrictions.

Restricted nonexpendable net position includes the corpus of the Foundation's permanent endowments and the fair value of planned giving arrangements intended to benefit permanent endowments upon realization.

Restricted expendable net position includes gifts subject to donor designated restrictions governing their use by particular entities or programs, or for specific purposes or functions of UCSF, as well as donor and internally designated quasi-endowments which may be expended, endowment income, and change in fair market value.

UCSF Foundation Results of Operations

The Foundation's Condensed Statements of Revenues, Expenses and Changes in Net Position present the Foundation's operating and non-operating results and other changes in net position. The table below summarizes the Foundation's results, and the sections following the table provide additional details.

(in millions of dollars)	2016	2015	$ Change	% Change
OPERATING REVENUES				
Contributions	$ 181	$ 320	$(139)	(43)%
Total operating revenues	**181**	**320**	**(139)**	**(43)**
OPERATING EXPENSES				
Distributions to UCSF and other operating expenses	233	235	(2)	(1)
Total operating expenses	**233**	**235**	**(2)**	**(1)**
Income (loss) from operations	**(52)**	**85**	**(137)**	**(161)**
NONOPERATING INCOME				
Investment income, net of investment expense	11	7	4	57
Net increase (decrease) in fair value of investments	(44)	46	(90)	(196)
Total nonoperating income (loss)	**(33)**	**53**	**(86)**	**(162)**
Net income (loss) before other changes in net position	**(85)**	**138**	**(223)**	**(162)**
OTHER CHANGES IN NET POSITION				
Additions to permanent endowments	40	68	(28)	(41)
Increase (decrease) in net position	**(45)**	**206**	**(251)**	**(122)**
NET POSITION				
Beginning of year	1,427	1,221	206	17
End of year	**$1,382**	**$1,427**	**$ (45)**	**(3)%**

Operating revenues

Operating revenues, consisting of income from fundraising activities, including gifts for current use and quasi-endowments, decreased $139 million, or 43 percent, to $181 million in 2016 from $320 million in 2015. Operating revenues fluctuate based on results of fundraising activities conducted throughout the year. Contributions result from donor interests, long-term donor cultivation and specific appeals for immediate needs. Timing and amounts are not entirely predictable and the Foundation expects fluctuations in contribution revenue from year to year.

Significant pledges recognized in 2016 were $52 million in support of the Global Brain Health Institute, $11 million for the establishment of an endowed chair in experimental pathology, $5 million for neurosciences operating and programmatic funds and $5 million in support of UCSF's pre-term birth initiative.

Operating expenses

Operating expenses, consisting primarily of distributions to UCSF for spending, decreased $2 million, or 1 percent, to $233 million in 2016 from $235 million in 2015. Distributions to UCSF are based on UCSF's programmatic needs and are subject to gift restrictions and the amount available in any particular year. They include transfers of gifts intended to fund capital projects, as well as gifts for other purposes and endowment income.

Distribution of a large portion of these gifts had been deferred from prior years. The table below shows how distributions from the Foundation to UCSF for spending changed for the fiscal years ended June 30, 2016 and June 30, 2015:

(in millions of dollars)	2016	2015	$ Change	% Change
CAPITAL PROJECTS				
Mission Bay Hospital	$24	$56	$(32)	(58)%
Helen Diller Family Cancer Research Building	-	3	(3)	(100)
Global Health Sciences Program Facility	-	5	(5)	(100)
Mission Bay Complex	-	4	(4)	(100)
Total capital projects	**24**	**68**	**(44)**	**(65)**
OTHER NON-CAPITAL PROJECTS				
Research / faculty support	121	107	14	13
Institutional support	41	28	13	46
Instruction	27	12	15	123
Other	20	20		
Total other non-capital projects	**209**	**167**	**42**	**25**
Total distributions to UCSF for spending	**$233**	**$235**	**$(2)**	**(1)%**

Nonoperating income

Non-operating income includes the results of all investment activities. Endowment investment activities are the source for endowment payout.

Net investment income increased $4 million, or 57 percent, to $11 million in 2016 from $7 million in 2015 primarily due to receipt of distributions from a real estate limited partnership gifted to the Foundation in 2015.

The Foundation's EIP return was (4.8) percent for 2016 compared with 1.8 percent for 2015 and includes investment income and change in fair market value. The equity-oriented endowment portfolio fluctuates with the market and fell with global equities. U.S. equities were a positive contributor but international stocks were hurt temporarily by Brexit. Private equity and real estate helped while natural resources investments lagged.

PATIENT CARE **EDUCATION** RESEARCH

Health Drives Health: Living Our Mission.

UCSF ranks as one of the healthiest employers in the Bay Area, earning top ten accolades among workplaces with 2,000+ employees from the *San Francisco Business Times*. "This award is important for UCSF — it's evidence of how we live our mission of advancing health right here at home," said Leeane Jensen, the Director of Wellbeing at UCSF. It was the first time that UCSF, which included the campus and UCSF Health, applied for the healthiest employer award. One of the recent initiatives that helped UCSF earn its ranking was the Healthy Beverage Initiative, a push to serve zero-calorie beverages or non-sweetened drinks with nutritional value such as milk and 100% juice. "It's important that we practice what we teach," added Jensen.

❮ *Dental student Amy McFarling works out at the Millberry Fitness & Recreation Center on the Parnassus campus.*

Other changes in net position — additions to permanent endowments

Other changes in net position, consisting of additions to permanent endowments, decreased $28 million, or 41 percent, to $40 million in 2016 from $68 million in 2015. The largest gifts to permanent endowments for 2016 were $4 million for UCSF Discovery Fellows, $3 million to support the UCSF Center for Prevention of Sudden Cardiac Death and the Robert A. Naify atrial Fibrillation Center at UCSF, respectively, $2 million for distinguished professorship in global surgery and endowed professorship in spinal surgery respectively, and $1 million each for Center for Prevention of Heart and Vascular Disease, administrative endowed professorship for Cancer Center program development, and stem cell research.

Looking Forward

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

The University's variety of funding sources has become increasingly important over the past several years given the effects of the state financial crisis. In June 2013, the legislature approved the governor's 2014 budget recommendation for a multi-year funding plan for state educational appropriations that will provide an annual base budget increase beginning with 5 percent in 2014, another 5 percent in 2015, 4 percent in 2016 and another 4 percent in 2017.

UCSF and the University remain highly competitive in attracting federal grants and contracts revenue, with fluctuations in the awards received closely paralleling trends in the budgets of federal research granting agencies. Over two-thirds of UCSF's federal research revenue comes from two agencies, the Department of Health and Human Services, primarily through the National Institutes of Health, and the National Science Foundation.

PATIENT CARE EDUCATION **RESEARCH**

3-D Virtual Reality Colonoscopy.

At UCSF's 3-D Imaging Lab, radiologist Judy Yee, MD, found the image look more like abstract art than a patient's colon. Created from thin slices of a computed tomography (CT) scan, the image appears three-dimensional on the flat screen complete with fly-through views that enhance polyps, lesions, and other precancerous anomalies. By refining the revolutionary blend of advanced graphical software and scanning technology—known as CT colonography (CTC) or virtual colonoscopy—Yee created a far less invasive and easier-to-interpret alternative to conventional colonoscopies. A virtual colonoscopy allows doctors to look for signs of disease in the bowels without the need for invasive cameras. As professor and vice chair of the Department of Radiology and Biomedical Imaging at UCSF and chief of radiology at San Francisco Veterans Affairs Health Care System, Yee is now pushing radiology even further with holograms — all in an effort to combat the second most common cause of cancer deaths in the United States.

Research assistant Donald Chau demonstrates the 3-D technology that radiologist Judy Yee pioneered. ›

UCRP costs are funded by a combination of investment earnings and employee/employer contributions. Effective July 1, 2016, UCRP was amended to provide a new tier of pension benefits applicable to eligible employees hired (or becoming eligible), on or after July 1, 2016. The new tier would provide future UC employees a choice between two retirement benefits options (1) the current UCRP pension benefit capped at the California Public Employees' Pension Reform Act (PEPRA) salary limit (currently $117,020) plus a supplemental contribution for eligible employees to a defined contribution plan on pay up to the Internal Revenue Service limit (currently $265,000); or (2) a defined contribution benefit option for eligible employee pay up to the Internal Revenue Service limit (currently $265,000). Under the budget framework, the University will receive $438 million in one-time funds for UCRP as a result of making these benefit changes. The funds are being paid over three years, $96 million was received in 2016, and $171 million each year in 2017 and 2018. Currently, the University does not pre-fund retiree health benefits and provides for benefits on a pay-as-you-go basis. The unfunded liability for the campuses and medical centers as of the July 1, 2016 actuarial valuation was $21 billion based upon using a discount rate of 2.85 percent. The University's retiree health benefit obligations reported in the financial statements are expected to increase as a result of new accounting pronouncements that will be effective in the future.

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

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

The continuing financial success of UCSF Health is predicated on a multifaceted strategy, which includes competing in commercial markets and offering high quality regional services. Positive results in commercial contracts have helped address the lack of support for medical education and care for the poor. Further, UCSF Health remains competitive by reducing costs through improved efficiencies, making strategic investments and by expanding its presence in the market through stronger links with other providers and payors. Payment strategies must recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment, and invest in infrastructure and program expansion.

The level of continued support UCSF and the Foundation receive each year from alumni, patients, corporations, foundations and other supporters is a testament to UCSF's status as a leading university dedicated to health sciences and promoting health worldwide. This support underscores the continued confidence among donors in the quality of UCSF's programs and the importance of its mission. At the same time, private support and investment results in future years will likely continue to be impacted by changes in the economy and financial markets, the effect of which is not determinable at this time.

2016 Financial Statements

UNIVERSITY OF CALIFORNIA, SAN FRANCISCO

STATEMENTS OF NET POSITION

At June 30, 2016 and 2015 *(in thousands of dollars)*

	UCSF		UCSF FOUNDATION	
	2016	2015	2016	2015
ASSETS				
Cash and cash equivalents	$2,647,993	$2,402,401	$93,843	$75,615
Short-term investments	-	70,280	12,980	34,079
Receivable for investments sold	-	-	132	16,859
Investments held by trustee	17,253	151,439	-	-
Accounts receivable, net	751,127	639,814	-	-
Pledges receivable, net	1,771	632	27,716	53,884
Notes and mortgages receivable, net	3,241	3,270	-	-
Inventories	50,092	45,401	-	-
Other current assets	71,860	55,946	788	1,144
Current assets	**3,543,337**	**3,369,183**	**135,459**	**181,581**
Restricted assets	61,546	54,821	58,184	83,457
Investments	153,825	159,439	1,400,390	1,328,679
Pledges receivable, net	2,012	4,008	54,486	88,863
Notes and mortgages receivable, net	39,402	38,530	-	-
Capital assets, net	4,606,616	4,580,324	-	-
Other noncurrent assets	22,131	18,717	1,317	1,584
Noncurrent assets	**4,885,532**	**4,855,839**	**1,514,377**	**1,502,583**
Total assets	**8,428,869**	**8,225,022**	**1,649,836**	**1,684,164**
DEFERRED OUTFLOWS OF RESOURCES	977,746	936,224	-	-
LIABILITIES				
Accounts payable	286,358	262,465	7,448	4,263
Accrued salaries and benefits	371,997	376,695	-	-
Obligations under life income agreements	-	-	1,957	1,975
Unearned revenue	112,814	94,420	-	-
Current portion of long-term debt	51,825	25,645	-	-
Funds held for others	2,244	4,292	2,241	2,525
Other current liabilities	202,557	179,265	34,623	11,386
Current liabilities	**1,027,795**	**942,782**	**46,269**	**20,149**
Federal refundable loans	29,776	29,396	-	-
Funds held for external pool participants	-	-	198,147	216,369
Obligations under life income agreements	-	1,821	17,998	13,627
Long-term debt	2,333,429	2,300,954	-	-
Due to University	572,290	460,570	-	-
Pension liability	2,491,799	1,706,781	-	-
Self insurance	18,829	18,146	-	-
Other noncurrent liabilities	121,897	114,505	5,832	7,385
Noncurrent liabilities	**5,568,020**	**4,632,173**	**221,977**	**237,381**
Total liabilities	**6,595,815**	**5,574,955**	**268,246**	**257,530**
DEFERRED INFLOWS OF RESOURCES	266,749	906,127	-	-
NET POSITION				
Invested in capital assets, net of related debt	2,358,615	2,405,357	-	-
Restricted:				
Nonexpendable: Endowments and gifts	25,242	24,619	560,768	520,069
Expendable: Endowment and gifts	312,737	307,663	820,398	906,130
Expendable: Other, including debt service, loans, capital projects and appropriation	62,869	52,382	-	-
Unrestricted	(215,412)	(109,857)	424	435
Total net position	**$2,544,051**	**$2,680,164**	**$1,381,590**	**$1,426,634**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, SAN FRANCISCO

