

This document reflects the result of analyses, discussions and review by UCOP staff and PricewaterhouseCoopers (PwC) to date. The document is subject to change pending additional discussions with PwC; however, it represents the best information available to date.

University of California GASB 35 Financial Statement Presentation

Issues Resolution Memo No. 115

GASB Statements No. 34 and 35 Financial Statement Presentation Format—Medical Center Primary Statements

Define Issues

The University must develop a presentation format for medical center primary statements to support the reporting standards established by GASB Statements No. 34 and 35.

Background

During 1999, the Government Accounting Standards Board (GASB) introduced GASB Statements 34 and 35. These Statements substantially revised the standards for external financial reporting by public institutions. The new reporting standards are required for the fiscal year beginning July 1, 2001, with comparative information for the prior year.

According to the new standards, the separately issued financial statements of public colleges and universities, including the UC medical centers, must include:

- Management's Discussion and Analysis
- Statement of Net Assets
- Statement of Revenues, Expenditures and Changes in Net Assets
- Statement of Cash Flows
- Notes to the Financial Statements

Financial statements must be prepared in accordance with GAAP (generally accepted accounting principles) and are subject to audit under GAAS (generally accepted auditing standards).

In order to identify all additional information needed to comply with the GASB reporting requirements, the University must develop a medical center financial statement presentation template that will be used to identify necessary information currently not being tracked within the medical center financial system, if any.

Recommended Approach

Exhibit 1 provides a draft template of the financial statement to be used by the University medical centers beginning in the FY 2001-2002 Annual Report. The intent of Exhibit 1 is to assist the medical centers in thinking through the issues and demonstrate how the June 30, 2002 medical center financial statements will be presented. The Exhibit will be updated, as necessary, to incorporate changes and modifications that continue to be identified through the GASB implementation process.

Next Steps—Required Actions

- UCOP will update Exhibit 1, as necessary. Updates will be posted on the University's GASB IRM website.

IRM No. 115—Exhibit 1 (as of August 6, 2002)

**University of California,
Davis Medical Center**
Report on Audits of Financial Statements
For the Years Ended June 30, 2002 and 2001

University of California, Davis Medical Center

Management Discussion and Analysis

(Dollars in thousands)

University of California, Davis Medical Center

Report on Audits of Financial Statements

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University of California, Davis Medical Center

Management Discussion and Analysis

(Dollars in thousands)

MD&A Outline: (GASB requires factually based discussions)

1. Write a brief discussion of the basic financial statements (i.e., Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flow). Describe the purpose of each statement, the relationship of the statements to each other, and the significant differences in the information provided by each statement.
2. Analyze the medical center's financial activities for the current year (e.g., changes in payor mix, financial conditions impacted by economics, legislation – both state and federal, contracts, market, labor, and any local issues, etc.).
3. Analyze how the current fiscal year compares to the prior fiscal year and explain the reason(s) for significant differences. Indicate improvement or deterioration in accounts and explain why.
4. Analyze the Statements of Net Assets by describing current fiscal year's conditions and compare the current fiscal year to the prior fiscal year, especially in the following areas:
 - Total assets (capital and other)
 - Total liabilities (long-term and other)
 - Total net assets (amounts invested in capital assets net of related debt)
 - Change in net assets
 - Ending net assets
5. Analyze the Statements of Revenues, Expenses and Changes in Net Assets by describing the current fiscal year's conditions and compare the current fiscal year to the prior fiscal year. Specific analysis should be made in the following areas:
 - Net revenues by payor
 - Total revenues (both patient service revenues and other operating revenues)
 - Total expenses (by account whenever significant)
 - Non-operating income and adjustments
 - Contributions (e.g., state capital appropriations and capital gifts)
 - Special and extraordinary items
 - Equity transfers for Health Systems Support or transfers to the campus
6. Analyze the acquisition of capital assets and the funds used. Describe any debt financing, changes in credit rating and debt limitations that could affect current capital financing.
7. Describe any current events that could have a future impact on the medical center's financial position.

