NEW ISSUE – BOOK-ENTRY ONLY

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2004 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2004 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004 Bonds. See "Tax Matters" herein.

$256,165,000
THE REGENTS OF THE UNIVERSITY OF CALIFORNIA HOSPITAL REVENUE BONDS (UCLA MEDICAL CENTER),

$165,000,000 Series 2004 A | $91,165,000 Series 2004 B

Dated: Date of Delivery | **Due: May 15, as shown on inside cover**

The Regents of the University of California Hospital Revenue Bonds (UCLA Medical Center), Series 2004 A and Series 2004 B (collectively, the "Series 2004 Bonds") are being issued by The Regents of the University of California ("The Regents") to finance a portion of the costs of constructing and equipping a replacement hospital facility for UCLA Medical Center-Westwood and a replacement hospital facility for Santa Monica-UCLA Medical Center and to refund The Regents of the University of California Refunding Hospital Revenue Bonds (UCLA Medical Center), Series 1994, issued to refinance the costs of constructing and equipping of certain other health care facilities of UCLA Medical Center.

The Series 2004 Bonds will be issued in fully registered form in denominations of $5,000 each or any integral multiple thereof and will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Series 2004 Bonds. Interest on the Series 2004 Bonds, payable on November 15, 2004 and semiannually thereafter on May 15 and November 15 of each year, and principal of the Series 2004 Bonds are payable by BNY Western Trust Company, as trustee, to DTC. Beneficial ownership interests in the Series 2004 Bonds, in non-certificated book-entry only form may be purchased by or through participants in the DTC system. Beneficial ownership interests will be governed as to the payment of principal, premium, if any, and interest, the receipt of notices, including any notice of redemption, and other communications, transfers and various other matters by the rules and operating procedures applicable to the DTC book-entry only system. See Appendix F - "Book-Entry Only System."

The Series 2004 Bonds are subject to optional and mandatory redemption prior to their stated maturities, as described herein.

Payment of the principal of and interest on the Series 2004 Bonds when due will be insured by a financial guaranty insurance policy to be issued by

Ambac

simultaneously with the delivery of the Series 2004 Bonds.

This cover page contains information for quick reference only. It is not a summary of this issue. Potential investors are instructed to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Series 2004 Bonds are limited obligations of The Regents, payable solely from Revenues and other funds pledged therefor as described herein. The Series 2004 Bonds are secured by a pledge of the Revenues on a parity basis with certain other hospital revenue bonds previously issued by The Regents for the benefit of UCLA Medical Center. See "Security for the Bonds" herein. In addition, The Regents may issue additional bonds and may incur additional indebtedness secured by a pledge and lien on Revenues on a parity with the pledge and lien on Revenues securing the Series 2004 Bonds as described herein. The Series 2004 Bonds will not constitute a liability of, or a lien upon, the funds or property of the State of California or of The Regents, except to the extent of the aforementioned pledge of the Indenture. The Regents has no taxing power.

The Series 2004 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of certain legal matters by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for The Regents by its General Counsel and for the Underwriters by their counsel, Lofton & Jennings, San Francisco, California. It is anticipated that the Series 2004 Bonds will be available for delivery to DTC in New York, New York, on or about May 20, 2004.

CITIGROUP

CHATSWORTH SECURITIES LLC	E. J. DE LA ROSA & CO., INC.	GOLDMAN, SACHS & CO.
GREAT PACIFIC SECURITIES	JPMORGAN	MERRILL LYNCH & CO.
MORGAN STANLEY & CO. INCORPORATED	PRAGER, SEALY & CO., LLC	SIEBERT BRANDFORD SHANK & CO., LLC

Dated: April 20, 2004

MATURITY SCHEDULE

$165,000,000
THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
HOSPITAL REVENUE BONDS (UCLA MEDICAL CENTER), SERIES 2004 A

Maturity (May 15)	Amount	Interest Rate	Yield	CUSIP	Maturity (May 15)	Amount	Interest Rate	Yield	CUSIP
2009	$2,205,000	5.125%	2.84 %	91412FLH8	2017	$3,325,000	5.500%	4.12*%	91412FLR6
2010	2,320,000	5.125	3.15	91412FLJ4	2018	3,510,000	5.500	4.20*	91412FLS4
2011	2,440,000	5.125	3.43	91412FLK1	2019	3,700,000	5.500	4.25*	91412FLT2
2012	2,565,000	5.125	3.65	91412FLL9	2020	3,905,000	5.500	4.34*	91412FLU9
2013	2,695,000	5.125	3.76*	91412FLM7	2021	4,120,000	5.500	4.44*	91412FLV7
2014	2,835,000	5.500	3.86*	91412FLN5	2022	4,345,000	5.500	4.52*	91412FLW5
2015	2,990,000	5.500	3.96*	91412FLP0	2023	4,585,000	5.500	4.57*	91412FLX3
2016	3,155,000	5.500	4.04*	91412FLQ8	2024	4,840,000	5.500	4.65*	91412FLY1

$34,945,000	5.250%	Term Bond due May 15, 2030	Yield: 4.89*%	CUSIP: 91412FLZ8
$29,910,000	5.000%	Term Bond due May 15, 2034	Yield: 5.05 %	CUSIP: 91412FMA2
$46,610,000	5.000%	Term Bond due May 15, 2039	Yield: 5.10 %	CUSIP: 91412FMB0

* Yield to call on May 15, 2012 at 101%.

$91,165,000
THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
HOSPITAL REVENUE BONDS (UCLA MEDICAL CENTER), SERIES 2004 B

Maturity (May 15)	Amount	Interest Rate	Yield	CUSIP	Maturity (May 15)	Amount	Interest Rate	Yield	CUSIP
2007	$1,610,000	2.000%	2.07%	91412FMD6	2012	$5,050,000	5.125%	3.65 %	91412FMN4
2007	2,795,000	3.000	2.07	91412FMC8	2013	5,570,000	5.125	3.81	91412FMQ7
2008	250,000	2.500	2.50	91412FMF1	2014	5,855,000	5.500	3.95	91412FMR5
2008	4,270,000	3.500	2.50	91412FME4	2015	1,000,000	4.000	4.10	91412FMT1
2009	3,250,000	2.800	2.84	91412FMH7	2015	5,180,000	5.500	4.05**	91412FMS3
2009	1,425,000	4.000	2.84	91412FMG9	2016	6,500,000	5.500	4.12**	91412FMU8
2010	1,000,000	3.000	3.15	91412FMK0	2017	6,860,000	5.500	4.19**	91412FMV6
2010	3,825,000	5.125	3.15	91412FMJ3	2018	7,235,000	5.500	4.24**	91412FMW4
2011	300,000	3.375	3.43	91412FMM6	2019	7,635,000	5.500	4.30**	91412FMX2
2011	4,750,000	5.125	3.43	91412FML8	2020	8,055,000	5.500	4.36**	91412FMY0
2012	250,000	3.600	3.65	91412FMP9	2021	8,500,000	5.500	4.46**	91412FMZ7

** Yield to call on May 15, 2014 at 100%.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of Series 2004 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been provided by The Regents, the insurer identified on the cover page of this Official Statement (the "Insurer") and other sources that are believed by The Regents to be reliable.

The underwriters identified on the cover page of this Official Statement (the "Underwriters") have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement in connection with the offering of the Series 2004 Bonds, and, if given or made, such other information or representations must not be relied upon as having been authorized by The Regents, the Insurer or the Underwriters.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

When used in this Official Statement, the words "believes," "anticipates," "expects" and similar expressions are intended to identify forward-looking statements. Such forward-looking statements include, but are not limited to certain statements set forth under the caption "Bondholders' Risks" in the front portion of this Official Statement and in Appendix A under the caption "Management's Discussion of Financial and Operational Performance." Such forward-looking statements are subject to a number of risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements as a result of the risk factors set forth in "Bondholders' Risks" and the matters set forth in this Official Statement generally. Except as required by the Continuing Disclosure Agreement (as such term is defined herein), The Regents does not undertake any obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances. See Appendix D – "Summary of Certain Provisions of the Indenture and the Continuing Disclosure Agreement - The Continuing Disclosure Agreement."

Summaries of provisions of the Indenture and the Continuing Disclosure Agreement contained in Appendix D hereto do not purport to be complete descriptions of the provisions thereof, and such summaries are qualified by reference to the Indenture and the Continuing Disclosure Agreement for full particulars of the Series 2004 Bonds, the Indenture and the Continuing Disclosure Agreement, respectively. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of The Regents or the UCLA Medical Center (as such terms are defined herein) since the date hereof.

The Series 2004 Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained therein, and have not been registered or qualified under the securities laws of any state.

In connection with this offering, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of the Series 2004 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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OFFICIAL STATEMENT

$256,165,000
THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
HOSPITAL REVENUE BONDS (UCLA MEDICAL CENTER),
SERIES 2004 A AND SERIES 2004 B

INTRODUCTION

This Official Statement, including the cover page and all appendices hereto (the "Official Statement") provides certain information in connection with the issuance and sale of The Regents of the University of California Hospital Revenue Bonds (UCLA Medical Center), Series 2004 A (the "Series 2004 A Bonds") and Series 2004 B (the "Series 2004 B Bonds") being issued in the aggregate principal amount of $256,165,000 comprised of $165,000,000 aggregate principal amount of Series 2004 A Bonds and $91,165,000 aggregate principal amount of Series 2004 B Bonds.

The Issuer

The Series 2004 A Bonds and the Series 2004 B Bonds (each a "Series of Series 2004 Bonds," and, hereinafter collectively referred to as the "Series 2004 Bonds") are authorized to be issued pursuant to the powers and authority of The Regents of the University of California ("The Regents") contained in Article IX, Section 9 of the Constitution of the State of California. The University of California (the "University"), established in 1868, is a public institution of higher education designated by the State of California (the "State") in its master plan for higher education for the training of individuals for the professions, for the awarding of doctoral degrees in all fields of human knowledge, and for the conduct of research. The Constitution of the State 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 such legislative control as may be necessary to ensure the security of its funds and compliance with the terms of the endowments of the University and such competitive bidding procedures as may be applicable by statute to the University with respect to the letting of construction contracts, the sales of real property and the purchasing of materials, goods and services. See Appendix C - "The University of California."