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years ended June 30, 2016 and 2015 *(in thousands of dollars)*

	UCSF		UCSF FOUNDATION	
	2016	2015	2016	2015
OPERATING REVENUES				
Student tuition and fees, net	$57,107	$56,919	-	-
Grants and contracts, net				
Federal	698,956	688,668	-	-
State	65,849	68,120	-	-
Private	355,717	316,603	-	-
Local	185,127	170,323	-	-
Sales and services:				
Medical center, net	3,520,848	3,193,475	-	-
Other clinical revenue and educational activities, net	265,405	263,153	-	-
Auxiliary enterprises, net	62,195	54,908	-	-
UCSF Foundation private gifts	-	-	$180,514	$319,621
Other operating revenues, net	62,801	67,580	-	-
Total operating revenues	**5,274,005**	**4,879,749**	**180,514**	**319,621**
OPERATING EXPENSES				
Salaries and wages	2,852,250	2,584,922	-	-
Benefits	1,069,676	766,009	-	-
Scholarships and fellowships	25,830	23,844	-	-
Utilities	32,521	33,017	-	-
Supplies and materials	680,254	649,680	-	-
Depreciation and amortization	335,259	289,492	-	-
UCSF Foundation grants	-	-	231,315	233,702
Other operating expenses	932,290	814,187	1,233	1,429
Total operating expenses	**5,928,080**	**5,161,151**	**232,548**	**235,131**
Operating income (loss)	**(654,075)**	**(281,402)**	**(52,034)**	**84,490**
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations for:				
UCSF educational mission	185,277	178,334	-	-
Office of the President administration	8,031	8,031	-	-
Federal financing appropriations	22,906	22,693	-	-
State financing appropriations	3,401	-	-	-
Private gifts, net	221,521	178,066	-	-
Investment income	168,833	179,638	11,116	7,284
Increase (decrease) in fair value of investments	(9,392)	(77)	(43,664)	45,519
Interest expense	(108,967)	(83,374)	-	-
Patent income	15,257	7,779	-	-
Loss on disposal of capital assets	(1,711)	(8,023)	-	-
Other nonoperating revenues (expenses)	12,150	(1,215)	-	-
Total nonoperating revenues (expenses), net	**517,306**	**481,852**	**(32,548)**	**52,803**
Income (loss) before other changes in net position	**(136,769)**	**200,450**	**(84,582)**	**137,293**
OTHER CHANGES IN NET POSITION				
State capital appropriations	3,616	2,320	-	-
Capital gifts and contracts	44,432	112,283	-	-
Additions to permanent endowment	464	405	39,538	68,190
Changes in allocation for pension payable to University	5,529	(2,035)	-	-
Transfers to Regents' endowment	(53,385)	(54,994)	-	-
Total other changes in net position	**656**	**57,979**	**39,538**	**68,190**
Increase (decrease) in net position	**(136,113)**	**258,429**	**(45,044)**	**205,483**
NET POSITION				
Beginning of year, as previously reported	2,680,164	1,990,581	1,426,634	1,221,151
Cumulative effect of change in accounting principle	-	431,154	-	-
Beginning of year, as restated	2,680,164	2,421,735	1,426,634	1,221,151
Net position, end of year	**$2,544,051**	**$2,680,164**	**$1,381,590**	**$1,426,634**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, SAN FRANCISCO

STATEMENTS OF CASH FLOWS

Years ended June 30, 2016 and 2015 *(in thousands of dollars)*

	UCSF		UCSF FOUNDATION	
	2016	2015	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$57,488	$55,041	-	-
Grants and contracts	1,240,298	1,260,000	-	-
UCSF Health	3,336,647	3,120,818	-	-
Educational activities	261,332	263,153	-	-
Auxiliary enterprises	62,299	58,038	-	-
UCSF Foundation private gifts	-	-	$209,125	$78,310
Payments to employees	(2,861,997)	(2,559,128)	-	-
Payments to suppliers and utilities	(1,639,208)	(793,253)	-	-
Payments for employee and retiree benefits	(947,603)	(748,203)	-	-
Payments for scholarships and fellowships	(25,830)	(23,844)	-	-
Other operating receipts payments)	373,106	(670,307)	(219,747)	(246,706)
Net cash used by operating activities	**(143,468)**	**(37,685)**	**(10,622)**	**(168,396)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations for:				
UCSF educational mission	185,277	178,334	-	-
Office of the President administration	8,031	8,031	-	-
Private gifts for endowment purposes	-	-	25,604	32,278
Other private gifts	199,664	178,295	-	-
Receipt of patent income	15,257	7,779	-	-
Other financing receipts (payments)	(41,574)	(52,965)	(8,500)	151,615
Net cash provided by noncapital financing activities	**366,655**	**319,474**	**17,104**	**183,893**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
State capital appropriations	3,616	2,883	-	-
State and federal financing appropriations	26,230	22,752	-	-
Capital gifts and grants	44,896	115,125	-	-
Proceeds from debt issuance	157,313	370,572	-	-
Proceeds from the sale of capital assets	(13,714)	95,261	-	-
Purchase of capital assets	(348,902)	(586,536)	-	-
Refinancing or prepayment of outstanding debt	(68,982)	(120,991)	-	-
Principal paid on debt and financing obligations	(31,244)	(47,378)	-	-
Interest paid on debt and financing obligations	(105,794)	(104,913)	-	-
Other financing receipts (payments)	(3,469)	(4,241)	-	-
Net cash used by capital and related financing activities	**(340,050)**	**(257,466)**	**-**	**-**
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income, net of investment expenses	168,833	179,789	11,560	7,435
Proceeds from sale of donated securities	-	-	50,305	174,319
Proceeds from sales and maturities of investments	206,055	406,350	501,972	200,996
Purchase of investments, net	(12,433)	(541,818)	(577,364)	(371,915)
Net cash provided (used) by investing activities	**362,455**	**44,321**	**(13,527)**	**10,835**
Net increase (decrease) in cash and cash equivalents	**245,592**	**68,644**	**(7,045)**	**26,332**
Cash and cash equivalents, beginning of year	2,402,401	2,333,757	159,072	132,740
Cash and cash equivalents, end of year	**$2,647,993**	**$2,402,401**	**$152,027**	**$159,072**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, SAN FRANCISCO

STATEMENTS OF CASH FLOWS *(continued)*

Years ended June 30, 2016 and 2015 *(in thousands of dollars)*

	UCSF		UCSF FOUNDATION	
	2016	2015	2016	2015
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	$(654,075)	$(281,402)	$(52,034)	$84,490
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization expense	335,259	289,492	-	-
Allowance for uncollectible accounts	54,944	70,142	287	(45)
Loss on impairment of capital assets	-	-	-	-
Donated securities, excluding permanent endowment	-	-	(36,356)	(221,989)
Change in unamortized discount on pledges	-	-	(1,111)	(1,675)
Change in assets and liabilities:				
Accounts receivable	(169,071)	(168,023)	-	-
Pledges receivable	-	-	61,369	6,195
Inventories	(4,691)	(7,721)	-	-
Other assets	989	32,724	-	-
Accounts payable	26,144	1,701	-	-
Accrued salaries	(4,698)	36,580	-	-
Employee benefits and pension obligations	221,112	(199,548)	-	-
Deferred revenue	18,030	(221)	-	-
Other liabilities	32,589	188,591	17,223	(35,372)
Net cash used by operating activities	**$(143,468)**	**$(37,685)**	**$(10,622)**	**$(168,396)**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired with a liability at year-end	$18,656	$42,845	-	-
Capital assets acquired through capital lease at year-end	458	2,041	-	-
Gifts of marketable securities	-	-	$36,356	$221,989
Noncapital financing - Agency and external pool receipt of securities	-	-	-	46,490
Noncapital financing - Permanent endowments receipt of securities	-	-	13,934	35,911
Transfer of securities for investment in UCSF Foundation Endowed Investment Pool	-	46,289	-	-
Change in fair value of interest-rate swaps classified as hedging derivatives	3,080	246	-	-
Amortization of deferred financing costs	1,198	878	-	-
Amortization of bond premiums and cost of issuance write-off	(5,500)	(1,095)	-	-

See accompanying Notes to Financial Statements

Notes to Financial Statements

Organization

The University of California (the University) was founded in 1868 as a public, constitutionally empowered, state-supported institution. The California State Constitution provides that the University shall be a public trust administered by the corporation, "The Regents of the University of California," which is vested with full powers of organization and governance, subject only to very specific areas of legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26-member independent governing board (the Regents) is appointed by the governor and approved by the state senate. Various University programs and capital-outlay projects are funded through appropriations from the state's annual Budget Act. The University's financial statements are presented as a discrete component of the state's general purpose financial statements. Additionally, the University's financial statements, which cover ten campuses, five medical schools and medical centers, four law schools, and a statewide Division of Agricultural and Natural Resources, along with a number of other fiduciary activities, are subjected to an independent annual audit.

Financial Reporting Entity

University of California, San Francisco

The University of California, San Francisco (UCSF) was founded in 1874 and is one of the ten campuses that comprise the University. UCSF is a leading university dedicated to promoting health worldwide through advanced biomedical research, graduate-level education in the life sciences and health professions, and excellence in patient care. It consists of the schools of medicine, dentistry, nursing, and pharmacy, the graduate division (collectively, the Campus), as well as UCSF Medical Center, UCSF Faculty Practices, Langley Porter Psychiatric Hospital and Clinics, and Benioff Children's Hospital (collectively, UCSF Health). UCSF is the only campus of the University of California that is devoted exclusively to graduate and professional education and training in the health sciences.

UCSF's financial statements include the accounts of the Campus and UCSF Health. The Campus includes the Campus Facilities Improvement Association (CFIA), a legally separate, not-for-profit public benefit corporation, established for charitable and educational purposes, including facilitating the development, financing, construction and management of buildings and facilities. All members of the Board of Directors of CFIA are appointed by and can be removed by the Regents. The Regents have the authority to approve the budget for CFIA. CFIA provides services almost entirely for the benefit of the Regents on behalf of UCSF. Accordingly, CFIA is included in UCSF's financial reporting entity as a blended component unit. The operations of most student government or associated student organizations are also included in the reporting entity because UCSF has certain fiduciary responsibilities for these organizations.

The University of California system is subjected to an annual audit of the consolidated financial statements. UCSF's financial statements are included in the University of California's consolidated financial statements. The financial statements for UCSF have not been separately audited.