(For Example:

- OIG's decision about the SB 855 Program
- Regulations on the Upper Payment Limits
- Compliance with SB 1953
- HIPAA)

Report of Independent Accountants

The Regents of the University of California

(Wording to be added)

University of California, Davis Medical Center

Statements of Net Assets

June 30, 2002 and 2001

(Dollars in thousands)

	2002	2001
Assets		
Current assets:		
Cash and cash equivalents		
Restricted cash and cash equivalents, held by Trustee		
Patient accounts receivable, net of estimated uncollectibles of \$xx,xxx and \$29,589, respectively		
Other receivables		
Inventory		
Prepaid expenses and other assets	_____	_____
Total current assets	_____	_____
Restricted cash and cash equivalents, held by Trustee		
Capital assets, net		
Investments in joint ventures		
Other assets	_____	_____
Total assets	=====	=====
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses		
Accrued salaries and benefits		
Third-party payor settlements		
Current portion of long-term debt and capital leases		
Other liabilities	_____	_____
Total current liabilities	_____	_____
Long-term debt and capital leases, net of current portion	_____	_____
Total liabilities	_____	_____
Net Assets		
Invested in capital assets, net of related debt		
Restricted for:		
Nonexpendable:		
(if any)		
Expendable:		
Capital projects		
Debt service		
Other		
Unrestricted	_____	_____
Total net assets	_____	_____

The accompanying notes are an integral part of these financial statements.

University of California, Davis Medical Center

Statements of Revenues, Expenses and Changes in Net Assets

For the Years Ended June 30, 2002 and 2001

(Dollars in thousands)

	2002	2001
Net patient service revenue		
Other operating revenue:		
Clinical teaching support		
Other		
Total other operating revenue		
Total operating revenue		
Operating expenses:		
Salaries and employee benefits		
Professional services		
Medical supplies		
Other supplies and purchased services		
Depreciation and amortization		
Provision for doubtful accounts		
Insurance		
Other		
Total operating expenses		
Income (loss) from operations		
Nonoperating revenue (expenses):		
Interest income		
Interest expense		
Gain (loss) on disposal of capital assets		
Other		
Total nonoperating revenues (expenses)		
Income (loss) before other changes in net assets		
Other changes in net assets:		
State and federal capital appropriations		
Health systems support		
Transfers to (from) University		
Increase in net assets		
Net assets-beginning of year		
Net assets-end of year		

The accompanying notes are an integral part of these financial statements.

University of California, Davis Medical Center

Statements of Cash Flows

For the Years Ended June 30, 2002 and 2001

(Dollars in thousands)

	2002	2001
Cash flows from operating activities:		
Receipts from patients and third-party payors		
Payments to employees		
Payments to suppliers		
Payments for benefits		
Other receipts (payments)		
Net cash provided (used) by operating activities		
Cash flows from noncapital financing activities:		
Health systems support		
Transfers to University		
Other		
Net cash provided (used) by noncapital financing activities		
Cash flows from capital and related financing activities:		
State capital appropriations		
Proceeds from debt issuance		
Proceeds from sale of capital assets		
Purchases of capital assets		
Principal paid on long-term debt and capital leases		
Interest paid on long-term debt and capital leases		
Transfers from University		
Net cash provided (used) by capital and related financing activities		
Cash flows from investing activities:		
Interest income received		
Purchase of investments in joint venture		
Net cash provided (used) by investing activities		
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents-beginning of year		
Cash and cash equivalents-end of year		

The accompanying notes are an integral part of these financial statements.