The University consists of ten campuses, including the University of California at Los Angeles ("UCLA"), five of which include medical schools and associated medical centers, including the David Geffen School of Medicine at UCLA (the "School of Medicine") and the UCLA Medical Center (the "Medical Center"). The Medical Center provides educational and clinical opportunities for students in the School of Medicine and offers a comprehensive array of quaternary, tertiary and primary care services. Currently, the Medical Center provides services at three separately licensed hospital facilities: (i) UCLA Medical Center-Westwood ("UCLA Medical Center-Westwood"), which includes Mattel Children's Hospital at UCLA, located on the UCLA campus in Westwood; (ii) Santa Monica-UCLA Medical Center ("Santa Monica-UCLA Medical Center"), located in Santa Monica, approximately four (4) miles from the UCLA campus in Westwood; and (iii) UCLA Neuropsychiatric Hospital ("UCLA-NPH"), also located on the UCLA campus in Westwood. See Appendix A - "Information Concerning UCLA Medical Center."

The Series 2004 Bonds

The Series 2004 Bonds are being issued in accordance with the provisions of an indenture, dated as of March 1, 1990 (the "Original Indenture"), by and between The Regents and First Interstate Bank of California, predecessor trustee to BNY Western Trust Company, as trustee (the "Trustee"), as supplemented and amended from time to time pursuant to its terms, including as supplemented and amended by a third supplemental indenture thereto, dated as of May 1, 2004 (the "Third Supplemental Indenture"), by and between The Regents and the Trustee. The Series 2004 Bonds are being issued pursuant to the Original Indenture on a parity with The Regents of the University of California Hospital Revenue Bonds (UCLA Medical Center), Series 2002 (the "Series 2002 Bonds"), $31,520,000 of which are currently outstanding. In addition to setting forth the terms and provisions of the Series 2004 Bonds, the Third Supplemental Indenture amends and restates the Original Indenture in order to make the provisions of the Original Indenture more consistent with the provisions of certain other indentures of The Regents entered into in connection with its other medical center facilities.

This Official Statement describes the terms and provisions of the Original Indenture as amended and restated pursuant to the provisions of the Third Supplemental Indenture.

By purchase of a Series 2004 Bond, each purchaser thereof shall be deemed to have consented to the amendment and restatement of the Original Indenture as set forth in the Third Supplemental Indenture.

The Original Indenture as amended and restated pursuant to the Third Supplemental Indenture and as it may be further supplemented or amended from time to time pursuant to its terms is hereinafter collectively referred to as the "Indenture." All capitalized terms used and not otherwise defined herein shall have the meaning assigned to such terms in Appendix D – "Summary of Certain Provisions of the Indenture and the Continuing Disclosure Agreement – Definitions of Certain Terms" or in the Indenture.

The proceeds of the Series 2004 Bonds will be applied to finance a portion of the costs of the acquisition, construction and equipping of two replacement hospital facilities (each, a "Replacement Hospital Facility" and, hereinafter collectively referred to as the "Replacement Hospital Facilities"), one of which will replace the existing UCLA Medical Center - Westwood facilities and the UCLA NPH facilities and the other of which will replace certain existing Santa Monica-UCLA Medical Center facilities. See "The Replacement Hospital Facilities." In addition, a portion of the proceeds of the Series 2004 Bonds will be applied to refinance the acquisition, construction and equipping of certain other health care and related facilities located on the UCLA campus, previously refinanced by The Regents of the University of California Refunding Hospital Revenue Bonds (UCLA Medical Center), Series 1994 (the "Series 1994 Bonds"), issued by The Regents pursuant to the Original Indenture, and to pay certain expenses incurred in connection with the issuance of the Series 2004 Bonds. See "Plan of Finance" and "Estimated Sources and Uses of Funds" herein.

Limited Obligations; Security and Source of Payment; Additional Indebtedness

The Series 2004 Bonds are limited obligations of The Regents, payable on a parity with the Series 2002 Bonds, solely from certain revenues received by or on behalf of The Regents and derived from the ownership and operation of the Medical Center (as more fully defined in the Indenture, the "Revenues"), which The Regents have pledged to the payment of the Series 2002 Bonds and the Series 2004 Bonds. The Series 2002 Bonds and the Series 2004 Bonds are also payable from certain other funds pledged under the Indenture, as hereinafter described. Pursuant to the provisions of the Indenture, The Regents may issue additional bonds (the "Additional Bonds") secured on a parity with the Series 2002 Bonds and the Series 2004 Bonds. All Series 2002 Bonds, Series 2004 Bonds and such Additional Bonds, if any, are entitled to the equal benefit, protection and security of (i) the pledge of Revenues and such other funds as are pledged under the Indenture and (ii) the covenants and agreements of the Indenture, as hereinafter described. The Series 2002 Bonds, the Series 2004 Bonds and such Additional Bonds, if any, are hereinafter sometimes referred to as the "Bonds." No revenues from other medical centers of The Regents or the School of Medicine are pledged as security for the Bonds. The Regents may also incur additional indebtedness (hereinafter referred to as "Parity Debt") for the benefit of the Medical Center secured by a pledge and lien on Revenues on a parity with the pledge and lien of the Indenture, as described herein. See "Security for the Bonds – Additional Bonds, Parity Debt and Other Indebtedness," and Appendix D – "Summary of Certain Provisions of the Indenture and the Continuing Disclosure Agreement – The Indenture – Pledge of Revenues; Revenue Fund; Gross Revenue Fund." The Bonds do not constitute a liability of or a lien or charge upon the funds or property of the State of California or of The Regents, except to the extent of the aforementioned pledge of the Indenture. The Regents has no taxing power.

Bond Insurance

Concurrently with the issuance of the Series 2004 Bonds, Ambac Assurance Corporation (the "Insurer" or "Ambac Assurance") will issue its financial guaranty insurance policy (the "Insurance Policy"). The Insurance Policy will guaranty the scheduled payment of principal of and interest on the Series 2004 Bonds when due as set forth in the form of the Insurance Policy included in Appendix G to this Official Statement. See "The Insurance Policy" and Appendix G - "Specimen Financial Guaranty Insurance Policy."

Continuing Disclosure

The Regents has covenanted for the benefit of the registered owners and Beneficial Owners of the Series 2004 Bonds to provide certain financial information and operating data relating to the Medical Center (the "Annual Report") not later than seven (7) months after the end of the fiscal year of The Regents (which fiscal year currently ends June 30), commencing with the report for the fiscal year ending June 30, 2004, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by The Regents or by the Trustee on behalf of The Regents with each Nationally Recognized Municipal Securities Information Repository and with any then existing State Repository (collectively, the "Repositories"). The notices of material events will be filed by The Regents or by the Trustee on behalf of The Regents with the Repositories. The specific nature of the information to be contained in the Annual Report and in the notice of material events is summarized in Appendix D – "Summary of Certain Provisions of the Indenture and the Continuing Disclosure Agreement – The Continuing Disclosure Agreement." These covenants have been made in order to assist the underwriters of the Series 2004 Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). The Regents has never failed to comply in all material respects with any previous undertaking with regard to the Rule to provide annual reports or notices of material events.

Investment Considerations

There are certain risks associated with the purchase of the Series 2004 Bonds. See "Bondholders' Risks" herein for a discussion of certain of these risks.

Further Information

This Official Statement contains brief descriptions of the Series 2004 Bonds, the security for the Series 2004 Bonds, including the Insurance Policy, The Regents, the Indenture and the Medical Center. The audited financial statements of the Medical Center for the fiscal years ended June 30, 2002 and June 30, 2003 are contained in Appendix B hereto. The summaries of the Indenture and the Continuing Disclosure Agreement contained in Appendix D hereto do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the Indenture and the Continuing Disclosure Agreement.

Copies of the Indenture and the Continuing Disclosure Agreement may be obtained from the Regents.

THE SERIES 2004 BONDS

General

The Series 2004 Bonds are being issued in fully registered form in denominations of $5,000 and any integral multiple thereof. The Series 2004 Bonds will bear interest from their date of delivery and will mature on the dates and in the principal amounts set forth on the inside cover page hereof, subject to the rights of prior redemption hereinafter described.

Interest on the Series 2004 Bonds is payable on November 15, 2004 and semiannually thereafter on May 15, and November 15, of each year (each, an "Interest Payment Date"). In the event that the use of the book-entry only system is discontinued, interest will be paid by check or draft of the Trustee mailed on each Interest Payment Date to Holders of Series 2004 Bonds as of the close of business on the first day of the month in which such Interest Payment Date occurs whether or not such first day is a business day at the addresses of such Holders as they appear on the registration books maintained by the Trustee. The principal of the Series 2004 Bonds is payable at the principal corporate trust office of the Trustee in San Francisco, California.

Book-Entry Only System

The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Series 2004 Bonds. The ownership of one fully registered Bond of each maturity of each Series of Series 2004 Bonds as set forth on the inside cover page hereof in the aggregate principal amount of such Series of Series 2004 Bonds maturing on such date will be registered in the name of Cede & Co., as nominee of DTC. See Appendix F – "Book-Entry Only System" for a description of DTC and the book-entry only system.