The University of California, San Francisco Foundation

Under University policies approved by the Regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the missions of the Campus and the University. The University of California, San Francisco Foundation (the Foundation) was incorporated in 1982 as a not-for-profit public benefit corporation organized for the purpose of accepting and administering the full range of private contributions to UCSF. Although governed by an independent board, the Foundation is affiliated with, and its assets are dedicated for, the sole benefit of UCSF. The financial activities of the separately incorporated Foundation are not recorded at UCSF until such time as gifts are transferred from the Foundation to the Campus or Medical Center. However, the Foundation activity is included in the UCSF financial statements and footnotes in separate columns as a discretely presented component unit. Additional information about the Foundation may be found in their stand-alone audited financial statements.

UCSF Benioff Children's Hospital Oakland

The Regents are also the sole corporate and voting member of Children's Hospital and Research Center Oakland, an existing, private, not-for-profit 501(c)(3) corporation now known and doing business as UCSF Benioff Children's Hospital Oakland (BCHO). A Board of Directors comprised primarily of independent directors serves as the governing body of BCHO. Certain corporate powers are reserved to The Regents, including the power to appoint and remove directors and to approve BCHO's strategic plan and budget. Children's Hospital and Research Center Foundation ("BCHO Foundation"), a nonprofit public benefit corporation, is organized and operated for the purpose of supporting BCHO. The Medical Center provides certain management services for BCHO. Since UCSF has the ability to impose its will on BCHO, under GASB requirements, the results of BCHO, including its foundation, are consolidated as part of UCSF and are included as part of UCSF's results.

Significant Accounting Policies

The financial statements of UCSF and the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America, using the economic resources measurement focus and the accrual basis of accounting. UCSF, and the Foundation follow accounting principles issued by the Governmental Accounting Standards Board (GASB).

New accounting pronouncements

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

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

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

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

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

GASB Statement No. 80, *Blending Requirements for Certain Component Units — An Amendment of GASB Statement No. 14*, was adopted by UCSF during the year ended June 30, 2016. Statement No. 80 amends the blending requirements established in paragraph 53 of amended Statement No. 14, *The Financial Reporting Entity*, for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations are Component Units — An Amendment of GASB Statement No. 14*. BCHO, combined with its foundation, was previously reported as a discretely presented component unit of UCSF and with the accounting change, became a blended component unit of UCSF. The cumulative effect of this accounting change increased UCSF net position at July 1, 2015 by $431.2 million. Additionally, results for fiscal year ending June 30, 2015 have been updated to reflect this change.

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

The significant accounting policies of UCSF and the Foundation are as follows:

Cash and cash equivalents. All balances in demand deposit accounts are considered to be cash. The University maximizes the return on its cash balances by investing in a short term investment pool (STIP) and total return investment pool (TRIP), both managed by the Treasurer of the Regents of the University.

The Regents, as the governing body, are responsible for the oversight of the University's investments and establish investment policy, which is carried out by the Chief Investment Officer. Asset allocation guidelines are provided to the campus foundations by the Investment Committee of the Regents.

STIP allows participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities and is managed to maximize current earned income. Cash to provide for payroll, construction expenditures, and other operating expenses for campuses and medical centers is invested in STIP. Investments authorized by the Regents for STIP include fixed-income securities with a maximum maturity of 5.5 years.

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

Substantially all of UCSF's cash and cash equivalents are invested in STIP or TRIP. Investment 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 Annual Financial Report of the University.

Investments. Foundation short-term investments consist of U.S. government and corporate obligations with a maturity date of less than one year. Investment securities are reported at a fair value. Marketable securities' fair values are based on quoted market prices obtained from independent sources. Investments in alternative investments, including limited partnerships, private equity funds, absolute return funds and certain hedge funds, are reported at a fair value as determined by the general partner of the respective funds, after considering factors such as the nature of the underlying portfolios, liquidity and market conditions. Because they are not readily marketable, the fair values may significantly differ from the values that would have been used had a ready market for these investments existed. Direct investments in real estate are stated at a fair value as established by independent appraisals.

Investments held by trustee. Investments held by trustee consist of bond proceeds held by the Treasurer of the Regents. Bond proceeds remain invested with the Treasurer until project costs are incurred.

Accounts receivable, net. Accounts receivable, net of allowance for uncollectible amounts, include reimbursements due from state and federal sponsors of externally funded research and patient billings. Other receivables include local government and private grants and contracts, amounts due from students, affiliation agreements, and other educational and auxiliary activities. Foundation receivables include receivables related to investments sold.

Pledges receivable, net. Written unconditional promises to make future payments of private gifts to UCSF or the Foundation, net of allowance for uncollectible amounts, are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Conditional pledges, including all pledges of endowments and intentions to pledge, are recognized as receivables and revenues when the specified conditions are met.

Notes and mortgages receivable, net. Loans to students, net of allowance for uncollectible amounts, are provided from federal student loan programs and from other sources. Home mortgage loans, primarily to faculty, are provided from the University's STIP and from other UCSF sources, and are collateralized by deeds of trust on properties concentrated in the San Francisco Bay Area.

Inventories. Inventories, consisting primarily of pharmaceuticals, medical supplies and printed forms, are stated on a first-in, first-out basis at cost.

Capital assets, net. UCSF's land, infrastructure, buildings and improvements, equipment, libraries and collections, and special collections are recorded at cost at the date of acquisition, or at estimated fair value at the date of donation in the case of gifts. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results. Capital leases are recorded at the present value of future minimum lease payments. Significant additions, replacements, major repairs, and renovations to infrastructure and buildings are generally capitalized if the cost exceeds $35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations. Equipment with a cost in excess of $5,000 and a useful life of more than one year is capitalized. All costs of land, library collections and special collections are capitalized. UCSF tests its capital assets annually for impairment.

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

Estimated economic lives are generally as follows:

(shown in years)	
Infrastructure	25
Land improvements	5-20
Buildings and improvements	10-40
Equipment	2-20
Computer software	3-7
Intangible assets	2 - indefinite
Library books and collections	15

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

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

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

Interest-rate swap agreements. UCSF Health has entered into interest-rate swap agreements to limit the exposure of its 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. UCSF has determined the 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 of resources, for hedging derivatives with positive fair values, or deferred outflows of resources, for hedging derivatives with negative fair values.

Obligations under life income agreements. Trusts include irrevocable gift annuity, annuity trust and unitrust gifts made to the Foundation that a designated beneficiary retains an interest in as specified in the trust agreement. The Foundation is trustee and a remainderman for these trusts. For these funds, a liability for beneficiary payments is established representing the present value of estimated future beneficiary payments over the expected life of the beneficiaries. The liability is calculated using standard gift annuity tables and applicable IRS guidelines. The remaining amount is recognized as revenue in the period that the Foundation is notified that it is a remainderman or beneficiary.

Unearned revenue. UCSF unearned revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue billed in advance of the event, such as student tuition and fees, and clinical trials. Foundation unearned revenue comprises conditional pledge payments received from a donor where the conditions and milestone events specified by the donor have not yet been met by the University.

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

Federal refundable loans. Certain loans to students are administered by UCSF, with funding primarily supported by the federal government. UCSF's Statements of Net Position include both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

Pollution remediation obligations. Upon an obligating event, UCSF estimates the components of any expected pollution remediation costs and recoveries from third parties. The costs, estimated using the expected cash flow technique, are accrued as other noncurrent liabilities.

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. Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

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

Invested in capital assets, net of related debt. This category includes all of UCSF's capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted. UCSF and the Foundation classify net position resulting from transactions with purpose restrictions as restricted net position until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact. This also includes Foundation permanent endowment funds.

Nonexpendable. The net position subject to externally imposed restrictions, which must be retained in perpetuity by UCSF or the Foundation are classified as nonexpendable net position.

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

Unrestricted. Net position that is neither reserved, restricted, nor invested in capital assets, net of related debt, is classified as unrestricted net position. Unrestricted net position may be designated for specific purposes by management or the Regents. The Foundation's unrestricted net position may be designated for specific purposes by their Board of Trustees. Substantially all of the unrestricted net position is allocated for academic and research initiatives or programs, for capital programs, or for other purposes.

Revenues and expenses. Operating revenues include receipts from student tuition and fees, grants and contracts for specific operating activities, sales and services from UCSF Health and faculty physicians practicing as the UCSF Faculty Practices, educational activities, and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of UCSF are presented in the Statements of Revenues, Expenses and Changes in Net Position as operating activities.

Medical center revenue includes 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 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 complex and subject to interpretation. It is reasonably possible that estimated amounts accrued could change significantly based upon settlement, or as additional information becomes available.

Certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of UCSF are mandated by the GASB to be recorded as non-operating revenues, including state educational appropriations, private gifts and investment income.

The Foundation was established to financially support UCSF. Private gifts to the Foundation are recognized as operating revenues as the revenues are fundamental to the core mission of the Foundation. When the gift or grant is transferred from the Foundation to UCSF, UCSF records the revenue as either non-operating revenue, or a capital gift or grant. The Foundation records these transfers as an operating expense.

Non-operating revenues and expenses include state educational appropriations for the support of UCSF operating expenses, state and federal financing appropriations, state research revenue, private gifts for other than capital purposes, investment income, interest expense, patent income, and gain or loss on the disposal of capital assets.

State capital appropriations and capital gifts and grants are classified as other changes in net position.

Student tuition and fees. Substantially all of the student tuition and fees provide for current operations of UCSF. Certain waivers of student tuition and fees, considered to be scholarship allowances, are recorded as an offset to revenue.

State appropriations. The state of California provides appropriations to the University that are allocated to UCSF on an annual basis. State educational appropriations are recognized as non-operating revenue; however, related expenses are incurred to support either educational operations or other specific operating purposes. State appropriations

for capital projects are recorded as revenue under other changes in net position when the related expenditures are incurred. Other special state appropriations such as those for AIDS, tobacco and breast cancer research are reported as other non-operating revenue.

Grant and contract revenue. UCSF receives grant and contract revenue from governmental and private sources. UCSF recognizes revenue associated with the cost of sponsored programs as the related expenditures are incurred for cost reimbursable awards and when service milestones or level of effort are met for fixed-price awards. Recovery of facilities and administrative costs of federally sponsored programs is at cost reimbursement rates negotiated with UCSF's federal cognizant agency, the U.S. Department of Health and Human Services.

Scholarship allowances. UCSF recognizes certain scholarship allowances, including financial aid and fee waivers, as the difference between the stated charge for tuition and fees and the amount that is paid by the student, as well as by third parties making payments on behalf of the student. Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

Retiree benefits expense. The University of California Retirement Plan (UCRP) provides retirement benefits to retired employees of UCSF. Contributions from UCSF to the UCRP are effectively made to a cost-sharing single-employer defined benefit pension plan administered by the University. UCSF is required to contribute at a rate assessed each year by the University. As a result, UCSF's required contributions are recognized as an expense in the Statements of Revenues, Expenses and Changes in Net Position. Additional information on the UCRP can be obtained from the University's Annual Financial Report.

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

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

Pension obligations also include the net pension liability for the Retirement Plan for Children's Hospital & Research Center at Oakland ("CHRCO Plan"). The CHRCO Plan's net pension liability, pension expense and deferred inflows or outflows are measured and reported using methodologies consistent with those described above for UCSF's pension obligations.

Due to University. Additional deposits in UCRP have been made using University resources to fund 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, plus accrued interest, over a thirty-year period through a supplemental pension assessment. Supplemental pension assessments are reported as pension expense. Additional deposits in UCRP by the University, and changes in the share of the internal loans, are reported as other changes in net assets.

Retiree health benefits expense. The University established the University of California Retiree Health Benefits Trust (UCRHBT) to allow certain University locations and affiliates, including UCSF, to share the risks, rewards, and costs of

providing for retiree health benefits and to accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. The Regents serve as trustee of UCRHBT and have the authority to amend or terminate the Trust.