University of California, Davis Medical Center

Statements of Cash Flows (continued)

For the Years Ended June 30, 2002 and 2001

(Dollars in thousands)

	2002	2001
Reconciliation of operating revenues (expenses) to net cash provided (used) by operating activities:		
Income (loss) from operations		
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation and amortization expense		
Provision for doubtful accounts		
Changes in operating assets and liabilities:		
Patient accounts receivable		
Other receivables		
Inventory		
Investment in joint venture		
Prepaid expenses and other assets		
Accounts payable and accrued expenses		
Accrued salaries and benefits		
Third-party payor settlements		
Other liabilities	_____	_____
Net cash provided (used) by operating activities	_____	_____

Supplemental noncash activities information:

Investment income from joint ventures
Capital assets acquired through capital leases
Capital assets acquired with a liability at year-end
Gain (loss) on disposal of capital assets
Gifts of capital assets

University of California, Davis Medical Center

Notes to Financial Statements

(Dollars in thousands)

1. Organization

The University of California, Davis Medical Center (the “Medical Center”) is a part of the University of California (the “University”). The Regents of the University of California (“The Regents”), a California public corporation under Article IX, Section 9 of the California Constitution, is governed by a 26 member independent board. The Medical Center’s activities are monitored by The Regents’ Committee on Health Services, with direct management authority being delegated to the Medical Center Director by the Chancellor of the Davis campus. The Medical Center has _____ licensed beds.

2. Summary of Significant Accounting Policies

Basis of Presentation – The financial statements of the Medical Center have been prepared in accordance with generally accepted accounting principles, including all applicable statements of the Governmental Accounting Standards Board (“GASB”), using the economic resources measurement focus and the accrual basis of accounting. In addition, these statements follow generally accepted accounting principles applicable to the health care industry, which are included in the American Institute of Certified Public Accountants’ Audit and Accounting Guide, *Health Care Organizations* to the extent that these principles do not contradict GASB.

GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, an amendment of Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, was adopted by the Medical Center on July 1, 2001. Statement No. 35 establishes a fundamentally new financial reporting model for all public colleges and universities, including their medical centers. Financial reporting requirements include a management’s discussion and analysis; basic financial statements consisting of a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows; and notes to the financial statements.

GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*, were also adopted by the Medical Center on July 1, 2001. Statement No. 37 clarifies guidance to be used in preparing management’s discussion and analysis and Statement No. 38 modifies, adds and deletes various note disclosure requirements.

University of California, Davis Medical Center

Notes to Financial Statements

(Dollars in thousands)

2. Summary of Significant Accounting Policies

Basis of Presentation (Continued)

The effect of the adoption of the new standards described above did not result in any change to total net assets or the change in net assets. The primary effects were the reclassification of interest expense from an operating to a non-operating expense, and the restatement of fund balances to net assets, which are as follows:

June 30, 2000 fund balances, as previously reported	Reclassification of fund balances	June 30, 2000 net assets, restated			
		Invested in Capital Assets, net	Restricted		Unrestricted
			Nonexpendable	Expendable	
Operating Unexpended Plant Investment in Plant					
Total	\$0	\$0	\$0	\$0	\$0

	June 30, 2001		
	Operating Expenses	Non-operating Expenses	Operating Difference
Reclassification of interest	\$ (22,293)	\$ 22,293	\$0

Cash and Cash Equivalents – All University operating entities invest surplus cash balances in a short-term investment pool (“STIP”) managed by the Treasurer of The Regents. The Regents are responsible for both managing University’s investments and establishing investment policy, which is carried out by the Treasurer of The Regents.

Medical Center deposits into the STIP are considered demand deposits. Unrealized gains and losses associated with the fluctuation in the fair value of the investments included in the STIP (and predominately held to maturity) are not recorded by each operating entity but are absorbed by the University as the manager of the pool.

The Medical Center’s cash and cash equivalents at June 30, 2002 and 2001 was \$_____ and \$_____, respectively. None of these amounts are insured by the FDIC. Interest income is reported as non-operating revenue in the statements of revenues, expenses and changes in net assets.

Additional information on cash, cash equivalents and investments can be obtained from the 2001-2002 annual report of the University.