Redemption

Optional Redemption - Series 2004 A Bonds. The Series 2004 A Bonds maturing on or after May 15, 2013 are subject to redemption prior to their respective stated maturities, at the option of The Regents from lawfully available funds, as a whole or in part, and if in part, in such order of maturity as shall be designated by The Regents (or if The Regents fails to designate such order of maturity, in inverse order of maturity) and by lot within a maturity, on any date on or after May 15, 2012 at the following redemption prices (expressed as percentages of the principal amount of the Series 2004 A Bonds called for redemption), together with accrued interest to the date fixed for redemption:

Redemption Period (Dates Inclusive)	Price
May 15, 2012 through May 14, 2013	101%
May 15, 2013 and thereafter	100

Optional Redemption - Series 2004 B Bonds. The Series 2004 B Bonds maturing on or after May 15, 2015 are subject to redemption prior to their respective stated maturities, at the option of The Regents from lawfully available funds, as a whole or in part, and if in part, in such order of maturity as shall be designated by The Regents (or if The Regents fails to designate such order of maturity, in inverse order of maturity) and by lot within a maturity, on any date on or after May 15, 2014 at a redemption price equal to 100% of the principal amount of the Series 2004 B Bonds called for redemption, together with accrued interest to the date fixed for redemption, without premium.

Mandatory Sinking Account Redemption - Series 2004 A Bonds. The Series 2004 A Bonds maturing on May 15, 2030, May 15, 2034 and May 15, 2039 are subject to redemption prior to their stated maturity date in part, by lot, at the principal amount thereof plus accrued interest to the date of redemption, without premium, from mandatory sinking account payments in the following amounts, commencing on May 15, 2025, May 15, 2031 and May 15, 2035, respectively, according to the applicable schedules set forth below.

Schedule of Mandatory Sinking Account Payments

Series 2004 A Bonds Maturing May 15, 2030

May 15	Principal Amount
2025	$5,105,000
2026	5,375,000
2027	5,655,000
2028	5,950,000
2029	6,265,000
2030*	6,595,000

*Maturity

Series 2004 A Bonds Maturing May 15, 2034

May 15	Principal Amount
2031	$6,940,000
2032	7,285,000
2033	7,650,000
2034*	8,035,000

*Maturity

Series 2004 A Bonds Maturing May 15, 2039

May 15	Principal Amount
2035	$ 8,435,000
2036	8,855,000
2037	9,300,000
2038	9,765,000
2039*	10,255,000

*Maturity

Extraordinary Optional Redemption. The Series 2004 Bonds are subject to redemption prior to their stated maturity, as a whole or in part, on any date, from moneys representing insurance and condemnation proceeds received by The Regents with respect to the Medical Center and transferred by The Regents to the Trustee for deposit in the Special Redemption Account, at a redemption price equal to the principal amount of the Series 2004 Bonds called for redemption, plus accrued interest thereon to the date fixed for redemption, without premium.

Purchase of Series 2004 Bonds. The Indenture provides that at any time prior to giving notice of redemption, the Trustee may apply amounts in the Optional Redemption Account or the Special Redemption Account, as applicable, to the purchase of Series 2004 Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed by The Regents, not exceeding the par value of such Series 2004 Bond.

Selection of Series 2004 Bonds for Redemption. If less than all of a Series of Series 2004 Bonds are called for redemption, the Trustee shall select the Series 2004 Bonds to be redeemed from all Series 2004 Bonds of such Series subject to redemption and not previously called for redemption, in Authorized Denominations, by lot or in any manner which the Trustee in its sole discretion shall deem appropriate and fair.

Notice of Redemption. Notice of any redemption shall be mailed by first class mail not less than 15 days nor more than 45 days prior to the date fixed for redemption to the Holder of any Series 2004 Bond designated for redemption, in whole or in part, at the address shown on the registration books maintained by the Trustee. Failure to give such notice by mail to any Holder or any defect in any such notice shall not affect the validity of the proceedings for the redemption of any other Series 2004 Bond.

So long as DTC or its nominee is the sole registered owner of the Series 2004 Bonds under the book-entry only system, any failure on the part of DTC to notify a Beneficial Owner of any Series 2004 Bond to be redeemed shall not affect the validity of any proceedings for the redemption of such Series 2004 Bond. See Appendix F – "Book-Entry Only System."

At least 15 days before each redemption date, the Trustee shall also deliver a copy of such notice of redemption to such Information Services as may be designated by The Regents. Failure of the Trustee to give such notice to the any of the Information Services or any defect in any such notice shall not affect the validity of any proceedings for the redemption of any Series 2004 Bond.

Effect of Redemption. Provided that payment of the Redemption Price plus accrued interest has been duly provided for pursuant to the Indenture on the specified Redemption Date, interest on all Series 2004 Bonds called for redemption shall cease to accrue on the specified Redemption Date and the Holders of such Series 2004 Bonds shall cease to be entitled to any benefit or security under the Indenture and shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the Redemption Date.

Mandatory Purchase in Lieu of Redemption. Each Holder or Beneficial Owner, by purchase and acceptance of any Series 2004 Bond, irrevocably grants to The Regents the option to purchase such Series 2004 Bond at any time such Series 2004 Bond is subject to optional redemption pursuant to the provisions of the Indenture, such Series 2004 Bond to be purchased at a purchase price equal to then applicable Redemption Price of such Series 2004 Bond. In the event The Regents determines to exercise such option, The Regents shall deliver an Opinion of Bond Counsel to the Trustee to the effect that such purchase will not, in and of itself, adversely affect the exclusion of interest on such Series 2004 Bonds from gross income of the Holders for purposes of federal income taxation, and shall direct the Trustee to provide notice of mandatory purchase, such notice to be provided, as and to the extent applicable, in accordance with the provisions of the Indenture applicable to notices of redemption described herein. On the date fixed for purchase of any Series 2004 Bond pursuant to the provisions of the Indenture described herein, The Regents shall pay the purchase price of such Series 2004 Bond to the Trustee in immediately available funds, such funds to be provided solely from Revenues, and the Trustee shall pay the same to the Holders of the Series 2004 Bonds being purchased against delivery thereof. No purchase of any Series 2004 Bond pursuant to the provisions of the Indenture described in this paragraph shall operate to extinguish the indebtedness of The Regents evidenced by such Series 2004 Bond. No Holder or Beneficial Owner may elect to retain a Series 2004 Bond subject to mandatory purchase pursuant to the provisions of the Indenture described in this paragraph. The exercise by The Regents of such option is subject to receipt of the consent of the Insurer.

SECURITY FOR THE BONDS

Pledge. The Bonds are secured by a pledge of Revenues. As defined in the Indenture, Revenues consist of: (i) all revenues, income, receipts and moneys received by or on behalf of The Regents and derived from the Medical Center, excluding gifts, grants, bequests, donations and contributions, and including (a) proceeds with respect to, arising from or related to the Medical Center and derived from condemnation and insurance awards (except to the extent such proceeds are required or permitted by the terms of the Indenture to be used for purposes inconsistent with their use for the payment of principal of, redemption premium, if any, and interest on the Bonds) and (b) cash or investments held by The Regents for the account or benefit of the Medical Center; and (ii) any other revenues, income, receipts and moneys added to the definition of Revenues pursuant to the provisions of the Indenture. Upon receipt, Revenues are commingled with other funds of The Regents for investment purposes.

The Bonds are also secured by amounts held in any fund or account established pursuant to the Indenture (other than the Rebate Fund and any Purchase Fund).

Gross Revenue Fund. Pursuant to the provisions of the Indenture, The Regents covenants and agrees that, so long as any Bonds remain Outstanding, in the event that an Event of Default shall occur, all of the Revenues shall be deposited as soon as practicable upon receipt in a fund designated as "The Regents of the University of California Medical Center (Los Angeles Campus) Gross Revenue Fund" (the "Gross Revenue Fund"), which The Regents shall establish and maintain with the Trustee. To the extent Revenues to be deposited in the Gross Revenue Fund are encumbered by Parity Debt, The Regents agrees to allocate and deposit in the Gross Revenue Fund an amount of such Revenues equal to the product of such Revenues and the ratio represented by (x) the outstanding principal amount of the Bonds to (y) the outstanding principal amount of the Bonds plus the outstanding principal amount of Parity Debt.

All Revenues shall continue to be deposited in the Gross Revenue Fund until all Events of Default known to the Trustee shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, whereupon all amounts on deposit in the Gross Revenue Fund shall be returned to the name and credit of The Regents. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Trustee shall use and withdraw amounts in said fund in accordance with the provisions of the Indenture. See Appendix D - "Summary of Certain Provisions of the Indenture and the Continuing Disclosure Agreement - The Indenture - Pledge of Revenues; Revenue Fund; Gross Revenue Fund - Gross Revenue Fund."

Rate Covenant. Pursuant to the provisions of the Indenture, The Regents covenants and agrees to fix, charge and collect, or cause to be fixed, charged or collected, such rates, fees and charges for the use of and for the services furnished or to be furnished by The Regents at the Medical Center which, together with all other receipts and revenues of The Regents relating to the Medical Center, are reasonably forecasted in each fiscal year to produce a Long-Term Debt Service Coverage Ratio at the end of each fiscal year that is not less than 1.10:1.0. See Appendix D – "Summary of Certain Provisions of the Indenture and the Continuing Disclosure Agreement – The Indenture – Covenants of The Regents – Rates and Charges; Debt Coverage."

Additional Bonds, Parity Debt and Other Indebtedness. Additional Bonds and Parity Debt in addition to the Series 2002 Bonds and the Series 2004 Bonds, secured equally and ratably by the pledge of Revenues, may be issued or incurred by The Regents under and pursuant to the Indenture and subject to the conditions set forth therein. In addition, The Regents may incur other Indebtedness subject to the conditions set forth in the Indenture. See Appendix D – "Summary of Certain Provisions of the Indenture and the Continuing Disclosure Agreement – The Indenture – Issuance of Additional Series of Bonds" and "The Indenture – Covenants of The Regents – Limitation on Indebtedness."

The Bonds are limited obligations of The Regents, payable solely from Revenues and other funds pledged therefor. In addition, The Regents may incur additional Indebtedness for the benefit of the Medical Center secured by a pledge of and lien on Revenues on a parity with the pledge and lien on the Revenues securing the Bonds. The Bonds do not constitute a liability of or a lien upon the funds or property of the State of California or of The Regents, except to the extent of the aforementioned pledge. The Regents has no taxing power.