The UCRHBT provides retiree health benefits to retired employees of UCSF. Contributions from UCSF to the UCRHBT are effectively made to a cost-sharing single-employer health plan administered by the University. UCSF is required to contribute at a rate assessed each year by the University. As a result, UCSF's required contributions are recognized as an expense in the Statements of Revenues, Expenses and Changes in Net Position. Additional information on the UCRHBT can be obtained from the University's Annual Financial Report.

Charity care. UCSF Health provides care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. Amounts determined to qualify as charity care are not reported as net patient service revenue.

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

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

Tax exemption. The University is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). Because the University is a state institution, related income received by the University is also exempt from federal tax under IRC Section 115(a). In addition, the University is exempt from state income taxes imposed under the California Revenue and Taxation Code. University of California Retirement System plans are qualified under IRC Section 401(a) and the related trusts are tax-exempt under Section 501(c)(3). The Foundation is exempt under Section 501(c)(3). Income received by the UCRHBT is tax-exempt under Section 115(a).

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

1. Cash and Cash Equivalents

The University maintains centralized management for substantially all of UCSF's cash and cash equivalents. Cash in demand deposit accounts is minimized by sweeping available cash balances into University investment accounts on a daily basis. UCSF had depository bank balances of $1 million at June 30, 2016 and 2015, respectively.

At June 30, 2016 and 2015, the carrying amounts of UCSF's equity in the University's investment pools were $2.7 billion and $2.5 billion, respectively. UCSF's investment income from the University's investment pools, net of administrative fees, is recorded as it is distributed from the University, totaling $169 million in 2016 and $180 million in 2015.

At June 30, 2016 and 2015, the carrying amount of the Foundation's cash and cash equivalents held in nationally recognized banking institutions was $152 million and $159 million, respectively, compared with bank balances of $152 million and $119 million, respectively. Deposits in transit and checks outstanding are the primary difference for 2015. Bank balances are collateralized by U.S. government and corporate money market securities held in the name of the bank, with the remaining uncollateralized bank balances of $2 million as of June 30, 2016 insured by the Federal Deposit Insurance Corporation up to the standard maximum deposit insurance amount of $250,000 per depositor and account ownership category at each institution. The Foundation does not have exposure to foreign currency risk in its demand deposit accounts.

2. Investments

The Board of Overseers of the Foundation, as the governing Board, is responsible for oversight of the Foundation's investments and establishes investment policy to be followed by the Investment Committee and the UCSF Foundation Investment Company. Investments are associated with the Unendowed Investment Pool (UIP), the UCSF Foundation Endowed Investment Pool (EIP) and trusts.

Pursuant to the University's policies on campus foundations, the Foundation's Board of Directors has elected to oversee the management of its investments rather than delegate that function to the Treasurer of the University. The Investment Committee is responsible for recommending investment guidelines and policy for approval by the Board of Overseers, and for implementation of investment policy, including the selection of investment managers.

The UIP is managed so as to maximize returns consistent with safety of principal and liquidity considerations necessary to meet UCSF's cash flow requirements. Investment guidelines for the UIP provide for investment in readily marketable money market and fixed income securities, and the Regent's short-term investment pool. UIP investment guidelines address credit quality and concentration of credit risk, and provide for performance evaluation against relevant benchmarks.

For its endowment, the Foundation utilizes an investment pool to manage investments and distribute investment income. The EIP is a pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale, and it is the primary investment vehicle for endowed gift funds. Fund ownership for the EIP is measured using the unit value method. Participants may purchase or redeem shares monthly at the unitized value of the pool at the time of purchase or redemption. Payout is allocated to participants based on the number of shares held.

The primary investment objective of the EIP is growth of principal sufficient to preserve purchasing power and to provide income to support current and future UCSF activities. Long term, the total return on the portfolio should equal the rate of inflation, plus the payout rate that is used to support current activities, plus an amount reinvested to support future activities. EIP investments authorized by the Board of Overseers include cash and cash equivalents, readily marketable equity and fixed-income securities, and alternate investments including hedge funds, private equity funds and real estate investments.

The equity portion of the EIP may include domestic and foreign equities, including foreign currency denominated, common and preferred stocks, actively managed and passive (index) strategies, along with an exposure to private equities, including venture capital partnerships and buy-out and international funds. The domestic equity portfolio is measured against the Russell 3000 Index. Foreign equities are measured against the MSCI All Country World Ex USA Index.

The fixed-income portion of the EIP may include domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. The duration of fixed-income separate accounts is to be maintained within 70 – 130 percent of the duration of the Barclay's U.S. Aggregate Bond Index.

As a result of its affiliation with UCSF, the Foundation entered into an agreement with BCHO Foundation to manage, through an agency agreement, the investment of the endowed and unrestricted funds in the Foundation's EIP. Such investments are not owned by or contributed to the Foundation and they are reflected as a liability to external pool participants on the Foundation's Statement of Net Position. With the exception of unrestricted, non-endowed investments, BCHO Foundation is charged the same fee as all other pool participants.

Due to participation in the EIP by an affiliated foundation, it is considered a governmental external investment pool. The external portion of the EIP is presented in the Statement of Net Position as funds held for external pool participants.

The Foundation evaluates the performance of the EIP at least quarterly, utilizing appropriate benchmarks. The Investment Committee reviews asset allocation targets at least annually, and the performance of all managers at least quarterly, including review and analysis by an investment consultant.

The EIP's Statements of Net Position as of June 30, 2016 and 2015 are as follows:

(in thousands of dollars)	2016	2015
ASSETS		
Cash and cash equivalents	$45,322	$83,457
Receivable for investments sold	133	16,859
Accrued investment income	252	694
Investments	1,100,516	1,059,875
Other assets	40	1,100
Total assets	**1,146,263**	**1,161,985**
LIABILITIES		
Payable for investments purchased	7,448	258
Other liabilities	744	426
Total liabilities	**8,192**	**684**
NET POSITION AS HELD FOR ALL POOL PARTICIPANTS		
Internal portion	939,924	944,932
External portion	198,147	216,369
Total net position	**$1,138,071**	**1,161,301**

The external portion of the EIP net position includes $183 million and $199 million held for BCHO Foundation at June 30, 2016 and 2015, respectively.

The EIP's Statements of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2016 and 2015 are as follows:

(in thousands of dollars)	2016	2015
Revenues from investment income	$11,564	$9,337
Expenses for investment management	(6,762)	(4,992)
Net investment income	**4,802**	**4,345**
Realized gain (loss)	9,274	16,132
Change in unrealized gain (loss)	(68,788)	(6,611)
Net realized and unrealized gain (loss)	**(59,514)**	**9,521**
Income (loss) from operations	**(54,712)**	**13,866**
Distributions to participants	(49,357)	(36,166)
Net share transactions	80,839	272,391
Increase in net position	**(23,230)**	**250,091**
Net position		
Beginning of year	1,161,301	911,210
End of year	**$1,138,071**	**$1,161,301**

The composition of the Foundation's investments at June 30, 2016 and 2015 is as follows:

(in thousands of dollars)	2016	2015
Equity securities		
Domestic	$128,991	$164,897
Foreign	8,720	2,618
Equity securities	**137,711**	**167,515**
Fixed-income securities		
U.S. Treasury bills, notes and bonds	198,867	65,960
U.S. government-backed securities	42	939
U.S. government-backed, asset-backed	38	55
U.S. government guaranteed	**198,947**	**66,954**
Other U.S. dollar denominated		
Corporate bonds	27,164	65,632
U.S. agencies, asset-backed	35,700	65,835
Corporate - asset-backed securities	19,180	26,006
Supranational/Foreign	4,228	6,394
Certificates of deposit	-	-
Other	790	4,929
Other U.S. dollar denominated	**87,062**	**168,796**
Foreign currency denominated		
Corporate	-	-
Foreign currency denominated	**-**	**-**
Commingled funds		
Absolute-return funds	230,222	208,394
Balanced funds	28,495	28,915
U.S. equity funds	194,179	116,229
Non-U.S. equity funds	294,187	307,931
Real estate/REIT	21,929	-
Non-U.S. bond funds	-	52,119
Commingled funds	**769,012**	**713,588**
Derivative investments		
Investment derivatives	-	(5,185)
Derivative investments	**-**	**(5,185)**
Private equity	82,769	49,001
Real estate	12,906	148,775
Other investments	124,963	53,314
Total investments	**1,413,370**	**1,362,758**
Less: Current portion	(12,980)	(34,079)
Noncurrent portion	**$1,400,390**	**$1,328,679**

The components of the net change in fair value of Foundation investments for the years ended June 30, 2016 and 2015 are as follows:

(in thousands of dollars)	2016	2015
Increase in net unrealized appreciation on investments	$19,137	$29,067
Net realized gain on sale of investments	(61,218)	16,452
Net increase in fair value of investments	**$(42,081)**	**$45,519**

BCHO invests primarily in the UCSF Foundation's EIP and is classified as commingled balanced 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.

BCHO investments in the EIP with the UCSF Foundation are committed to a lock-up period of one year, ending June 30, 2016, at which point termination of the agreement will require at least twelve months' prior written notice of intention to terminate as of a date specified in the notice. Withdrawals will occur on the last business day of the month and are subject to certain withdrawal guidelines.

The composition of BCHO Foundation's investments includes $43 million and $44 million of restricted investments categorized as restricted assets on the Statement of Net Position at June 30, 2016 and 2015, respectively, and is as follows:

(in thousands of dollars)	2016	2015
INVESTMENT TYPE		
Fixed-income securities		
U.S. Treasury bills, notes and bonds	$300	$299
U.S. government guaranteed	**300**	**299**
Other U.S. dollar denominated		
U.S. agencies, asset-backed	193	218
Corporate - asset-backed securities	-	9
Other U.S. dollar denominated	**193**	**227**
Commingled funds		
Balanced funds	182,516	200,132
U.S. equity funds	1,549	1,863
Non-U.S. equity funds	254	310
U.S. bond funds	125	311
Non-U.S. bond funds	286	-
Money market funds	161	70,375
Commingled funds	**184,891**	**272,991**
Publicly traded real estate investment trusts	478	420
Total investments	**185,862**	**273,937**
Less: Current portion	(70,216)	(70,280)
Less: Reported as restricted assets in donor funds	(42,702)	(44,218)
Noncurrent portion	**$72,944**	**$159,439**

BCHO Foundation's fair market value of investments decreased $88 million for the year ended June 30, 2016, compared with a $3 million increase in fair market value of investments for the year ended June 30, 2015.

3. 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 equity and fixed-income securities. Equity securities respond to such investment behavioral factors as economic conditions, individual company earnings performance and market liquidity, while fixed-income securities are particularly sensitive to credit risks and changes in interest rates.

Credit risk

Fixed-income securities are subject to credit risk, that 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. The circumstances may arise due to a variety of factors, such as liquidity, financial weakness or bankruptcy. Certain fixed-income securities, including obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are considered to have little or no credit risk.

The credit risk profile for the UCSF Foundation's fixed-income securities is as follows:

(in thousands of dollars)	2016	2015
FIXED-INCOME SECURITIES		
U.S. government guaranteed	$198,947	$61,769
Other U.S. dollar denominated		
AAA	9,761	14,721
AA	39,837	76,592
A	4,998	16,819
BBB	18,979	40,616
BB	2,662	9,338
B	2,131	1,868
Not rated	8,694	8,842
Commingled bond funds (not rated)		
Non-U.S. bond funds	-	52,119

The credit risk profile for BCHO's fixed-income securities is as follows:

(in thousands of dollars)	2016	2015
FIXED-INCOME SECURITIES		
U.S. government guaranteed	$300	$299
Other U.S. dollar denominated		
AA	-	9
Not rated	193	218
Commingled funds (not rated)		
U.S. bond funds - Not rated	125	311
Non-U.S. bond funds - Not rated	286	-
Money market funds - Not rated	161	70,375

Custodial credit risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the Foundation's investments may not be returned. Substantially all of the Foundation's investments are issued, registered or held in the name of the Foundation by its master custodian bank, as agent for the Foundation. Substantially all of BCHO's investments are registered in the name of the UCSF Foundation. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is considered to be remote.