University of California, Davis Medical Center

Notes to Financial Statements

(Dollars in thousands)

2. Summary of Significant Accounting Policies (Continued)

Restricted Cash and Cash Equivalents – Indenture requirements of bond financing (see Note __, “Long-term Debt”) provide for the establishment and maintenance of various accounts with a trustee. The indenture terms require that the trustee control the expenditure of bond proceeds as well as the payment of principal and interest to the bondholders.

Restricted cash and cash equivalents consist of short-term investments held by a trustee, recorded at cost, which approximates fair value. These assets are designated to pay the current portion of principal and interest.

Restricted cash and cash equivalents also includes funds restricted for completion of construction of certain facilities. The funds, held by a trustee, were invested in short-term investments, recorded at cost, which approximates fair value.

Inventory – The Medical Center’s inventory consists primarily of pharmaceuticals and medical supplies and is stated on a first-in, first-out basis at the lower of cost or market.

Capital Assets – The Medical Center’s capital asset acquisitions are reported at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets. Equipment under capital lease is amortized over the shorter period of the lease term or the estimated useful life of the equipment. Lease amortization is included in depreciation and amortization expense. The range of the estimated useful lives for buildings and land improvements is 20 to 40 years and for equipment is 3 to 20 years. Interest on funds borrowed to finance facilities during a period of construction are capitalized as a component of the cost of construction. University guidelines mandate that land purchased with Medical Center funds be recorded as an asset of the Medical Center. Land utilized by the Medical Center but purchased with other sources of funds is recorded as an asset of the University.

Net Assets – Net assets are required to be classified for accounting and reporting purposes in the following categories:

- Invested in capital assets, net of related debt – Capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted – The Medical Center classifies net assets resulting from transactions with purpose restrictions as restricted net assets until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact.
- Nonexpendable – Net assets subject to externally - imposed restrictions that must be retained in perpetuity by the Medical Center.

University of California, Davis Medical Center

Notes to Financial Statements

(Dollars in thousands)

2. Summary of Significant Accounting Policies (Continued)

Net Assets (Continued)

- Expendable – Net assets whose use by the Medical Center is subject to externally - imposed restrictions that can be fulfilled by actions of the Medical Center pursuant to those restrictions or that expire by the passage of time.
- Unrestricted – Net assets that are neither restricted nor invested in capital assets, net of related debt. Unrestricted net assets may be designated for specific purposes by management or The Regents. Substantially all unrestricted net assets are allocated for operating initiatives or programs, or for capital programs.

Revenues – Revenues received in conducting the programs and services of the Medical Center are presented in the financial statements as operating revenue.

Operating 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 audit adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Non-operating revenue and expense includes interest income and expense, and the gain or loss on the disposal of capital assets.

State and federal capital appropriations, health systems support and other transactions with the University are classified as other changes in net assets.

Operating Expenses – Substantially all of the Medical Center's operating expenses are directly or indirectly related to patient care activities.

University of California, Davis Medical Center

Notes to Financial Statements

(Dollars in thousands)

2. Summary of Significant Accounting Policies (Continued)

Revenue and Expenses from Sale of Energy – The Medical Center constructed an electrical energy co-generation plant to supply energy to the Medical Center's facilities. Deregulation of the State of California's electric utility industry has caused demand for electrical energy to grow beyond California's capacity and as a result, west coast wholesale prices began to escalate dramatically during the summer of 2000. At that time, the Medical Center began selling electrical energy to supplement California's reserves that had been severely depleted. The prices of natural gas, which fuels the co-generation plant, began to escalate as well.

The Medical Center accounts for the sale of excess electrical energy, net of direct costs, as a cost recovery of the total cost of operating the co-generation plant.

During the years ended June 30, 2002 and 2001, the Medical Center sold its excess electrical energy on the open market at market rates in the amount of \$_____ and \$18 million, respectively. Natural gas and other direct costs consumed in the generation of the excess energy totaled \$_____ and \$12 million in 2002 and 2001, respectively. The net recoveries of \$_____ and \$6 million have been offset against operating expenses in 2002 and 2001, respectively.