THE INSURANCE POLICY

The following information has been provided by the Insurer for use in this Official Statement. Reference is made to Appendix G for a specimen of the Insurance Policy. The Regents makes no representation as to the accuracy or completeness of this information or as to the absence of material adverse changes in this information subsequent to the date hereof.

Payment Pursuant to Insurance Policy

Ambac Assurance has made a commitment to issue the Insurance Policy relating to the Series 2004 Bonds effective as of the date of issuance of the Series 2004 Bonds. Under the terms of the Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Series 2004 Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Series 2004 Bonds and, once issued, cannot be cancelled by Ambac Assurance.

The Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series 2004 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 2004 Bonds, Ambac Assurance will remain obligated to pay principal of, and interest on, outstanding Series 2004 Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of the acceleration of the principal of the Series 2004 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Series 2004 Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Insurance Policy. Specifically, the Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;

2. payment of any redemption, prepayment or acceleration premium; and

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, paying agent or registrar, if any.

If it becomes necessary to call upon the Insurance Policy, payment of principal requires surrender of Series 2004 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2004 Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Insurance Policy. Payment of interest pursuant to the Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the holder of the Series 2004 Bond, appurtenant coupon, if any, or right to payment of principal and interest on such Series 2004 Bond and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Insurance Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U. S. Virgin Islands, with admitted assets of approximately $7,278,000,000 (audited) and statutory capital of approximately $4,490,000,000 (audited) as of December 31, 2003. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw Hill Companies, Moody's Investors Service and Fitch Ratings have assigned a triple-A claims-financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of such obligation.

Ambac Assurance makes no representation regarding the Series 2004 Bonds or the advisability of investing in the Series 2004 Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "The Insurance Policy."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. ("Ambac Financial"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including Ambac Financial. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following document filed by Ambac Financial with the SEC (File No. 1-10777) is incorporated by reference in this Official Statement:

1. Ambac Financial's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004.

All documents subsequently filed by Ambac Financial pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

THE REPLACEMENT HOSPITAL FACILITIES

The Replacement Hospital Facilities consist of a facility located on the UCLA campus in Westwood (the "Westwood Replacement Facility") and a facility located on the current site of Santa Monica-UCLA Medical Center (the "Santa Monica Replacement Facility"). The Westwood Replacement Facility consists of an approximately 1,045,000 gross square foot, ten story structure (eight stories of which are above ground, two stories of which are below ground), which was designed as a "state of the art" comprehensive academic medical center. Features of the Westwood Replacement Facility, designed to withstand an 8.0 earthquake, include all private rooms, efficient care models with dedicated services provided on separate floors, installation of the latest technologies, including the latest technologies in cath labs, CT scanning, and MR and imaging, and full electronic clinical management. As of January 31, 2004, all contracts had been awarded and construction was approximately 72% complete. Estimated completion is spring 2005. Estimated occupancy is fall 2005. Upon completion, the Westwood Replacement Facility is expected to be compliant with the requirements set forth in California State Senate Bill No. 1953 ("S.B. 1953") for year 2030. See "Bondholders' Risks - California Seismic Requirements" and is expected to be licensed for 520 beds. See also Appendix A - "Information Concerning UCLA Medical Center."

The Santa Monica Replacement Facility consists of several components, including construction of an approximately 332,000 gross square foot seven story replacement structure (six stories of which are above ground, one story of which is below ground), renovation of an approximately 177,700 gross square foot existing structure, referred to as the Merle Norman Pavilion, construction of a replacement central plant, and construction of a parking structure. Features of the Santa Monica Replacement Facility, designed to function as a community hospital providing community care, emergency services and comprehensive orthopaedic care, include the latest technologies and full electronic clinical management. As of January 31, 2004, all contracts had been awarded, construction of the central plant and the parking structure were complete and both facilities were operational, and overall construction and renovation activities were approximately 31% complete. Estimated completion is fall of

2006. Estimated occupancy is spring 2007. Upon completion, the Santa Monica Replacement Facility is expected to be compliant with the requirements set forth in S.B. 1953 for year 2030. See "Bondholders' Risks - California Seismic Requirements" and is expected to be licensed for 271 beds. See also Appendix A - "Information Concerning UCLA Medical Center."

Estimated cost of completion of the Westwood Replacement Facility, excluding contingency, is approximately $677.7 million. Estimated cost of completion of the Santa Monica Replacement Facility, excluding contingency, is approximately $275.9 million. In addition to the proceeds of the Series 2004 A Bonds, funding for the Replacement Hospital Facilities is being provided from a combination of sources, including Federal Emergency Management Agency ("FEMA") funding under the Seismic Hazard Mitigation Program for Hospitals, matching funds provided by the State of California, State of California infrastructure improvement funds, Medical Center reserves, cash generated from Medical Center operations and donations, and S.B. 1953 lease revenue bonds previously issued by the State Public Works Board of the State of California. See Appendix C - "The University of California - Indebtedness of The Regents." Such lease revenue bonds are not secured by a pledge of Revenues.

PLAN OF FINANCE

Proceeds of the Series 2004 Bonds will be applied to finance a portion of the costs of the acquisition, construction and equipping of the Replacement Hospital Facilities. See "The Replacement Hospital Facilities." Proceeds of the Series 2004 Bonds will also be applied to refund the Series 1994 Bonds, $98,335,000 are which are currently outstanding, which were issued to assist in the refinancing of certain health care and related facilities of the Medical Center located on the UCLA campus, and to pay a portion of the costs of issuance of the Series 2004 Bonds, including the premium to be paid for the Insurance Policy. See "Estimated Sources and Uses of Funds." The Series 1994 Bonds will be redeemed on the date of issuance of the Series 2004 Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The following are the estimated sources and uses of funds in connection with the Series 2004 Bonds:

SOURCES

Principal Amount of Series 2004 Bonds	$256,165,000.00
Net Original Issue Premium	12,747,947.90
Amounts Transferred from Revenue Fund, Interest Account and Principal Account(1)	5,430,877.33
Total Sources of Funds	$274,343,825.23

USES

Series 2004 A Project Account	$165,426,703.33
Redemption of Series 1994 Bonds	102,765,539.85
Costs of Issuance(2)	6,151,582.05
Total Uses of Funds	$274,343,825.23

(1) Amount allocated to the Series 1994 Bonds which will be released and applied to the redemption of the Series 1994 Bonds.

(2) Costs of Issuance include underwriters' discount and the premium for the Insurance Policy.

OUTSTANDING INDEBTEDNESS

Upon the date of issuance of the Series 2004 Bonds, $31,520,000 aggregate principal amount of Series 2002 Bonds will remain Outstanding. The following table sets forth the debt service requirements for the Series

2002 Bonds, the Series 2004 A Bonds, the Series 2004 B Bonds and the total annual debt service for such Series 2002 Bonds, the Series 2004 A Bonds and the Series 2004 B Bonds.

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending June 30,	Series 2002 Bonds	Series 2004 A Bonds		Series 2004 B Bonds		Total Debt Service
		Principal	Interest	Principal	Interest	
2004	$ 1,945,535					$ 1,945,535.00
2005	1,922,785		$8,440,316.06		$4,499,347.66	14,862,448.72
2006	1,997,760		8,559,193.76		4,562,718.76	15,119,672.52
2007	1,970,460		8,559,193.76	$4,405,000	4,562,718.76	19,497,372.52
2008	1,943,160		8,559,193.76	4,520,000	4,446,668.76	19,469,022.52
2009	2,013,585	$2,205,000	8,559,193.76	4,675,000	4,290,968.76	21,743,747.52
2010	29,168,830(1)	2,320,000	8,446,187.50	4,825,000	4,142,968.76	48,902,986.26 (1)
2011		2,440,000	8,327,287.50	5,050,000	3,916,937.50	19,734,225.00
2012		2,565,000	8,202,237.50	5,300,000	3,663,375.00	19,730,612.50
2013		2,695,000	8,070,781.26	5,570,000	3,395,562.50	19,731,343.76
2014		2,835,000	7,932,662.50	5,855,000	3,110,100.00	19,732,762.50
2015		2,990,000	7,776,737.50	6,180,000	2,788,075.00	19,734,812.50
2016		3,155,000	7,612,287.50	6,500,000	2,463,175.00	19,730,462.50
2017		3,325,000	7,438,762.50	6,860,000	2,105,675.00	19,729,437.50
2018		3,510,000	7,255,887.50	7,235,000	1,728,375.00	19,729,262.50
2019		3,700,000	7,062,837.50	7,635,000	1,330,450.00	19,728,287.50
2020		3,905,000	6,859,337.50	8,055,000	910,525.00	19,729,862.50
2021		4,120,000	6,644,562.50	8,500,000	467,500.00	19,732,062.50
2022		4,345,000	6,417,962.50			10,762,962.50
2023		4,585,000	6,178,987.50			10,763,987.50
2024		4,840,000	5,926,812.50			10,766,812.50
2025		5,105,000	5,660,612.50			10,765,612.50
2026		5,375,000	5,392,600.00			10,767,600.00
2027		5,655,000	5,110,412.50			10,765,412.50
2028		5,950,000	4,813,525.00			10,763,525.00
2029		6,265,000	4,501,150.00			10,766,150.00
2030		6,595,000	4,172,237.50			10,767,237.50
2031		6,940,000	3,826,000.00			10,766,000.00
2032		7,285,000	3,479,000.00			10,764,000.00
2033		7,650,000	3,114,750.00			10,764,750.00
2034		8,035,000	2,732,250.00			10,767,250.00
2035		8,435,000	2,330,500.00			10,765,500.00
2036		8,855,000	1,908,750.00			10,763,750.00
2037		9,300,000	1,466,000.00			10,766,000.00
2038		9,765,000	1,001,000.00			10,766,000.00
2039		10,255,000	512,750.00			10,767,750.00

(1) The Series 2002 Bonds constitute Balloon Indebtedness as such term is defined in the Indenture. Pursuant to the provisions of the Indenture, computation of debt service assumes that such Balloon Indebtedness is amortized over a 25-year period. The Regents expects to issue long-term debt to refinance the Series 2002 Bonds prior to the December 1, 2009, the maturity date of such Series 2002 Bonds.