Concentration of credit risk

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

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist primarily of cash equivalents, U.S. government and federal agency obligations, common stocks and corporate debt securities. Federal agency obligations consist primarily of collateralized mortgage obligations that are collateralized by diversified home mortgages. The remainder of the portfolio is diversified and issuers are dispersed throughout many industries and geographies.

The equity portion of the Foundation's portfolios may be managed passively or actively. For the portion managed passively, the concentration of individual securities is equal to their concentration in the relative benchmark. With respect to the actively managed portfolio, investment policy requires that the portfolio be adequately diversified to limit exposure to concentration of credit risk.

Unendowed portfolio investment policy specifies no more than 5 percent of the total market value of the portfolio be invested in the securities of a single issuer, with the exception of securities issued or guaranteed by the U.S. government, its agencies or government sponsored enterprises, or collateralized by such securities or loans. Endowed portfolio investment policy for fixed income holdings requires that no more than 5% at market of the portfolio may be held in the securities of a single corporate issuer. Equity holdings are to be diversified according to economic sector, industry, number of holdings and other investment characteristics, with no more than 10 percent at purchase or 20 percent at market in any one issuer.

Investments in issuers that represent 5 percent or more of total Foundation investments at June 30, 2016 and 2015 are as follows:

(in thousands of dollars)	2016	2015
iShares MSCI EAFE ETF	-	$76,556
Bayside Partners, LP	$91,295	88,747

Bayside Partners, LP represents a limited partnership interest that was gifted to the Foundation in 2015. The amount reported excludes the Bayside Partners, LP interest transferred to and held by BVSF that was valued at $34 million and $33 million as of June 30, 2016 and 2015, respectively.

Interest-rate risk

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

The effective duration of the Foundation's fixed-income securities at June 30, 2016 and 2015 follows. Information presented does not take into account the relative weighting of the portfolio components to the total portfolio.

	2016	2015
FIXED-INCOME SECURITIES		
U.S. government		
U.S. Treasury notes	2.53	1.71
U.S. government-backed securities	0.66	3.03
U.S. government-backed asset-backed securities	1.79	2.26
Other U.S. dollar denominated		
Corporate bonds	2.81	5.27
U.S. agencies - asset-backed securities	1.09	2.06
Corporate - asset-backed securities	0.81	1.32
Other	2.80	6.84
Commingled bond funds		
Non-U.S. bond funds	-	5.87

The effective duration of BCHO's fixed-income securities follows. BCHO considers the effective duration for money market funds to be zero.

	2016	2015
FIXED-INCOME SECURITIES		
U.S. government guaranteed	3.8	3.8
U.S. agencies - asset-backed securities	-	2.7

In accordance with investment policies, investments may include mortgage pass-through securities, collateralized mortgage obligations, callable bonds and corporate asset-backed securities that are considered to be highly sensitive to changes in interest rates.

Mortgage pass-through securities

These securities are issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

Collateralized mortgage obligations

Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments make the fair value highly sensitive to changes in interest rates. In falling interest-rate environments, the underlying mortgages are subject to a higher propensity of prepayments. For an interest-only CMO, the reduced cash flow associated with the prepayments reduces the expected rate of return and causes the fair value to decline. For a principal-only CMO, the increased cash flows associated with the prepayments increase the expected rate of return and cause the fair value to increase. In a rising interest-rate environment, the opposite is true for both the interest-only and principal-only CMO's. The Foundation does not invest in principal-only or interest-only CMO's.

Callable bonds

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

Corporate asset-backed securities

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

The Foundation's fair value of fixed-income securities considered highly sensitive to changes in interest rates is as follows:

(in thousands of dollars)	2016	2015
Mortgage pass-through securities	$26,925	$50,238
Corporate asset-backed securities	19,180	26,006
Collaterized mortgage obligations	8,813	15,653
Callable bonds	-	17,531
Total	**$54,918**	**$109,428**

The effective duration for the Foundation's fixed-income securities considered highly sensitive to changes in interest rates is as follows:

	2016	2015
Mortgage pass-through securities	1.20	2.26
Corporate asset-backed securities	0.78	1.47
Collaterized mortgage obligations	0.81	1.32

BCHO's fair value of fixed-income securities considered highly sensitive to changes in interest rates is as follows:

(in thousands of dollars)	2016	2015
Other asset-backed securities	$193	$218
Total	**$193**	**$218**

The effective duration for BCHO's fixed-income securities considered highly sensitive to changes in interest rates is as follows:

(in thousands of dollars)	2016	2015
Other asset-backed securities	2.7	2.7

Foreign currency risk

The Foundation's asset allocation policy includes an allocation to non-U.S. equities. These investments may be hedged at the discretion of the investment manager. Foreign currency risk is an accepted risk of the investment strategy. Portfolio guidelines for fixed-income securities also allow exposure to non-U.S. dollar denominated bonds. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency exchange contracts. Under the investment policies, such instruments are not permitted for speculative use or to create leverage.

At June 30, 2016 and 2015, the Foundation is subject to foreign currency risk as a result of holding various currency denominations in the following investments:

(in thousands of dollars)	2016	2015
EQUITY SECURITIES		
Swiss franc	$944	$944
British pound	1,694	1,694
Total equity securities	**2,638**	**2,638**
Commingled funds (various currency denominations)		
Commingled funds - Non-U.S. equity	307,931	307,931
Commingled funds - Non-U.S. bonds	52,119	52,119
Total commingled funds	**360,050**	**360,050**
Total exposure to foreign currency risk	**$362,688**	**$362,688**

At June 30, 2016 and 2015, BCHO was subject to foreign currency risk as a result of holding various currency denominations in the following investments:

(in thousands of dollars)	2016	2015
Commingled funds (various currency denominations)		
Commingled funds - Non-U.S. equity	$254	$310
Total exposure to foreign currency risk	**$254**	**$310**

Alternative investment risks

Alternative investments include ownership interests in a wide variety of partnership and fund structures that may be domestic or offshore. Generally, there is little or no regulation of these investments by the Securities and Exchange Commission or U.S. state attorneys general. These investments employ a wide variety of strategies including absolute return, hedge, venture capital, private equity and other strategies. Investments in this category may employ leverage to enhance the investment return. Underlying holdings can include financial assets such as marketable securities, non-marketable securities, derivatives, and synthetic and structured instruments; real assets; tangible and intangible assets; and other funds and partnerships. Generally, these investments do not have a ready market. Interest in these investments may not be traded without approval of the general partner or fund management.

Alternative investments are subject to all of the risks described previously related to equities and fixed-income instruments. In addition, alternative strategies and their underlying assets and rights are subject to a broad array of economic and market vagaries that can limit or erode value. The underlying assets may not be held by a custodian either because they cannot be, or because the entity has chosen not to hold them in this form. Valuations determined by the investment manager, who has a conflict of interest in that he or she is compensated for performance, are considered and reviewed by the Foundation management and Investment Committee. Real assets may be subject to

physical damage from a variety of means, loss from natural causes, theft of assets, lawsuits involving rights and other loss and damage including mortgage foreclosure risk. These risks may not be insured or insurable. Tangible assets are subject to loss from theft and other criminal actions, and from natural causes. Intangible assets are subject to legal challenge and other possible impairment.

Derivative financial instruments: futures

The Foundation has authorized some of its investment managers to use futures to manage market duration exposures in endowed managed portfolios. A futures contract is an agreement between the Foundation and a counterparty to buy or sell an asset at a set price on a future date. It is a standardized contract that can be easily bought and sold and is exchange-traded. Upon entering into such a contract, the Foundation is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contract is traded. Pursuant to the contract, the Foundation agrees to receive from, or pay to, the counter-party an amount of cash equal to the daily fluctuation in the value of the contract known as variation margin. Such variation margin is accounted for as unrealized appreciation or depreciation until the contract is closed, at the time the gains or losses are realized.

The Foundation considers its futures contracts to be investment derivatives. The fair value of futures held in separately managed accounts is included in the investments line item in the Statements of Net Position with the changes in fair value reflected as change in fair value of investments within the Statements of Revenue, Expenses and Changes in Net position.

As of June 30, 2016, the Foundation had no outstanding short futures contracts. Comparable amounts outstanding as of June 30, 2015 were 38 outstanding short futures contracts with a current notional value of ($5) million.

Endowment payout

As a result of market volatility, the market value of some permanent endowments can be less than the historical gift value of such endowments. The Foundation underwater amount of such endowments was $12 million and $1 million at June 30, 2016 and 2015, respectively. Under the Uniform Prudent Management of Institutional Funds Act, investment income and accumulated realized and unrealized gains may be expended in support of the operational requirements of UCSF programs. A portion of Foundation endowment payout may be reinvested if stipulated by agreement with the donor.

The annual payout rate is 5 percent of the average market value of the EIP for the previous 36 months, less a fee to recover endowment administration costs, with a floor and ceiling of 3.5 percent and 6 percent, respectively, of total year-end market value. Payout is distributed to individual funds annually based on average units outstanding during the year.

The Foundation EIP income and Foundation endowment payout are summarized in the two tables below:

(in thousands of dollars)	2016	2015
Total endowed investment pool income	**$10,504**	**$9,056**
Less:		
General and administrative expenses	(675)	(281)
Investment and foundation management fees	(6,087)	(4,430)
Endowment payout allocation	(3,641)	(4,300)
Investment income reinvested in the endowment pool	**$101**	**$45**

(in thousands of dollars)	2016	2015
Investment income, net	$4,700	$4,300
Net accumulated gains and corpus	44,657	31,866
Endowment payout	**$49,357**	**$36,166**

Endowment payout is shown net of endowment cost recovery fees of $4 million and $3 million for 2016 and 2015, respectively.

The spending policy for BCHO Foundation's endowment assets is a payout of 4 percent of the average market value of the prior 12 quarters. The average market value is calculated using the market value of the securities at the quarter end dates of September 30, December 31, March 31 and June 30. The endowment payout has been historically made annually to UCSF Benioff Children's Hospital Oakland.

4. Accounts Receivable

Accounts receivable and the allowances for uncollectible amounts at June 30, 2016 and 2015 for UCSF are as follows:

(in thousands of dollars)	2016			2015
	Campus	UCSF Health	Total UCSF	Total UCSF
Federal government	$64,265	-	$64,265	$36,979
State government	49	-	49	17,052
Local and private	79,763	-	79,763	47,454
Patient receivables	-	$541,693	541,693	499,210
Student	6,679	-	6,679	6,590
Other	51,340	58,533	109,873	80,237
Total accounts receivable	**202,096**	**600,226**	**802,322**	**687,522**
Less: Allowance for uncollectible amounts	(2,663)	(48,532)	(51,195)	(47,708)
Accounts receivable, net	**$199,433**	**$551,694**	**$751,127**	**$639,814**

Foundation net accounts receivable primarily consists of receivable for investments sold of $17 million at June 30, 2016 and $39 million at June 30, 2015. This is due to trade date versus settlement date differences with investment trades executed late in the fiscal year and where the cash settlement occurred after the fiscal year end.