Charity Care – The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts determined to qualify as charity care are not reported as net patient service revenue. The Medical Center also provides services to other indigent patients under Medi-Cal and other publicly sponsored programs, which reimburse at amounts less than the cost of the services provided to the recipients. The difference between the cost of services provided to these indigent persons and the expected reimbursement is included in the estimated cost of charity care.

Transactions with the University and University Affiliates – The Medical Center has various transactions with the University and University affiliates. The University, as the primary reporting entity, has at its discretion the ability to transfer funds from the Medical Center at will (subject to certain restrictive covenants or bond indentures) and use those funds at its discretion. The Medical Center records expense transactions where direct and incremental economic benefits are received by the Medical Center. Those payments, which constitute subsidies or payments for which the Medical Center does not receive direct and incremental economic benefit, are recorded as health systems support in the statements of revenues, expenses and changes in net assets.

University of California, Davis Medical Center

Notes to Financial Statements

(Dollars in thousands)

2. Summary of Significant Accounting Policies (Continued)

Transactions with the University and University Affiliates (Continued)

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

Tax Exemption – The Regents of the University of California is a California public corporation and is a tax-exempt organization under the provisions of the Internal Revenue Code.

Use of Estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make assumptions and estimates that affect the reported amounts. Actual results may differ from these estimates.

Reclassifications – Certain reclassifications have been made to the 2001 financial statements to conform to the 2002 presentation.

New Accounting Pronouncements – (Placeholder)

University of California, Davis Medical Center

Notes to Financial Statements

(Dollars in thousands)

3. Net Patient Service Revenue

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

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

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

The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement of such items determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, ____.

- **Medi-Cal** – Inpatient services rendered to Medi-Cal program beneficiaries are reimbursed under a contract at a prospectively determined negotiated per diem rate. Outpatient services are reimbursed based upon prospectively determined fee schedules. Medi-Cal patient revenues include traditional reimbursement under the California State Department of Health Services for patients covered under Title XIX of the Social Security Act (non-risk) or Medi-Cal capitated contract revenue (risk).
- **Senate Bill 855 and 1255 Funds** – State of California Senate Bills 855 (SB-855) and 1255 (SB-1255) provide supplemental payments to hospitals that provide a disproportionate share of their services to Medi-Cal and low income patients. For the years ended June 30, 2002 and 2001, the Medical Center received additional revenue of \$_____ and \$15,304 under SB-855, and \$_____ and \$17,000 under SB-1255, respectively.

University of California, Davis Medical Center

Notes to Financial Statements

(Dollars in thousands)

3. Net Patient Service Revenue (Continued)

- **Senate Bill 1732** – State of California Senate Bill 1732 (SB-1732) provides for supplemental Medi-Cal reimbursement to disproportionate share hospitals for costs (i.e., principal and interest) of qualified patient care capital construction. For the years ended June 30, 2002 and 2001, the Medical Center applied for and received \$_____ and \$7,530, respectively. The amounts received are related to the reimbursement of costs for certain debt finances construction projects based on the Medical Center's Medi-Cal utilization rate. The funds received are recorded as an increase in net patient service revenue
- **Medical Education Fund** – The Medical Education Fund provides for a supplemental payment in recognition of medical education costs (both direct and indirect costs) associated with inpatient health care services rendered to Medi-Cal beneficiaries. For the years ended June 30, 2002 and 2001, the Medical Center received additional revenue of \$_____ and \$9,925, respectively.
- **Other** – The Medical Center has entered into agreements with numerous non-government third-party payors to provide patient care to beneficiaries under a variety of payment arrangements. These include arrangements with:
 - Commercial insurance companies, including workers' compensation plans which reimburse the Medical Center at full charges. Workers' compensation plans that pay negotiated rates are reported as contract (discounted or per diem).
 - Managed care contracts such as those with HMO's and PPO's which reimburse the Medical Center at contracted or per diem rates usually less than full charges.
 - Capitated health plans, which reimburse the Medical Center on a per member per month basis, whether or not services are actually rendered. The Medical Center takes on a certain amount of financial risk as the contract requires them to treat a patient for all covered services. Expected losses on capitated agreements are accrued when probable and can be reasonably estimated.
 - Certain health plan established a shared-risk pool through which the Medical Center shares in any surplus of budget over actual health care utilization costs as defined in the related contracts. Additionally, the Medical Center bears risk of health care utilization cost above budgeted cost, as determined in the related agreements. Differences between the final contract settlement and the amount estimated as receivable or payable relating to the shared-risk arrangements are recorded in the year of final settlement.