BONDHOLDERS' RISKS

The purchase of the Series 2004 Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Series 2004 Bonds should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision. Certain of these risks are described below.

Future economic and other conditions, including changes in the demand for health care services, economic trends and events, technological developments and demographic shifts may influence the ability of the Medical

Center to meet debt service requirements. Many factors such as the confidence of physicians and the public in the Medical Center, federal and state policies affecting the health care industry, changes in government regulations, changes in the rates and methods of third-party and governmental reimbursement, the financial viability of third-party payors, changes in the methods by which employers purchase health care for employees, capability of Medical Center management, competition, regulatory actions, malpractice claims and other litigation as well as increased costs may adversely affect the future financial condition of the Medical Center and, consequently, its ability to make payments of principal, premium, if any, and interest on the Series 2004 Bonds. There can be no assurance given that the financial condition of the Medical Center and/or the utilization of the facilities of the Medical Center will not be materially and adversely affected by future economic and other conditions.

With respect to the financial position of the Medical Center as of June 30, 2003, see the audited financial statements attached hereto as Appendix B.

General

The Series 2004 Bonds are payable solely from and secured by the Revenues of the Medical Center. No representation or assurance can be made that Revenues will be realized by the Medical Center in amounts sufficient to pay principal of and interest on the Series 2004 Bonds.

The future financial condition of the Medical Center could be adversely affected by, among other things, legislation, regulatory actions, federal and state policies affecting the health care industry, changes in the method and amount of payments to the Medical Center by nongovernmental third-party payors, the financial viability of third-party payors, increased competition from other health care providers, demand for health care, changes in the methods by which employers purchase health care for employees, capability of management, future changes in the economy, demographic changes, changes in recruitment of physicians and nurses, and malpractice claims and other litigation. Such factors, consequently, also may affect payment by the Medical Center of principal, premium, if any, and interest on the Series 2004 Bonds. There can be no assurance that the financial condition of the Medical Center and/or utilization of the Medical Center facilities will not be adversely affected by any of these circumstances or events.

The Medical Center is subject to a wide variety of federal regulatory actions and legislative and policy changes by those governmental and private agencies that administer the Medicare program and the California Medicaid program (hereinafter referred to as the "Medi-Cal Program" or "Medi-Cal") and by other third party payors. The Medical Center is also subject to actions by, among others, the United States Department of Health and Human Services ("DHHS"), including the Office of the Inspector General of DHHS, the Centers for Medicare and Medicaid Services ("CMS"), the Internal Revenue Service (the "IRS"), the National Labor Relations Board, the Joint Commission on the Accreditation of Healthcare Organizations ("JCAHO"), and other federal, state and local governmental agencies. There can be no assurance that such agencies may not make regulatory or policy changes or that such legislative bodies may not enact legislation or make policy changes, which could impose significant new burdens on the Medical Center or produce adverse effects upon the ability of the Medical Center to generate revenues or upon the utilization of the health facilities of the Medical Center. Some of the risks associated with these actions are described below.

State of California Budget

Since early 2001, the State of California has faced severe financial challenges, which may continue for several years. The State of California experienced an economic recession in 2001 and a sluggish recovery in 2002 and 2003 attributable to weakened exports and large stock market declines (with attendant declines in stock option values, capital gains realizations and significant employment reductions). These adverse fiscal and economic factors have resulted in a serious erosion of general fund tax revenues. The bulk of the revenue declines were from declines in personal income tax receipts and business tax receipts. These factors have resulted in a shortfall between the State of California's revenues and spending demands. It is expected that such shortfall for the current fiscal year ending June 30, 2004 and upcoming fiscal years ultimately will be closed with a combination of expenditure reductions, revenue enhancements, and certain budgetary actions, such as fund transfers, expenditure deferrals and fund shifts. The State of California contributes directly and indirectly to a number of Medical Center activities through, for example the Medi-Cal Program. Cuts in state Medi-Cal Program spending, which were scheduled to become effective January 1, 2004, recently were enjoined by a state district court, although the State of California is seeking an appeal of the decision. In addition, Governor Schwarzenegger's proposed budget would reduce Medi-Cal Program reimbursement rates paid to specified providers, which were already set to decrease by 5%, by a total of 15%. Although the cuts and proposed reductions described above do not apply to hospitals, such as the Medical Center, which have a Medi-Cal contract with the State, the State of California's financial challenges may negatively affect the Medical Center in a number of ways. These include, but are not limited to, a freeze in Medi-Cal reimbursement rates (See "California Medi-Cal Program" herein), and an increase in the number of indigent patients who are unable to pay for their care (See "Indigent Care" herein). In addition, the State of California may seek to generate revenue by increasing tax rates, changing the treatment of income currently treated as tax-exempt, limiting or decreasing enrollment in publicly subsidized programs, decreasing the State work force, decreasing the reimbursement rates for publicly subsidized programs and/or increasing the frequency of regulatory investigations and resulting penalty actions. See also Appendix C - "The University of California - Budgetary Process - Current Budget Matters."

Fraud and Abuse Enforcement

Health care fraud and abuse laws have been enacted at the federal and state levels to regulate both the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to such beneficiaries. Under these laws, individuals and organizations can be penalized for various activities, including submitting claims for (i) services that are not provided, (ii) services billed in a manner other than as actually provided, (iii) services not medically necessary, (iv) services provided by an improper person, (v) services accompanied by an illegal inducement to utilize or refrain from utilizing a service or product, or (vi) services billed in a manner that does not comply with applicable government requirements.

Federal and state governments have a range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud and abuse, including exclusion of the provider from participation in the Medicare/Medi-Cal programs, civil money penalties, and suspension of payments. See "The Medicare Program" and "California Medi-Cal Program" herein. Fraud and abuse cases may be prosecuted by one or more government entities and/or private individuals, and more than one of the available penalties may be imposed for each violation.

Laws governing fraud and abuse apply to hospitals and to virtually all individuals and entities with which a hospital does business, including other hospitals, home health agencies, long term care entities, infusion providers, pharmaceutical providers, durable medical equipment providers, insurers, health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs"), third party administrators, physicians, physician groups, and physician practice management companies. Fraud and abuse prosecutions can have a catastrophic effect on such entities.

Federal Criminal Fraud and Abuse Liability of Health Care Providers. Both individuals and organizations are subject to prosecution under the criminal fraud and abuse statutes relating to health care providers. The sentencing of organizations for federal health care crimes is governed by the U.S. Sentencing Guidelines, which permit the imposition of substantial fines. However, fines may be reduced significantly if the provider had in place at the time of the crime an effective corporate compliance program and/or accepts responsibility for its actions. Criminal conviction for an offense related to a health care provider's participation in the Medicare program results in the provider's exclusion and debarment from all government programs. Exclusion may also result from other types of health care fraud convictions. Exclusion from the Medicare or other federal or state funded programs could have a material adverse effect on the financial condition of the Medical Center.

Criminal False Claims Act. The criminal False Claims Act ("criminal FCA") makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government. Violation of the criminal FCA can result in imprisonment for up to five years and/or a fine of the greater of twice the gross gain or loss from the offense, or $250,000 for an individual or $500,000 for an organization. To the extent the federal government cannot prove criminal intent or meet its burden of proving a false claim beyond a reasonable doubt, the same conduct can typically be prosecuted under civil statutes, notably the civil FCA (described below), which may be used to prosecute reckless conduct.

Anti-Kickback Law. The federal Anti-Kickback Law is a criminal statute that prohibits anyone from knowingly or willfully soliciting, receiving, offering or paying any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in return for a referral (or to induce a referral) for any item or service that is covered by any federal or state health care program. The Anti-Kickback Law applies to virtually every person and entity with which a hospital does business. In recent years, the Anti-Kickback Law has been aggressively enforced. Health care providers, their subsidiaries, affiliates, and physicians, all have some exposure relating to the Anti-Kickback Law. Enforcement actions have increased in recent years, as evidenced by recent court decisions and activities by the Office of the Inspector General ("OIG"), the enforcement arm of the DHHS.

Violation of the Anti-Kickback Law is a felony, subject to a maximum fine of $250,000 for each criminal act, imprisonment for up to five years and exclusion from the Medicare and Medi-Cal programs. In addition, the OIG can initiate an administrative exclusion of a provider from the Medicare and Medi-Cal programs, and civil monetary penalties of $10,000 per item or service in noncompliance ($50,000 in some cases) or an "assessment" of three times the amount claimed may be imposed for some violations.

The outcome of any government efforts to enforce the Anti-Kickback Law against health care providers is difficult to predict. Health care providers may act to reduce their financial exposure for Anti-Kickback violations through prompt voluntary repayment of sums received as a result of inaccurate claims, through prompt voluntary reporting to the government of illegal arrangements, through the implementation of effective corporate compliance programs and by taking steps to require that their subsidiaries and affiliates do the same.

The Medical Center has in place policies and a compliance program (the "Compliance Program") that management believes will effectively reduce its exposure for Anti-Kickback violations. However, because the government's enforcement efforts presently are widespread within the industry, there can be no assurance that the Compliance Program will significantly reduce or effectively eliminate the Medical Center's exposure.

HIPAA. The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") established criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds, securities, premiums, credits, property, or other assets of a health care benefit program. A health care provider convicted of health care fraud would be subject to mandatory exclusion from the Medicare program.