5. Pledges Receivable

The composition of pledges receivable at June 30, 2016 and 2015 is as follows:

(in thousands of dollars)	UCSF		UCSF Foundation	
	2016	2015	2016	2015
Total pledges outstanding	$4,451	$5,013	$86,234	$147,549
Less: Unamortized discount to fair value	(3)	(17)	(1,702)	(2,759)
Less: Allowance for uncollectible pledges	(665)	(356)	(2,330)	(2,043)
Total pledges receivable, net	**(3,783)**	**4,640**	**82,202**	**142,747**
Less: Current portion of pledges receivable	(1,771)	(632)	(27,716)	(53,884)
Noncurrent portion of pledges receivable, net	**$2,012**	**$4,008**	**$54,486**	**$88,863**

Future gross receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2016 are as follows:

(in thousands of dollars)	UCSF	UCSF Foundation
Year ended June 30, 2016		
Pledges due in one year or less	$2,222	$28,996
Pledges due between one and five years	2,229	56,813
Pledges due in more than five years	-	425
Total pledges outstanding	**$4,451**	**$86,234**

In addition to the pledge balances and revenue reflected in these financial statements, the Foundation has conditional pledges that will be recognized as conditions and milestone events specified by the donors are met by the University.

6. Notes and Mortgages Receivable

Notes and mortgages receivable at June 30, 2016 and 2015, along with the allowances for uncollectible amounts for UCSF, are as follows:

(in thousands of dollars)	2016	2015
Notes and mortgages receivable	$42,957	$42,166
Less: Allowance for uncollectible amounts	(314)	(366)
Total notes and mortgages receivable, net	**42,643**	**41,800**
Less: Current portion of notes and mortgages receivable	(3,241)	(3,270)
Noncurrent portion of notes and mortgages receivable, net	**$39,402**	**$38,530**

7. Land, Infrastructure, Buildings, Equipment, Libraries and Collections

UCSF's capital asset activity for the years ended June 30, 2016 and 2015 is as follows:

(in thousands of dollars)	2014	Additions	Disposals	2015	Additions	Disposals	2016
ORIGINAL COST							
Land	$272,157	$108,860	$(643)	$380,374	$87,777	-	$468,151
Infrastructure	52,177	415	-	52,592	466	-	53,058
Buildings and improvements	4,051,542	1,330,722	(110,098)	5,272,166	110,254	$(355)	5,382,065
Equipment (includes software)	1,172,351	290,057	(47,132)	1,415,276	100,858	(21,271)	1,494,863
Libraries and collections	107,422	4,906	(678)	111,650	1,298	(451)	112,497
Construction in progress	1,322,220	(1,125,660)	-	196,560	63,611	-	260,171
Capital assets, at original cost	**$6,977,869**	**$609,300**	**$(158,551)**	**$7,428,618**	**$364,264**	**$(22,077)**	**$7,770,805**

(in thousands of dollars)	2014	Depreciation and Amortization	Disposals and Transfers	2015	Depreciation and Amortization	Disposals and Transfers	2016
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure, buildings and improvements	$1,885,355	$161,024	$(74,870)	$1,971,509	$184,346	$(1,397)	$2,154,458
Equipment (includes software)	712,116	127,847	(43,254)	796,709	150,367	(17,846)	929,230
Libraries and collections	79,518	621	(63)	80,076	546	(121)	80,501
Accumulated depreciation and amortization	**2,676,989**	**289,492**	**(118,187)**	**2,848,294**	**335,259**	**(19,364)**	**3,164,189**
Capital assets, net	**$4,300,880**			**$4,580,324**			**$4,606,616**

8. Debt

The University directly finances the construction, renovation and acquisition of certain facilities and equipment through the issuance of debt obligations. Commercial paper and bank loans provide for interim financing. Long-term financing includes revenue bonds, capital lease obligations and other borrowings.

Outstanding debt

UCSF's outstanding debt at June 30, 2016 and 2015 is as follows:

(in thousands of dollars)	Interest Rate Ranges	Maturity Years	2016	2015
INTERIM FINANCING:				
Commercial paper	0.4-0.6%	2016	$23,448	$3,784
Bank loans			-	208
LONG-TERM FINANCING:				
University of California General Revenue Bonds	0.4-7.6%	2017-2048	1,075,216	1,028,713
University of California Limited Project Revenue Bonds	0.7-6.3%	2017-2051	123,737	125,633
University of California Medical Center Pooled Revenue Bonds	0.3-6.6%	2017-2049	886,603	893,026
Other capital lease obligations	0.0-6.0%	2016-2042	4,584	6,481
CFIA third-party obligations	5.0-6.5%	2049	207,670	207,670
Unamortized premiums, net			63,996	61,084
Total outstanding debt			**2,385,254**	**2,326,599**
Less: Current portion of outstanding debt			(51,825)	(25,645)
Total long-term debt			**$2,333,429**	**$2,300,954**

Interest expense associated with financing projects during construction, net of any investment income earned on tax-exempt bond proceeds during construction, is capitalized. Total interest expense during the years ended June 30, 2016 and 2015 was $109 million and $83 million, respectively. Interest expense, net of investment income, totaling $4 million and $26 million, was capitalized during the years ended June 30, 2016 and 2015, respectively. The remaining $105 million in 2016 and $57 million in 2015 are reported as interest expense in the Statements of Revenues, Expenses and Changes in Net Position.

Outstanding debt activity

The activity with respect to UCSF's current and noncurrent debt for the years ended June 30, 2016 and 2015 is as follows:

YEAR ENDED JUNE 30, 2016 *(in thousands of dollars)*	Commercial Paper	Bank Loans	University Revenue Bonds	Capital Leases: Other	Third-Party CFIA	Total
Debt, beginning of year	$3,784	$208	$2,107,389	$6,481	$208,737	$2,326,599
New obligations	88,646	-	69,887	459	-	158,992
Refinancing	(68,982)	-	-	-	-	(68,982)
Principal payments	-	(208)	(23,007)	(2,356)	-	(25,571)
Amortization of premiums	-	-	(5,766)	-	(18)	(5,784)
Total debt, end of year	**23,448**	**-**	**2,148,503**	**4,584**	**208,719**	**2,385,254**
Less: Current portion	(23,448)	-	(26,167)	(2,210)	-	(51,825)
Total noncurrent debt, end of year	**$-**	**$-**	**$2,122,336**	**$2,374**	**$208,719**	**$2,333,429**

YEAR ENDED JUNE 30, 2015 *(in thousands of dollars)*	Commercial Paper	Bank Loans	University Revenue Bonds	Capital Leases: Other	Third-Party CFIA	Total
Debt, beginning of year	$13,688	$6,722	$1,828,542	$9,513	$208,875	$2,067,340
New obligations	131,652	-	296,364	2,041	-	430,057
Refinancing	(127,867)	-	6,876	-	-	(120,991)
Principal payments	(13,689)	(6,514)	(21,123)	(5,073)	-	(46,399)
Amortization of premiums	-	-	(3,270)	-	(138)	(3,408)
Total debt, end of year	**3,784**	**208**	**2,107,389**	**6,481**	**208,737**	**2,326,599**
Less: Current portion	(3,784)	(208)	(18,998)	(2,517)	(138)	(25,645)
Total noncurrent debt, end of year	**$-**	**$-**	**$2,088,391**	**$3,964**	**$208,599**	**$2,300,954**

Commercial paper

The commercial paper program is issued in two series with tax-exempt and taxable components. Commercial paper may be issued for interim/permanent financing for capital projects, interim financing of equipment, financing of working capital for UCSF Health and other working capital needs, and standby or interim financing for gift-financed projects. The program's liquidity is supported by available investments in STIP and TRIP. Commercial paper is collateralized by a pledge of the revenues derived from the ownership or operations of the projects financed and constitute limited obligations. There is no encumbrance, mortgage or other pledge of property securing commercial paper and the paper does not constitute general obligations of UCSF.

Bank loans

UCSF may use uncollateralized bank lines of credit with commercial banks to supplement commercial paper and to provide interim financing for buildings and equipment. Line of credit commitments expired as of June 30, 2016 and no new commitments were entered into during the year.

University of California revenue bonds

Revenue bonds have financed various auxiliary, administrative, academic, medical center and research facilities of UCSF. They generally have annual principal and semiannual interest payments, serial and term maturities, contain sinking fund requirements and may have optional redemption provisions. Revenue bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues, and do not constitute a general obligation of UCSF.

Revenue bond indentures require use of the facilities in a way which will not cause the interest on the tax-exempt bonds to be included in the gross income of the bondholders for federal tax purposes.

General Revenue Bonds are collateralized solely by general revenues as defined in the indenture. General revenues are certain operating and non-operating revenues of UCSF consisting of gross student tuition and fees, facilities and administrative cost recovery from contracts and grants, revenues from educational, auxiliary and other activities, and other revenues, including unrestricted investment income. The General Revenue Bond indenture requires UCSF to set rates, charges and fees each year sufficient for general revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. General revenues, as defined in the indenture, have been amended to include certain state appropriations as to secure payment of the General Revenue Bonds.

Medical Center Pooled Revenue Bonds are issued to finance the University's medical center facilities and are collateralized by a joint and several pledge of the gross revenues of all five of the University's medical centers. Medical center gross revenues are excluded from General Revenues. The Medical Center Pooled Revenue Bond indenture requires the medical centers to set rates, charges and fees each year sufficient for the medical center gross revenues to pay for the annual principal and interest on the bonds and certain other financial covenants.

Medical Center gross revenues are not pledged for any purpose other than under the indentures for the Medical Center Pooled Revenue Bonds and interest-rate swap agreements.

General Revenue Bonds totaling $70 million and $237 million in 2016 and 2015, respectively, were issued to finance land purchased at Mission Bay and to fund Parnassus seismic renovations. The bonds mature at various dates through 2050. The bonds have a stated average interest rate of 4.9 percent. The deferred premium will be amortized as a reduction of interest expense over the term of the bonds.

BCHO refinanced advances received from the University into University Revenue Bonds 2007 Series B during 2015. BCHO's total debt outstanding for this refinanced debt was $54 million and $56 million as of June 30, 2016 and 2015, respectively.

Capital leases

Capital leases outstanding totaled $5 million and $6 million for the years ended June 30, 2016 and 2015, respectively.

CFIA third-party obligations

UCSF and CFIA have entered into an operating agreement that governs the arrangement between the parties with respect to the development, construction and financing of the Sandler Neurosciences Center. CFIA, through a conduit issuer, issued taxable Build America Bonds (BABs) as well as tax-exempt revenue bonds to finance the Center.

UCSF entered into a ground lease with CFIA, and CFIA subleased the ground to the developer in exchange for a commitment to pay amounts equal to base rent payments that are due to the developer under the building lease between UCSF and the developer. The sublease for the land was effective on March 24, 2010 and will terminate upon expiration of the building lease base rent payments. The developer has assigned the building lease payments to CFIA's trustee, therefore, UCSF makes payments directly to CFIA's trustee to pay debt service for the Series 2010A and Series 2010B revenue bonds starting on the commencement date of the ground sublease.

Under the ground lease between UCSF and CFIA, the ground has been leased to CFIA in exchange for the federal interest subsidies that are received by CFIA for the BABs subsidy. All BABs subsidy payments received by CFIA since the commencement of the building lease payments have been paid to UCSF. This ground lease was effective on March 24, 2010 and will terminate upon expiration of the building lease.

Derivative financial instruments

UCSF has entered into an interest-rate swap agreement to limit the exposure to changes in market interest rates in connection with certain variable-rate Medical Center Pooled Revenue Bonds. The interest-rate swap agreement is a contractual agreement entered into between UCSF and a counterparty under which each agrees to exchange periodic fixed and variable payments for an agreed period of time based upon a notional amount of principal or value of the underlying contract. The payments correspond to an equity index, interest rate or currency. The net differential to be paid or received is recognized over the life of the agreements as an adjustment to interest expense. UCSF's counterparty is a major financial institution.

Derivative financial instruments are recorded at fair value as either deferred outflows or deferred inflows in the Statements of Net Position. Certain derivative financial instruments are determined to be hedging derivatives and designated as either a fair value or cash flow hedge. Under hedge accounting, changes in the fair value of hedging derivatives are considered to be deferred inflows, for hedging derivatives with positive fair values, or deferred outflows, for hedging derivatives with negative fair values. Changes in the fair value of derivatives that are not hedging derivatives are recorded as net appreciation or depreciation of investments in the Statements of Revenues, Expenses and Changes in Net Position.