University of California, Davis Medical Center

Notes to Financial Statements

(Dollars in thousands)

3. Net Patient Service Revenue (Continued)

- **Other (Continued)**
 - Counties in the State of California, which reimburse the Medical Center for certain indigent patients covered under county contracts.

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

Amounts due from Medicare and Medi-Cal represent ___% and 31% of net patient accounts receivable at June 30, 2002 and 2001.

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

	2002	2001
Medicare (Non-Risk)		\$122,684
Medicare (Risk)		28,587
Medi-Cal (Non-Risk)		96,398
Medi-Cal (Risk)		16,353
Commercial Insurance		3,790
Contract (Discounted or Per Diem)		299,328
Contract (Capitated)		47,830
County		17,005
Non-sponsored/self-pay		4,623
	<hr/>	<hr/>
Total		\$636,598

4. Charity Care

Information related to the Medical Center's charity care is as follows:

	2002	2001
Charity care at established rates		
Estimated cost of charity care (unaudited)		

Estimated cost in excess of reimbursement for Medi-Cal and county services was \$_____ and \$132,276 for the years ended June 30, 2002 and 2001, respectively (unaudited).

University of California, Davis Medical Center
Notes to Financial Statements
(Dollars in thousands)

5. Restricted Cash and Cash Equivalents

The composition of restricted cash and cash equivalents at June 30 is as follows:

	2002	2001
Designated for bond principal and interest	\$	\$
Designated for construction		
Total	<u>\$ XXX</u>	<u>\$ XXX</u>

University of California, Davis Medical Center

Notes to Financial Statements

(Dollars in thousands)

6. Capital Assets

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

	<u>2000</u>	<u>Additions</u>	<u>Disposals</u>	<u>2001</u>	<u>Additions</u>	<u>Disposals</u>	<u>2002</u>
<u>Original Cost</u>							
Land				\$ 29,608			
Buildings and improvements				610,434			
Equipment				209,014			
Construction in progress				21,215			
Capital assets, at cost				<u>\$ 870,271</u>			
	<u>2000</u>	<u>Depreciation</u>	<u>Disposals</u>	<u>2001</u>	<u>Depreciation</u>	<u>Disposals</u>	<u>2002</u>
<u>Accumulated Depreciation and Amortization</u>							
Buildings and improvements							
Equipment							
Accumulated depreciation and amortization				<u>\$ 259,111</u>			
Capital assets, net				<u>\$ 611,160</u>			

Equipment under capital lease obligations and related accumulated amortization is \$_____ and \$_____ in 2002, respectively, and \$ 4,322 and \$1,840 in 2001, respectively.

During 1988 and 1991, the University acquired certain facilities and equipment under a capital lease with the State of California Public Works Board. These facilities and equipment were contributed at cost by the University to the Medical Center to support the operations of the Medical Center. Principal and interest payments required under the lease are the obligations of the University and are not reflected in the financial statements of the Medical Center.

7. Investments in Joint Ventures (Placeholder)

The Medical Center has entered into joint venture arrangements with various third party entities which include home health services, cancer center operations and a health maintenance organization. The investments are recorded using the equity method.