Pursuant to HIPAA, DHHS has finalized regulations addressing the confidentiality of individuals' health information. Disclosure of protected health information is prohibited unless expressly permitted under the provisions of the regulations or authorized by the patient. HIPAA established civil monetary penalties for violations of the privacy laws and additionally established criminal penalties for knowingly obtaining or using individually identifiable health information. Such penalties range from $50,000 and/or imprisonment for up to one year to an amount not to exceed $250,000 and/or imprisonment for up to ten years if the information was obtained or used with the intent to sell, transfer or use such information for commercial advantage, personal gain or malicious harm.

The Medical Center has an active HIPAA compliance plan in place that management believes will effectively reduce its exposure for HIPAA violations. However, because the HIPAA regulations continue to be subject to reinterpretation, there can be no assurance that the HIPAA compliance plan will significantly reduce or effectively eliminate the Medical Center's exposure.

Federal Civil Fraud and Abuse Liability of Health Care Providers. Unlike criminal statutes which require the government to prove that the health care provider knowingly committed the criminal act, and, in some cases, prove that a provider intended to violate the law, civil statutes may be violated simply by the provider's participation in a prohibited financial arrangement or the reckless submission of claims not in full compliance with the law.

Civil False Claims Act. The civil False Claims Act ("civil FCA") allows the United States government to recover significant damages from persons or entities that submit fraudulent claims for payment to any federal agency through actions taken by the United States Attorney's Office or the Department of Justice. The civil FCA also permits individuals to initiate actions on behalf of the government in lawsuits called qui tam actions. These qui tam plaintiffs, or "whistleblowers," can share in the damages recovered by the government. The civil FCA has become one of the government's primary weapons against health care fraud.

Under the civil FCA, health care providers may be liable if they take steps to obtain improper payments from the government by submitting false claims. Civil FCA violations have been alleged solely on the existence of alleged kickback or self-referral arrangements. Even in the absence of evidence that literally false claims have been submitted, these cases argue that the improper business relationship tainted the subsequently submitted claims, thereby rendering the claims false under the civil FCA. Other civil FCA cases have proceeded on a theory that providers are liable for the submission of false claims when they are not in full compliance with applicable legal and regulatory standards. It is impossible to predict with certainty whether courts will uniformly hold that regulatory non-compliance and anti-kickback or self-referral violations are subject to prosecutions as false claims. However, if a provider is faced with a civil FCA prosecution based on one of these theories, the funds required to contest or settle the matter could have a material adverse impact on that provider.

Violations of the civil FCA can result in penalties up to triple the actual damages incurred by the government and also penalties from $5,500 up to $11,000 for each violation of the civil FCA. To avoid or reduce civil FCA liability, health care providers may choose to maintain a corporate culture of compliance with all applicable legal requirements, establish systems that enable them to learn of potential problems before a qui tam plaintiff files suit, consider making voluntary disclosures of information to the government if they discover wrongdoing or attempt to persuade the government not to proceed by cooperating with the government's investigation.

The Compliance Program encourages awareness of and compliance with, among others, billing and coding regulations. While there can be no assurance that the Compliance Program will eliminate all bases for qui tam actions, the existence of the Compliance Program may mitigate civil FCA liability.

Stark Referral Law. The federal Stark statute prohibits the referral of Medicare and Medicaid patients for certain designated health services (including inpatient and outpatient hospital services, home health services, clinical laboratory services, radiation and other imaging services, physical and occupational therapy, and durable medical equipment and supplies) to entities with which the referring physician or immediate family member has a financial relationship. It also prohibits the entity furnishing the designated health services from billing Medicare, or any other payor or individual, for services performed pursuant to a prohibited referral. The government does not need to prove that the entity knew that the referral was prohibited to establish a Stark violation. Most providers of the designated health services with physician relationships have some exposure to liability under the Stark statute. Although the statute excludes numerous categories of arrangements from its definition of "financial relationships," if certain requirements are met, many ordinary business practices and economically desirable arrangements with physicians would constitute "financial relationships" within the meaning of the Stark statute, thus triggering the prohibition on referrals and billing.

Upon determination that there is a Stark violation, a Medicare carrier or intermediary must deny payment of the affected claims, and the entity providing the designated health services must refund the amounts collected from the Medicare program and any other payor or for services rendered pursuant to the prohibited referral. Further, DHHS may seek civil monetary penalties of up to $15,000 for each service provided, and up to $100,000 for any scheme designed to circumvent the Stark statute. Additionally, the entity may be liable to pay damages of up to three times the amount of any monetary penalty and be excluded from the Medicare and Medi-Cal programs. Such enforcement actions would have a material adverse impact on the financial condition of a health care provider. Providers may act to reduce their exposure for Stark violations by establishing an effective corporate compliance program that periodically reviews hospital-physician relationships for compliance with Stark, promptly returning to the government any payments received by way of illegal referrals, and responding in an effective manner to complaints regarding prohibited referrals or financial arrangements that would trigger the Stark prohibitions.

The Compliance Program may reduce the exposure of The Medical Center to Stark violations. In addition, the Medical Center conflict of interest disclosure policy and process are intended to reduce risk in this area. However, no assurance can be given that the existence of the Compliance Program and the conflict of interest disclosure policy and process will eliminate potential liability for a Stark violation. A Stark violation may have a material adverse impact on the financial condition of the Medical Center.

EMTALA. The Emergency Medical Treatment and Active Labor Act ("EMTALA") is a federal civil statute that requires hospitals with emergency rooms to treat or conduct an appropriate and uniform medical screening for emergency conditions (including active labor) on all patients and to stabilize a patient's emergency medical condition before releasing, discharging or transferring the patient to another hospital. A hospital that violates EMTALA is subject to civil penalties of up to $50,000 per offense and exclusion from the Medicare arid Medi-Cal programs. In addition, the hospital is liable for any claim by an individual who has suffered harm as a result of such violation.

Administrative Enforcement. Administrative regulations require a lesser standard of proof of a violation than do criminal laws, and, thus, health care providers have a higher risk of imposition of monetary penalties as a result of an administrative enforcement action.

Civil Monetary Penalty Act. The federal Civil Monetary Penalty Act ("CMPA") provides for administrative sanctions against health care providers for a broad range of billing and other abuses. A health care provider is liable under the CMPA if it knowingly presents, or causes to be presented, improper claims for reimbursement under Medicare, Medicaid and other federal health care programs. A hospital that participates in arrangements known as "gainsharing" and pays a physician to limit or reduce services to Medicare fee-for-service beneficiaries also would be subject to CMPA penalties. The CMPA authorizes imposition of a civil money penalty ranging from $10,000 to $50,000 per incident and treble damages.

Health care providers may be found liable under the CMPA even when they did not have actual knowledge of the impropriety of the claim. Ignorance of the Medicare regulations is no defense. The imposition of civil money penalties on a health care provider could have a material adverse impact on the provider's financial condition.

Exclusions from Medicare or Medicaid Participation. The Secretary of DHHS is required to exclude from program participation for not less than five years any individual or entity who has been convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, fraud against any federal, state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription, or dispensing of a controlled substance. The Secretary of DHHS also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, theft, embezzlement, breach of fiduciary duty, or other financial misconduct relating either to the delivery of health care in general, or to participation in a federal, state or local government program. Exclusion from participation in either the Medicare or the Medicaid program means that no program payment will be made for services rendered by or on the order of an excluded party.

Corporate Integrity Agreements. A corporate integrity agreement ("CIA") may be imposed in lieu of program exclusion as part of a civil settlement. A CIA sets forth specific corrective action based on the government's investigation for which a provider must assume responsibility. A CIA typically imposes stringent compliance and reporting obligations on a provider, such as auditing and monitoring activities. The implementation and management of a CIA may require a significant investment of time and financial resources.

Compliance with Conditions of Participation. CMS, in its role of monitoring participating providers' compliance with conditions of participation in the Medicare program, may determine that a provider is not in compliance with such conditions. In that event, a notice of termination of participation may be issued to such provider or other sanctions potentially could be imposed. As of the date of this Official Statement, management of the Medical Center is not aware of any such notices pending or contemplated against the Medical Center.

Enforcement Activity. Enforcement activity against health care providers has increased, and enforcement authorities are adopting more aggressive approaches. The Medical Center has implemented a compliance program and reviews all its billing practices to assure that its programs comply with all Medicare and Medi-Cal requirements. However, in the current regulatory climate, it is anticipated that many hospitals and physician groups will be subject to an investigation, audit or inquiry regarding billing practices or false claims. The Physicians at Teaching Hospital audit (the "PATH Audit") conducted by the OIG at the medical centers operated by The Regents concluded in February 2001. The PATH Audit covered five years of professional fee billing for services to Medicare beneficiaries. In addition, a qui tam lawsuit was filed under seal in San Francisco, alleging certain physician billing inaccuracies. The Department of Justice settled with The Regents with respect to all inpatient professional fee claims for the time period between 1990 and 1998. In addition, all qui tam lawsuits filed against The Regents related to these claims were dismissed.

The Medical Center may be the subject of OIG, U.S. Attorney General and/or Justice Department investigations, audits or inquiries in the future. The Regents and management of the Medical Center believe that they have properly complied with the laws concerning billing practices and the submission of false claims. However, because of the complexity of these laws, the instances in which an alleged violation may arise to trigger such investigations, audits or inquiries is increasing and could result in enforcement action against The Regents.

Enforcement authorities are sometimes in a position to compel settlements by providers charged with, or being investigated for, false claims violations by withholding or threatening to withhold Medicare, Medi-Cal and/or similar payments or from the possibility of a criminal action. In addition, the cost of defending such an action, the time and management attention consumed thereby and the facts of a particular case may dictate settlement. Therefore, regardless of the merits of a particular case or cases, the Medical Center could experience materially adverse settlement costs, as well as materially adverse costs associated with implementation of any settlement agreement. Prolonged and publicized investigations could be damaging to the reputation, business and credit of the Medical Center, regardless of the outcome, and could have material adverse consequences on the financial condition of the Medical Center. The Compliance Program may reduce future exposure for violations of law concerning billing practices or false claims, but no assurance can be given that the existence of an active and ongoing Compliance Program will eliminate potential liability.