The objectives and terms of the hedging derivative instruments outstanding at June 30, 2016 and 2015, along with the credit rating of the associated counterparty, are as follows:

(in thousands of dollars)		Notional Amount							Fair Value	
Type	Objective	2016	2015	Effective Date	Maturity Date	Cash Paid or Received	Terms	Counterparty Credit Rating	2016	2015
Pay fixed, receive variable interest-rate swap	Hedge of changes in cash flows on variable-rate Medical Center Pooled Revenue Bonds	$70,880	$74,110	2007	2032	None	Pay fixed 3.5897%; receive 58% of 1-month LIBOR plus 0.48%	A1/A	$(14,188)	$(11,108)

Hedging derivative financial instrument risk factors

Credit risk

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

Although UCSF has entered into the interest-rate swaps with creditworthy financial institutions to hedge its variable-rate debt, there is credit risk for losses in the event of non-performance by counterparties or unfavorable interest-rate movements. There are no collateral requirements.

Interest-rate risk

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

Basis risk

There is a risk that the basis for the variable payment received on interest-rate swaps will not match the variable payment on the bonds that expose UCSF to basis risk whenever the interest rates on the bonds are reset. The interest rate on the bonds is a tax-exempt interest rate, while the basis of the variable receipt on the interest-rate swaps is taxable. Tax-exempt interest rates can change without a corresponding change in LIBOR due to factors affecting the tax-exempt market that do not have a similar effect on the taxable market.

Termination risk

There is termination risk for interest-rate swaps associated with variable-rate bonds in the event of non-performance by counterparties in an adverse market, resulting in cancellation of the synthetic interest rate and returning the interest-rate payments to the variable interest rates on the bonds. In addition, depending on the agreement, interest-rate swaps may be terminated if the swap counterparty's credit quality rating, as issued by Moody's or Standard & Poor's, falls below certain thresholds. 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.

Future debt service and hedging derivative interest-rate swaps

Future debt service payments for each of the five fiscal years subsequent to June 30, 2016 and thereafter are shown below:

(in thousands of dollars)	Commercial Paper	University Revenue Bonds	Capital Leases	Third-Party CFIA	Total Payments	Principal Payments	Interest Payments
Years ending June 30,							
2017	$23,448	$132,330	$2,270	$13,177	$222,624	$103,682	$118,942
2018	-	137,281	1,462	13,177	149,681	31,834	117,847
2019	-	137,427	524	13,177	148,863	32,084	116,779
2020	-	138,228	260	13,177	149,385	33,766	115,619
2021	-	154,912	153	16,737	169,497	55,166	114,331
2022-2026	-	755,836	-	83,817	827,838	296,560	531,278
2027-2031	-	735,003	-	82,670	805,313	354,545	450,768
2032-2036	-	676,430	-	79,403	742,928	392,320	350,608
2037-2041	-	547,567	-	75,384	617,722	374,288	243,434
2042-2046	-	426,700	-	70,430	497,130	360,558	136,572
2047-2051	-	155,332	-	39,417	194,748	146,455	48,293
2052-2115	-	562,748	-	-	562,748	140,000	422,748
Total future debt service	**23,448**	**4,559,794**	**4,669**	**500,566**	**5,088,477**	**$2,321,258**	**$2,767,219**
Less: Interest component of future payments	-	(2,474,238)	(85)	(292,896)	(2,767,219)		
Principal portion of future payments	**23,448**	**2,085,556**	**4,584**	**207,670**	**2,321,258**		
Adjusted by:							
Unamortized bond premium	-	62,947	-	1,049	63,996		
Total debt	**$23,448**	**$2,148,503**	**$4,584**	**$208,719**	**$2,385,254**		

Medical Center Pooled Revenue Bonds of $102 million are variable-rate demand bonds which give the debt holders the ability to tender the bonds back to the University upon demand. In connection with $70 million of these outstanding variable-rate demand bonds, the University has entered into a bank standby bond purchase agreement to provide funds for the purchase of the bonds that have been tendered and not remarketed. The standby bond purchase agreement is scheduled to terminate on June 30, 2017. The University is required to repurchase any bonds held by the bank on the termination date of the agreement.

As rates vary, variable-rate bond interest payments and net swap payments will vary. Although not a prediction by the University of the future interest cost of the variable-rate bonds or the impact of the interest-rate swaps, using rates as of June 30, 2016, combined debt service requirements of the variable-rate debt and net swap payments are as follows:

(in thousands of dollars)	Variable-Rate Bond			
	Principal	Interest	Interest-Rate Swap, Net	Total Payments
Years ending June 30,				
2017	$3,340	$241	$2,036	$5,617
2018	3,465	230	1,940	5,635
2019	3,590	218	1,839	5,647
2020	3,725	206	1,740	5,671
2021	3,860	193	1,628	5,681
2022-2026	21,495	758	6,385	28,638
2027-2031	25,695	365	3,039	29,099
2032	5,710	18	157	5,885
Total	**$70,880**	**$2,229**	**$18,764**	**$91,873**

9. Self-Insurance and Other Liabilities

Self-insurance programs

The University is self-insured 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 by the University when it is probable that 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 University charges UCSF predetermined premium rates applied to payroll and other expenses. These amounts are reflected as operating expenses in UCSF's Statements of Revenues, Expenses and Changes in Net Position. UCSF's financial statements do not reflect any liability amounts for self-insurance claims, as these estimated liabilities are recorded by the University.

UCSF Health is self-insured for medical malpractice, workers' compensation and employee health care. Self-insurance liability of $19 million and $18 million is included in noncurrent liabilities at June 30, 2016 and 2015, respectively.

Other liabilities

UCSF's other liabilities at June 30, 2016 and 2015 are as follows:

(in thousands of dollars)	2016		2015	
	Current	Noncurrent	Current	Noncurrent
Vacation leave	$87,143	$28,629	$84,350	$25,586
UCSF Health third-party payor liability	77,145	19,762	59,244	-
Interest-rate swap agreements	-	14,188	-	11,108
Accrued interest	6,825	-	16,287	-
Unearned lease revenue	759	62,249	-	63,767
Other	12,615	29,327	19,384	14,044
Total other liabilities	**$202,557**	**$140,726**	**$179,265**	**$114,505**

Foundation's other liabilities at June 30, 2016 and 2015 are as follows:

(in thousands of dollars)	2016		2015	
	Current	Noncurrent	Current	Noncurrent
Payable to UCSF	$34,623	-	$11,386	-
Other	-	$5,832	-	$7,385
Total other liabilities	**$34,623**	**$5,832**	**$11,386**	**$7,385**

10. Deferred Outflows and Inflows of Resources

The composition of deferred outflows of resources at June 30, 2016 and 2015 is summarized as follows:

(in thousands of dollars)	2016	2015
Net pension liability (including BCHO)	$949,831	$924,218
Loss on debt refunding	13,727	898
Interest rate swap agreements	14,188	11,108
Total deferred outflows	**$977,746**	**$936,224**

Deferred inflows of resources at June 30, 2016 and 2015 are related to pension obligations.

11. Retirement Plans

Substantially all full-time employees of UCSF participate in the University of California Retirement System (UCRS), which is administered by the University. The UCRS consists of The University of California Retirement Plan (UCRP), a single-employer defined benefit plan, and the University of California Retirement Savings Program (UCRSP), which includes four defined contribution plans with several investment portfolios generally funded with employee non-elective and elective contributions. The Regents have the authority to establish and amend the benefit plans.

University of California Retirement Plan

UCRP provides lifetime retirement income, disability protection and survivor benefits to eligible employees. Benefits are based on the average of the highest three years of compensation, age, and years of service and are subject to limited cost of living increases.

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

The Regents determine the portion of the total contribution to be made by UCSF and the employees. Employee contributions by represented employees are subject to collective bargaining agreements. The UCSF contribution rate to UCRP was 14 percent of covered payroll in 2016 and 2015. Employee contribution rates ranged from 7 percent to 9 percent in 2016 and 2015. The member contribution rate for the employees in the new benefit tier applicable to employees hired on or after July 1, 2013 is 7 percent, and the employer rate is uniform across all members.

The University's membership in UCRP for the campuses and medical centers at June 30, 2016 was 253,665 total members consisting of 56,950 retirees and beneficiaries receiving benefits, 70,808 inactive members entitled to but not yet receiving benefits, 73,612 active vested members and 52,295 active nonvested members.

The net position held in trust for pension benefits attributable to UCRP included in the UCRP Statement of Plan Fiduciary Net Position was $54 billion and $55.1 billion at June 30, 2016 and June 30, 2015, respectively. Total pension liability was $69 billion and $66 billion, resulting in a net pension liability of $15 billion and $11 billion at June 30, 2016 and 2015, respectively.

Net pension liability

The University's net pension liability was measured as of June 30, 2016 based upon rolling forward the results of the actuarial valuations as of July 1, 2015. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future.

The University's net pension liability was calculated using the following methods and assumptions:

(shown in percentages)	2016	2015
Inflation	3%	3%
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 were changed in 2016 based upon the results of an experience study conducted for the period of July 1, 2010 through June 30, 2014. For active members, inactive members and healthy retirees, the RP-2015 White Collar Mortality Tables are used (separate tables for males and females), projected with the two-dimensional MP2015 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2015 Disabled Retiree Mortality Table, projected with the two-dimensional MP2015 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 for each major asset class are summarized as follows:

(shown in percentages)	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	3.8
TIPS	4.5	0.4
Real estate	5.5	4.8
Private equity	8.0	11.2
Absolute return	6.5	4.2
Real assets	3.0	4.4
Total	**100.0 %**	**5.6 %**

Discount rate

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

Sensitivity of the net pension liability to the discount rate assumption

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

(in thousands of dollars)	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
Medical Center	$1,837,869	$1,171,002	$613,746
Campus	1,968,730	1,254,381	657,446
Total	**$3,806,599**	**$2,425,383**	**$1,271,192**

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 for the year ended June 30, 2016:

(in thousands of dollars)	2016			2015
	Medical Center	Campus	Total	Total
Deferred outflows of resources				
Changes of assumptions or other inputs	$153,643	$164,582	$318,225	$496,601
Net difference between projected and actual earnings on pension plan investments	223,254	239,150	462,404	310,614
Changes in proportion and differences between location's contributions and proportionate share of contributions	93,910	6,831	100,741	71,308
Difference between expected and actual experience	11,443	12,257	23,700	-
Total deferred outflows of resources	**$482,250**	**$422,820**	**$905,070**	**$878,523**
Deferred inflows of resources				
Difference between expected and actual experience	$23,216	$24,869	$48,085	$67,260
Changes of assumptions or other inputs	75,296	80,658	155,954	232,460
Net difference between projected and actual earnings on pension plan investments	-	-	-	502,353
Changes in proportion and differences between location's contributions and proportionate share of contributions	16,712	42,968	59,680	81,735
Total deferred inflows of resources	**$115,224**	**$148,495**	**$263,719**	**$883,808**

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)	Medical Center	Campus	Total
Year ending June 30,			
2017	$65,836	$36,066	$101,902
2018	44,312	15,415	59,727
2019	147,628	129,418	277,046
2020	101,758	91,095	192,853
2021	7,492	2,331	9,823
Total	**$367,026**	**$274,325**	**$641,351**

BCHO Pension Plan

BCHO has a noncontributory defined benefit plan subject to the single-employer defined benefit under ERISA rules that covers substantially all full-time employees if they work 1,000 hours or more in a 12-month eligibility period. The BCHO pension plan provides retirement, disability and death benefits to plan participants. Benefits are based on participant's length of service, age at retirement and average compensation as defined by the BCHO pension plan. Employer contributions are determined under IRC Section 430. Employees are not required or permitted to contribute to the plan.