University of California, Davis Medical Center

Notes to Financial Statements

(Dollars in thousands)

8. Long-term Debt and Capital Leases

The activity with respect to outstanding debt for the years ended June 30 is as follows:

	Outstanding Debt					
	2001	New Obligations	Principal Reductions	2002	Noncurrent Portion	Current Portion
The Regents of the University Hospital Revenue Bonds (University of California Davis Medical Center), interest rates from ___% to ___%, payable semi-annually, with annual principal payments through 2026	\$ 337,585		()			
The Regents of the University of California Revenue Bonds (1989 Multiple Purpose Project Bonds), interest rates from ___% to ___%, payable semi-annually with annual principal payments through 2023	16,668		()			
Capitalized lease obligations, primarily for computer and medical equipment, with fixed interest rates of _____% to _____% payable through 2003, collateralized by underlying equipment	<u>1,045</u>		()			
Total debt and capital leases	355,298				\$	\$
Less: Current portion of debt and capital leases	<u>(5,707)</u>			<u>()</u>		
Noncurrent portion of debt and capital leases	<u>\$ 349,591</u>			<u>\$</u>		

University of California, Davis Medical Center
Notes to Financial Statements
(Dollars in thousands)

8. Long-term Debt and Capital Leases (Continued)

The activity with respect to the current portion of long-term debt for the years ended June 30 is as follows:

	<u>2001</u>	<u>New Obligations</u>	<u>Reclassification from Long-Term Debt</u>	<u>Principal Payments</u>	<u>2002</u>
Hospital revenue bonds	\$	\$	\$	\$	\$
Multiple purpose project bonds					
Capital leases					
Current portion of long-term debt	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

In July 1996, Hospital Revenue Bonds Series 1996 totaling \$345,880 were issued to finance the acquisition and construction of certain health care and related facilities at the Medical Center, including a new hospital tower, an ambulatory care clinic, a central plant, inpatient radiology, and a parking structure. Construction was completed in 2000 and a portion of unexpended funds were transferred to a rebate account and the remainder was transferred to a revenue account and used for bond debt service. The Bonds have sinking fund requirements and optional redemption provisions. In addition, under the bond indentures, the Medical Center is required to maintain a debt service coverage ratio of 1.2 to 1 and has limitations as to additional borrowings and the purchase or sale of business assets. The Hospital Revenue Bonds are collateralized by the gross revenues of the Medical Center.

Funds from The Regents of the University of California Multiple Purpose Project Bonds, 1989 Series A, B and C ("Revenue Bonds") were used to finance certain Medical Center projects. The Revenue Bonds are collateralized in part by the gross revenues of the Medical Center and projects financed with the Revenue Bonds, subject to any senior claims on net revenues. The Medical Center is charged for its proportionate share of total interest payments made on the Revenue Bonds pertaining to completed Medical Center projects financed by Revenue Bonds.

University of California, Davis Medical Center
Notes to Financial Statements
(Dollars in thousands)

8. Long-term Debt and Capital Leases (Continued)

As of June 30, 2002, maturities of long-term debt and capitalized leases are as follows:

<u>Year ending June 30,</u>	<u>Revenue Bonds</u>	<u>Capital Leases</u>	<u>Total Payments</u>	<u>Principal</u>	<u>Interest</u>
2003	\$	\$	\$	\$	\$
2004					
2005					
2006					
2007					
2008-2012					
2013-2017					
2018-2022					
2023-2027					
2028-2032					
2033-2037					
Total	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

9. Operating Leases

The Medical Center leases certain facilities under operating leases with terms of 1 to 15 years. Total rental expense on operating leases for the years ended June 30, 2002 and 2001 was \$_____ and \$8,858, respectively. As of June 30, 2002, amounts payable under noncancelable operating leases are as follows:

<u>Year ending June 30,</u>	
2003	\$
2004	
2005	
2006	
2007	
2008 - 2012	
2013 - 2017	
2018 - 2022	
2023 - 2027	
2028 - 2032	
2033 - 2037	
Total	<u>\$</u>

University of California, Davis Medical Center

Notes to Financial Statements

(Dollars in thousands)

10. Retirement Plans

The University maintains retirement plans, which are administered by the University of California Retirement System. The plans consist of The University of California Retirement Plan ("UCRP"), a single employer defined benefit plan, and two defined contribution plans with several investment portfolios funded with employee non-elective and elective contributions (collectively the "Plans"). Substantially all full-time employees of the Medical Center participate in the Plans.