Liability Under California State Laws

Health care providers are subject to prosecution and civil penalties under a variety of state laws, notably the following:

Medi-Cal Fraud. It is unlawful to submit false information to Medi-Cal with the intent to defraud.

Medi-Cal Anti-Kickback Statute. This statute largely adopts the language of the federal Anti-Kickback Law. The penalty for violation of this law is a conviction of either a misdemeanor or a felony and one year of imprisonment, or both.

Kickback for Referral of a Patient, Client or Customer. It is illegal for a person or an entity to receive any rebate, refund, commission, preference, patronage, dividend, discount or other payment for the referral of patients, clients or customers to a licensed health care provider unless a statutory safe harbor applies. This statute applies to all health care services, not just those reimbursable by government health care programs. Violation is a public offense punishable by incarceration for up to one year and/or a fine and, for a second offense, incarceration in state prison.

Self Referral Law. The Physician Ownership and Referral Act of 1993 prohibits referrals by physicians and their families to entities with which they have a financial relationship. There are numerous exceptions to the referral ban, including exceptions that permit referrals to hospitals and referrals among physicians in the medical foundation setting, as well as exceptions to the prohibition on self-referrals similar to those contained in the federal "Stark" self-referral law. The penalty for violation of this statute is a misdemeanor punishable by fine.

Civil FCA. California's civil FCA is modeled on the federal law. Though enforcement under this statute to date has been virtually non-existent, the State Attorney General's Office has indicated that it intends to explore aggressively the use of this statute in light of the successful use of the federal civil FCA.

The Medicare Program

Medicare is a federal governmental health insurance system under which physicians, hospitals and other providers are paid directly for services provided to eligible elderly and disabled persons. Medicare is administered by CMS, which delegates to the states the process for certifying those organizations to which CMS will make payment. In order to achieve and maintain Medicare certification, health care providers must meet CMS's "Conditions of Participation" on an ongoing basis, as determined by inspections conducted by either the applicable state health department and/or the JCAHO.

The Medical Center is certified as a provider for Medicare services and intends to continue to participate in the Medicare program. The requirements for Medicare certification are subject to change, and, in order to remain qualified for the program, it may be necessary for the Medical Center to effect changes from time to time in its facilities, equipment, personnel, billing processes, policies and service.

For the fiscal years ended June 30, 2002 and June 30, 2003, Medicare (non-risk) payments represented approximately 28.7% and 26.4%, respectively, of the Medical Center's net patient service revenue. See Appendix A - "Information Concerning UCLA Medical Center - Sources of Revenue - Patient Sponsor Mix - Net Patient Service Revenues." Future reductions in Medicare reimbursement could have a material adverse effect on the financial condition of the Medical Center.

Hospital Inpatient Reimbursement. General acute care hospitals are generally paid for inpatient services provided to Medicare inpatients under a prospective payment system ("PPS"). Under PPS, Medicare pays a predetermined rate for each covered hospitalization. The predetermined amount is based upon several hundred categories of possible treatments or conditions known as diagnosis related groups ("DRGs"). The actual cost of care, including capital costs, may be more or less than the DRG rate. DRG rates may be adjusted annually as part of the federal budget reconciliation process and, thus, are subject to deficit reduction activities involving the federal budget generally and/or the Medicare program specifically. There is no guarantee that DRG rates, as they change from time to time, will cover the Medical Center's actual costs of providing services to Medicare patients.

Hospital Outpatient Services. Outpatient services are paid on the basis of predetermined rates for most outpatient services based on the ambulatory payment classification ("APC") of such service. However, there is no guarantee that the APC outpatient service rates, as they may change from time to time, will be adequate to cover the Medical Center's actual cost of providing services to Medicare patients.

Reimbursement for Rehabilitation, Psychiatric and Home Health Services. Payments for inpatient rehabilitation services are being phased into a PPS through a two-year period that began on January 1, 2002. Payments for home health services began to phase into a PPS on October 1, 2000, and payments for psychiatric services began to phase into a per diem PPS on October 1, 2002. There is no guarantee that rates for such services, as they change from time to time, will be adequate to cover the Medical Center's actual cost of providing such services to Medicare patients.

Reimbursement of Hospital Capital Costs. Hospitals are reimbursed on a fully prospective basis for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. Capital costs are reimbursed exclusively on the basis of a standard federal rate (based upon average national costs of capital), subject to certain adjustments (such as for disproportionate share, indirect medical education and outlier cases) specific to the hospital.

There can be no assurance that future capital-related PPS payments will be sufficient to cover the actual capital-related costs of the Medical Center's facilities applicable to Medicare patient stays or to provide flexibility in meeting changing capital needs.

Support for Medical Education. Direct and indirect medical education reimbursement programs which reimburse hospitals for the additional diagnostic and treatment costs generated by interns and residents in training were generally reduced by the Balanced Budget Act of 1997 (the "BBA"), as amended and modified by the Balanced Budget Refinement Act of 1999 (the "BBRA") and the Benefits Improvement and Protection Act of 2000 (the "BIPA," and, together with the BBA and the BBRA, hereinafter sometimes referred to as the "Budget Acts"). The BBA caps the number of residents recognized by Medicare for reimbursement purposes at the number of residents working in a hospital for the hospital's fiscal year 1996 and contains other provisions which limit reimbursement for both direct and indirect medical education. However, also pursuant to the Budget Acts, medical education payments are carved out of capitation amounts paid to managed care plans and are paid directly to teaching hospitals, such as the Medical Center. Total reimbursement received by the Medical Center pursuant to these reimbursement programs decreased through the fiscal year ended June 30, 1999. Subsequently, total reimbursement received by the Medical Center pursuant to these reimbursement programs increased in each fiscal year through the fiscal year ended June 30, 2003. Management anticipates that reimbursement will remain at current levels. However, no assurance can be given that such reimbursement will not be reduced in the future.

Outlier Payments. In September 2002, CMS began closely scrutinizing hospital billing practices, focusing in particular on excessive outlier payments, which are made to reimburse hospitals in complex cases where the cost of providing care greatly exceeds the payment rate under the PPS. CMS concluded that certain hospitals were manipulating their charges in order to enhance their outlier payments. As a result, CMS revised the formula used to calculate outlier payments. The final outlier rule was issued June 9, 2003 and became effective August 8, 2003. There will be no retroactive adjustment to outlier payments. However, excessive outlier payments may be subject to retroactive review in the future if they meet certain guidelines as stipulated in the rule.

Medicare Managed Care. The BBA also provides certain Medicare beneficiaries with increased participation options under the Medicare+Choice Program. Pursuant to the Medicare+Choice Program, eligible Medicare beneficiaries may choose to obtain their benefits through a variety of risk-based plans. Medicare+Choice generally allows Medicare beneficiaries to participate in coordinated care plans, including health maintenance organizations and provider networks sponsored by hospitals, physicians or other providers, fee-for-service plans that accept full capitation from the Medicare program, and medical savings account plans that allow certain seniors to enroll in a high deductible medical benefit plan provided by indemnity to managed care plans. A health care provider may contract with CMS to provide Medicare+Choice services, either as a State-licensed HMO or as a provider-sponsored organization ("PSO") for which CMS has waived State-licensure requirements. All Medicare+Choice organizations must assume full financial risk on a prospective basis for the provision of health services. To date, the implementation of the Medicare+Choice Program has resulted in an increase in Medicare reimbursement to the Medical Center. However, no assurance can be given that implementation of the Medicare+Choice Program will not result in a decrease in Medicare reimbursement in the future.

Audits and Withholds. Medicare participating hospitals are subject to audits and retroactive audit adjustments with respect to the Medicare program. Generally, the Medical Center maintains some degree of reserves for anticipated or proposed audit adjustments which are likely to be contested. Nevertheless, such adjustments may exceed reserves and may be substantial. Medicare regulations also provide for withholding Medicare payment in certain circumstances, and such withholdings could have a substantial adverse effect on the ability of the Medical Center to make payments with respect to the principal, premium, if any, or interest on the Series 2004 Bonds and/or on their overall financial condition. Management of the Medical Center is not aware of any situation where a material amount of Medicare payment is being withheld.

The Medicaid Program

Medicaid is a program of medical assistance, funded jointly by the federal government and the states, for certain needy individuals and their dependents. Under Medicaid, the federal government provides grants to states that have medical assistance programs that are consistent with federal standards. In the past, attempts to balance the federal budget have resulted in reduced federal Medicaid spending. Future reductions could have a material and adverse effect on the financial condition of the Medical Center.

California Medi-Cal Program

General. Medi-Cal is the Medicaid program in California. Like federal programs, state programs financing care for the poor have implemented cost-cutting policies. Further cost-cutting policies, including eligibility reductions and restrictions, may be undertaken in the future.

The State of California selectively contracts with general acute care hospitals to provide acute inpatient services to Medi-Cal patients. Except in areas of the State that have been excluded from contracting, a general acute care hospital generally will not qualify for payment for non-emergency acute inpatient services rendered to a Medi-Cal beneficiary unless it is a contracting hospital. Typically, either party may terminate such contracts on 120 days' notice. The State may also terminate these contracts without notice under certain circumstances (e.g., breach by the provider or failure to remain qualified under the Medi-Cal Program) and is obligated to make contractual payments only to the extent the State legislature appropriates adequate funding therefor. The Medical Center currently has a Medi-Cal contract. No assurances can be given that the Medical Center will in the future maintain a Medi-Cal contract or that any such contract will reimburse the Medical Center at favorable rates.

Medi-Cal Reimbursement. The Social Security Act requires that states pay for hospital inpatient services through the use of rates that the state finds are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated facilities to provide care in conformity with applicable state and federal laws, regulations, and quality and safety standards.