Membership in the BCHO plan at June 30, 2016 was 3,745 total members consisting of 794 retirees and beneficiaries receiving benefits, 1,102 inactive members entitled to but yet not receiving benefits and 1,849 active members.

BCHO net pension liability

The net pension liability for the plan was calculated based upon the following assumptions: 3.0 percent inflation, 7.0 percent investment rate of return, 5.0 percent projected salary increases through 2017, 4.0 percent thereafter and no cost-of-living adjustments.

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

(shown in percentages)	Portfolio Percentage	Projected Real Rate of Return
Asset class		
U.S. equity	51.6 %	5.9 %
Developed international equity	1.7	6.9
Emerging market equity	3.6	10.3
Core fixed income	43.1	1.6
Total	**100.0** %	

BCHO discount rate

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumes that BCHO 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 BCHO plan fiduciary net position is projected to be available to make all projected future benefit payments for current active and inactive employees.

BCHO sensitivity of the net pension liability to the discount rate assumption

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

(in thousands of dollars)	1% Decrease (6.0%)	Current Discount (7.0%)	1% Increase (8.0%)
Net pension liability (asset)	$126,691	$66,416	$16,708

BCHO deferred outflows of resources and deferred inflows of resources

BCHO's deferred outflows and inflows of resources are related to its pension obligations. The composition of deferred outflows and inflows of resources at June 30, 2016 and 2015 are summarized as follows:

(in thousands of dollars)	2016	2015
Deferred outflows of resources		
Difference between expected and actual experience	$3,528	$4,720
Changes of benefit terms	254	317
Changes of assumptions	27,877	30,373
Net difference between projected and actual earnings on pension plan investments	13,102	10,285
Total deferred outflows of resources	**$44,761**	**$45,695**
Deferred inflows of resources		
Net difference between projected and actual earnings on pension plan investments	$3,030	$22,319
Total deferred inflows of resources	**$3,030**	**$22,319**

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

(in thousands of dollars)	
Year ending June 30,	
2017	$5,571
2018	8,256
2019	13,569
2020	11,209
2021	3,126
Thereafter	-
Total	**$41,731**

University of California Retirement Savings Program

UCRSP includes four defined contribution plans providing savings incentives and additional retirement security for all eligible employees:

- Defined Contribution Plans (Defined Contribution Plan and Supplemental Defined Contribution Plan)
- Tax Deferred 403(b) Plan
- 457(b) Deferred Compensation Plan
- University of California Public Employees Retirement System-Voluntary Early Retirement Incentive Program Plan (PERS-VERIP)

The Defined Contribution Plan accepts both pre-tax and after-tax employee contributions. The Supplemental Defined Contribution Plan accepts employer contributions on behalf of certain qualifying employees. The 403(b) and 457(b) Plans accept pre-tax employee contributions, and UCSF may also make contributions on behalf of certain members of management. PERS-VERIP is a defined benefit plan providing lifetime supplemental retirement income and survivor benefits. Benefits from the plans are based on participants' mandatory and voluntary contributions, plus earnings, and are immediately vested.

Information related to plan assets and liabilities for UCSF is not readily available. Additional information on the retirement plans can be obtained from the 2015-2016 Annual Reports of the University of California Retirement Plan, the University of California Retirement Savings Program, and the University of California PERS-VERIP

12. Retiree Health Plan

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 (retirees) of the University and its affiliates. The Regents have the authority to establish and amend the plans.

The contribution requirements of the eligible retirees and the participating University locations, such as UCSF, are established and may be amended by the University. Membership in the UCRP is required to become eligible for retiree health benefits. Contributions toward benefits are shared with retirees. 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.

Participating University locations, such as UCSF, are required to contribute at a rate assessed each year by the UCRHBT. The contribution requirements are based on projected pay-as-you-go financing requirements. The average assessment rates were $2.65 and $3.24 per $100 of UCRP-covered payroll, resulting in UCSF contributions of $31 million and $50 million for the years ended June 30, 2016 and 2015, respectively.

The actuarial value of UCRHBT assets and the actuarial accrued liability associated with the University's campuses and medical centers using the entry age normal cost method as of July 1, 2015, the date of the latest actuarial valuation, were $50.6 million and $17.3 billion, respectively. The net position held in trust for retiree health benefits on the UCRHBT's statement of plan fiduciary net position was $50.6 million and $65.2 million at June 30, 2016 and 2015, respectively. For the years ended June 30, 2016 and 2015, combined contributions from the University's campuses and medical centers were $406.6 million and $350.2 million, respectively, including an implicit subsidy of $97.0 million and $91.6 million, respectively. The University's annual retiree health benefit expense for its campuses and medical centers was $1.4 billion and $1.3 billion for the years ended June 30, 2016 and 2015, respectively. As a result of contributions that were less than the retiree health benefit expense, the University's obligation for retiree health benefits attributable to its campuses and medical centers totaling $10.2 billion and $9.1 billion at June 30, 2016 and 2015, respectively, increased by $1.0 billion and $924.0 million for the years ended June 30, 2016 and 2015, respectively.

Retiree health plan information related to plan assets and liabilities for UCSF is not readily available. Additional information can be obtained from the 2015-2016 Annual Report of the University of California Retiree Health Benefit Trust.

13. Endowments and Foundation Gifts

Endowments and gifts are administered either by the University, Foundation or BCHO Foundation.

The book value and market value for Foundation endowments for the years ended June 30, 2016 and 2015 are as follows:

(in thousands of dollars)	2016		2015	
	Book Value	Market Value	Book Value	Market Value
Endowments - Regents	$507,648	$1,153,861	$454,220	$1,175,856
Endowments - Foundation	852,909	958,385	755,682	947,825
Total endowments	**$1,360,557**	**$2,112,246**	**$1,209,902**	**$2,123,681**

The Regents' endowments

The endowments held by the Regents are administered by the University and related investments are not reflected in UCSF's financial statements. The portion of investment returns earned on endowments held by the Regents and distributed each year to support current operations is calculated based on a rate approved by the Regents, currently 4.75 percent, of the 60-month moving average of the GEP market value. The total distribution to UCSF from endowments held by the Regents was $42.7 million and $45.0 million for the years ended June 30, 2016 and 2015, respectively.

UCSF Foundation

Under University policies approved by the Regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the missions of the Campus and the University. Although governed by an independent board, the Foundation is affiliated with, and its assets are dedicated for, the sole benefit of UCSF. During the year ended June 30, 2016, gifts of $181.5 million comprised of $38.1 million from earnings on underlying endowment investments and $143.4 million from private gifts were transferred to UCSF from the Foundation. This is comparable with $142.5 million comprised of $31.9 million from earnings on underlying endowment investments and $110.6 million from private gifts transferred during 2015.

BCHO Foundation

The book value and market value for BCHO Foundation endowments for the year ended June 30, 2016 are as follows:

(in thousands of dollars)	2016		2015	
	Book Value	Market Value	Book Value	Market Value
Endowments - Foundation	$200,004	$191,374	$199,296	$199,251
Total endowments	**$200,004**	**$191,374**	**$199,296**	**$199,251**

Endowment payouts are made on an annual basis unless otherwise agreed to by BCHO Foundation, but not more frequently than quarterly. The transfer of endowment earnings to the hospital is designated to a specific program or is unrestricted based upon the donors' stipulation.

14. Segment Information

UCSF's significant identifiable activities, for which revenue bonds are outstanding, are related to UCSF Health. UCSF Health's operating revenues and expenses consist primarily of revenues associated with patient care and the related costs of providing that care. Condensed financial statement information for UCSF Health is as follows:

(in thousands of dollars)	2016	2015
Revenue bonds outstanding	$832,979	$836,894
Related debt service payments	54,236	51,127
Bonds due serially through	2049	2049
CONDENSED STATEMENTS OF NET POSITION		
ASSETS		
Current assets	$1,120,331	$1,063,447
Capital assets, net	2,381,726	2,405,012
Other assets	224,590	227,844
Total assets	**3,726,647**	**3,696,303**
DEFERRED OUTFLOWS OF RESOURCES	542,005	498,655
LIABILITIES		
Current liabilities	510,171	443,526
Long-term debt	829,519	833,600
Pension obligations	1,237,418	828,623
Other noncurrent liabilities	371,515	306,980
Total liabilities	**2,948,623**	**2,412,729**
DEFERRED INFLOWS OF RESOURCES	118,254	423,612
NET POSITION		
Invested in capital assets, net of debt	1,475,111	1,511,561
Restricted	63,785	64,263
Unrestricted	(337,121)	(217,207)
Total net position	**$1,201,775**	**$1,358,617**

(in thousands of dollars)	2016	2015
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		
Operating revenues	$3,567,317	$3,258,998
Operating expenses	(3,482,411)	(2,992,801)
Depreciation expense	(205,146)	(164,916)
Operating income	**(120,240)**	**101,281**
Nonoperating revenue	(15,663)	28,812
Income before other changes in net position	**(135,903)**	**130,093**
Heath systems support	(64,055)	(76,250)
Changes in allocation for pension payable to University	(12,414)	(11,704)
Other, including donated assets	55,530	102,655
Increase in net position	**(156,842)**	**144,794**
Net position		
Beginning of year, as previously reported	1,358,617	782,669
Cumulative effect of reporting entity changes		431,154
Beginning of year, as restated	1,358,617	1,213,823
End of year	**$1,201,775**	**$1,358,617**
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	$214,823	$259,632
Noncapital financing activities	(47,456)	(56,304)
Capital and related financing activities	(175,565)	(295,142)
Investing activities	6,557	26,426
Net increase in cash	**(1,641)**	**(65,388)**
Cash and cash equivalents, beginning of year	452,342	517,730
Cash and cash equivalents, end of year	**$450,701**	**$452,342**

15. Commitments and Contingencies

Commitments

UCSF has entered into various construction contracts. Amounts committed but unexpended for UCSF construction contracts totaled approximately $271 million and $265 million at June 30, 2016 and 2015, respectively. Of the $271 million at June 30, 2016, $102 million relates to UCSF Health and $169 million relates to the Campus.

UCSF lease land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2016 and 2015 were $35 million and $47 million, respectively. The terms of the leases extend through June 2047.

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

(in thousands of dollars)	UCSF
Year ending June 30,	
2017	$57,279
2018	54,220
2019	42,855
2020	34,690
2021	34,633
Thereafter	63,910
Total	**$287,587**

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.

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

16. Operating Expenses by Function

Operating expenses, by functional classification, for the years ended June 30, 2016 and 2015, are as follows:

(in thousands of dollars)	2016	2015
Instruction	$340,513	$316,944
Research	981,526	826,036
Public service	111,433	97,828
Academic support	368,038	314,447
Student services	25,819	21,669
Institutional support	214,994	176,487
Operations and maintenance of plant	77,631	83,407
Student financial aid	17,874	15,491
Medical center	3,421,853	3,029,683
Auxiliary enterprises	32,295	25,991
Depreciation	335,259	252,610
Impairment of capital assets	845	558
Total operating expenses	**$5,928,080**	**$5,161,151**

PATIENT CARE EDUCATION RESEARCH

"Not only does UCSF have a tremendous impact locally, but the work that we do also makes a significant difference both nationally and internationally. Our discovery is critical to driving the future of health care."

CHANCELLOR SAM HAWGOOD

UCSF

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The UCSF 2016 Annual Financial Report was prepared by the Controller's Office of the University of California, San Francisco and is available online at: http://controller.ucsf.edu/fin_statements

Consolidated Audited Financial Reports and A-133 Audit Reports for the University of California are located at: http://reportingtransparency.universityofcalifornia.edu