The UCRP is a defined benefit plan funded with University and employee contributions, and provides lifetime retirement income, disability protection, and survivor benefits to eligible employees. Benefits are based on average highest three years compensation, age, and years of service and are subject to limited cost-of-living increases. The University's policy is to fund actuarially determined contributions.

Net assets available for plan benefits and the actuarial accrued liability as of June 30, 2002 were \$ _____ billion and \$ _____ billion, respectively. For the years ended June 30, 2002 and 2001, there was no employer contribution, annual pension cost or net pension obligation for the University. The annual pension cost was equal to the actuarially determined contributions.

The two defined contribution plans (DC Plan and 403(b) Plan) provide savings incentives and additional retirement security for all eligible employees. The DC Plan accepts both pretax and after-tax contributions. There are no employer contributions to either of these two plans. Benefits from the DC and 403(b) Plans are based on participants' mandatory and voluntary contributions, plus earnings, and are immediately vested.

Information as to contributions made, Plan assets and liabilities, as they relate to Medical Center employees is not readily available. Additional information on the retirement plans can be obtained from the 2001-2002 annual report of the University.

11. University Self-Insurance

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

University of California, Davis Medical Center
Notes to Financial Statements
(Dollars in thousands)

12. Transactions with Other University Entities

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

	2002	2001
Salaries and employee benefits	\$	\$ 5,628
Professional services		13,961
Other supplies and purchased services		3,470
Interest income, net		(8,093)
Insurance		6,017
	<hr/>	<hr/>
Total	<u>\$</u>	<u>\$20,983</u>

Additionally, the Medical Center makes payments to the University of California, Davis School of Medicine ("School of Medicine"). Services purchased from the School of Medicine include physician services that benefit the Medical Center, such as emergency room coverage, physicians providing medical direction to the Medical Center, and the Medical Center's allocation of malpractice insurance. Such expenses are reported as operating expenses in the statements of revenue, expenses and changes in net assets. Health System support includes amounts paid by the Medical Center to fund School of Medicine operating activities, payments to support clinical research, transfers to faculty practice plans, as well as other payments made to support various School of Medicine programs.

The total net amount of payments made by the Medical Center to the School of Medicine were \$_____ and \$35,701 in 2002 and 2001, respectively. Of these amounts \$_____ and \$_____ are reported as operating expenses for the years ended June 30, 2002 and 2001, respectively, and \$_____ and \$_____ are reported as health systems support for the years ended June 30, 2002 and 2001, respectively

University of California, Davis Medical Center

Notes to Financial Statements

(Dollars in thousands)

13. State Funds for Hospital Equipment

During fiscal year 2001, \$25 million was appropriated to the University's medical centers by the State of California under the 2000-2001 Operating Budget, for the purchase of equipment. Under the provisions of the appropriation, the funds are not to supplant other funds that would otherwise have been used for the purchase of equipment during the current year. Each of the medical centers were allocated \$5 million by the University to fund these expenditures. These funds are held by the University until expended by the Medical Center. When expended, the Medical Center will account for the appropriated funds as a transfer from the University in the statements of revenues, expenses and changes in net assets.

14. Commitments and Contingencies (Placeholder)

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time.

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

California Senate Bill 1953, Hospital Facilities Seismic Safety Act, specifies certain requirements that must be met within a specified time in order to increase the probability that the hospital could maintain uninterrupted operations following major earthquakes. By January 1, 2008, all general acute care inpatient buildings must be life safe. By January 1, 2030, all general acute care inpatient buildings must be operational after an earthquake. The State of California's 2000-01 budget authorizes the University to use \$600 million in lease-revenue bond funds for earthquake safety renovations. In November 2000, The Regents approved the allocation of the \$600 million among the University's medical centers, of which \$120 million was allocated to the Medical Center.