Under the regulations implementing the Medi-Cal Program, the maximum inpatient reimbursement limit for hospital inpatient services is the lesser of (1) customary charges, (2) allowable costs determined in accordance with applicable Medicare standards and principles of reimbursement, and (3) an all-inclusive rate per discharge. The "all-inclusive rate per discharge" is the hospital specific, all-inclusive rate per Medi-Cal discharge that, when multiplied by the number of Medi-Cal discharges in the hospital's accounting year, determines the total dollar limit on reimbursable cost for that accounting year.

The all-inclusive discharge rate is calculated by annually adjusting a rate per discharge established for a hospital's "base year," the most recent hospital accounting year ending before the effective date of the regulation. In calculating this maximum per patient rate, the provider is given full credit for certain costs, such as rents and property taxes, but not for other costs (such as costs of services that have increased significantly over those incurred in prior years).

The Medical Center currently receives Medi-Cal reimbursement under a per diem contract for inpatient services and a State fee schedule for outpatient services.

Medi-Cal Managed Care Initiatives. In 1993, the State of California announced its intention to move large numbers of Medi-Cal beneficiaries into managed care payment systems. During or after the implementation of the State's managed care plans, Medi-Cal payments to participating hospitals may be capitated so that hospitals receive a predetermined, periodic rate for each Medi-Cal beneficiary. In effect, this payment methodology transfers economic risk for the cost of a patient's institutional services to the participating hospital. The degree of economic risk depends, among other factors, on the number of Medi-Cal beneficiaries involved in a particular area, their health status, the amount of the capitation payment, utilization and cost of hospital services, reinsurance levels and potentially other factors. To date, movement of Medi-Cal beneficiaries into Medi-Cal managed care arrangements has resulted in a slight increase in Medi-Cal reimbursement. However, no assurance can be given that the movement of Medi-Cal beneficiaries into Medi-Cal managed care arrangements will not result in a reduction of total Medi-Cal reimbursement in the future.

Disproportionate Share Medi-Cal Payments. The Medical Center currently receives supplemental Medi-Cal payments pursuant to the provisions of California State Senate Bill No. 855 ("S.B. 855"). S.B. 855 provides supplemental payments to hospitals, such as the Medical Center, which serve a disproportionately large share of Medi-Cal beneficiaries and other low income patients. No assurance can be given that the Medical Center will continue to be eligible to receive disproportionate share supplemental payments under this program in the future or that such disproportionate share supplemental payments will not be reduced or eliminated. See Appendix B - "University of California, Los Angeles Medical Center Report on Audits of Financial Statements for the Years Ended June 30, 2003 and June 30, 2002."

Support for Medical Education. The Medical Center currently receives supplemental funding (the ("Medi-Cal GME Funding") from Medi-Cal in recognition of both the direct and indirect medical education costs associated with inpatient health care services rendered to Medi-Cal beneficiaries. No assurance can be given that the Medical Center will continue to be eligible to receive Medi-Cal GME Funding in the future or that Medi-Cal

GME Funding will not be reduced or eliminated. See Appendix B - "University of California, Los Angeles Medical Center Report on Audits of Financial Statements for the Years Ended June 30, 2003 and June 30, 2002.

Private Health Plans and Managed Care

Health care, including hospital services, is increasingly paid for by various "managed care" plans that generally use discounts and other economic incentives to reduce or limit the cost and utilization of health care services such as inpatient hospital care. Payments to the Medical Center from managed care plans typically are lower than those received from traditional indemnity/commercial insurers.

In many markets, including southern California, managed care plans have replaced indemnity insurance as the prime source of nongovernmental payment for hospital services. In areas where managed care is prevalent, including the area served by the Medical Center, health care providers must be capable of attracting and maintaining managed care business, often on a regional basis. To do so, regional coverage and aggressive pricing may be required. However, it also is essential that contracting providers be able to provide the contracted services without significant operating losses, all of which may require innovative cost containment efforts.

Many PPOs and HMOs currently pay providers on a negotiated fee-for-service basis or, for institutional care, on a fixed rate per day basis, which, in each case, is discounted from the typical charges for the care provided. The discounts offered are typically premised on a certain pattern and volume of utilization of the provider's services. Having such PPO and HMO contracts in place, however, is not a guarantee to the Medical Center that the pattern and volume of utilization will not be less than projected. The volume of patients directed to a provider may vary significantly from projections, depending on a number of factors, including, in particular, the incentives that the PPO or HMO offers to its enrollee/insured or to its physicians to utilize a particular provider. As an example, an HMO or PPO can influence the provider choice of an enrollee/insured by creating a "tiered pricing" system, whereby the HMO or PPO will cover (i) a higher proportion of the charges (thus requiring a lower copayment by the enrollee/insured) if the provider that is selected is on the PPO's or HMO's "choice" list, and (ii) a lower proportion of the charges (thus requiring a higher copayment by the enrollee/insured) if the provider selected is not on the "choice" list or is a noncontracted provider. The unpredictability of the volume and pattern of utilization of a provider's services often jeopardizes the provider's ability to contain costs. As a result, the discounts offered to HMOs and PPOs may result in payment to a provider that is less than its actual cost.

Some HMOs employ a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" or otherwise directed to receive care at a particular hospital. In a capitation payment system, the hospital assumes a financial risk for the cost and scope of institutional care given to such HMO's enrollees. If payment under an HMO or PPO contract is insufficient to meet the hospital's actual costs of care, or if utilization by such enrollees materially exceeds projections, the financial condition of the hospital could erode rapidly and significantly.

Often, HMO contracts are enforceable for a stated term, regardless of hospital losses and may require hospitals to care for enrollees for a certain time period, regardless of whether the HMO is able to pay the hospital. As with other large health care providers, from time to time, the Medical Center may have disputes with HMOs, PPOs and other managed care payors concerning contract interpretation issues. Such disputes may result in mediation, arbitration or litigation. The Medical Center management expects that these types of issues ultimately will be resolved, sometimes through renegotiation or termination of the contract. In addition, the Medical Center in recent past has had to initiate actions against HMOs who were delinquent or had defaulted in making timely payments to the Medical Center. The Medical Center management considers such actions to be a customary cost of business, although such disputes and defaults may have a material adverse effect upon the financial condition of the Medical Center.

Defined broadly, for the fiscal year ended June 30, 2003, managed care payments (including capitated Medicare and Medi-Cal contracts) constituted approximately 5.1% of the net patient service revenues of the Medical Center. See Appendix A - "Information Concerning UCLA Medical Center - Sources of Revenue - Patient Sponsor Mix - Net Patient Service Revenues." No assurances can be given that the Medical Center will maintain managed care contracts or obtain other similar contracts in the future. Failure to maintain contracts could have the effect of reducing the Medical Center's market share. Conversely, participation may maintain or increase the patient base but could result in lower net income to the Medical Center if the Medical Center is unable to adequately contain its costs. Thus, managed care poses one of the most significant business risks the Medical Center faces.

As a consequence of the above factors, the effect of managed care on the Medical Center's financial condition is difficult to predict. Furthermore, the effect of such contracts on the Medical Center's financial statements may be different in the future than that reflected in the financial statements for the current period.

Indigent Care

Hospitals often treat large numbers of indigent patients who are unable to pay for their medical care. These hospitals may be susceptible to economic and political changes that could increase the number of indigents or their responsibility for caring for this population. General economic conditions that affect the number of employed individuals who have health coverage will similarly affect the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, state and federal health care programs (including Medicare and Medi-Cal), may increase the frequency of indigent care by such hospitals. Indigent care commitments of the Medical Center could have a material adverse effect on the financial condition of the Medical Center.

Hospital Pricing

A national for-profit health care provider's pricing strategies recently have become public, triggering increased scrutiny by lawmakers, as well as the public, of pricing strategies for the delivery of health care services. It is possible that legislative action at the state or national level may be taken with regard to the pricing of health care services. It is uncertain whether any such action would materially impact the Medical Center's ability to generate revenues for the services it provides. As a result of increased public scrutiny, it is possible that the pricing strategies of the Medical Center may be perceived negatively by the communities served and/or the Medical Center may reduce fees for the services it performs. Decreased utilization of Medical Center facilities could result, and Medical Center revenues may be negatively impacted. Either of such decreases could be material. Court action also may result in changes to pricing strategies, which could reduce the revenues of the Medical Center.

Hospital pricing has also been a focus of the California Legislature which enacted a law which will require all hospitals to make their charge description masters available to the public for inspection commencing July 1, 2004. Hospitals will also be required to publish their top 25 DRGs. In addition, the California Public Employees' Retirement System ("CalPers"), a sizable contractor for medical services on behalf of its constituents, is examining how hospitals set their prices and has expressed interest in working with providers utilizing pricing practices CalPers favors.

Physician Alliances and Affiliations

General. Many hospitals and health systems, including the Medical Center, pursue strategic alliances with physicians that may be capital intensive and may create certain business and, if not properly structured, legal liabilities for the related hospital or health system. These alliances seek to integrate the professional and institutional components of medical care in a unified delivery model and may include formalized relationships. Such alliance or affiliation strategies take many forms, including management service organizations ("MSOs") or physician-hospital organizations ("PHO"), which may provide a combination of financial and managed care assistance, as well as facilities and equipment, to groups of physicians. Other alliance or affiliation structures include hospital-based clinics or medical practice foundations, which may purchase and operate physician practices, as well as provide all administrative services to physicians.

The movement toward development of strategic alliances or affiliations involves significant organizational, operational and management changes and significant costs and risks over time. Such changes, costs, and risks could have a material adverse impact on the Medical Center. Generally, the sponsoring hospital or health system will be the primary capital source for such alliances. Depending on the size and organizational characteristics of a particular development, the capital requirements may be substantial. The sponsoring hospital or health system may be asked to provide a financial guarantee for the debt of a related entity that is carrying out physician affiliations. Alternatively, the sponsoring hospital or health system may have an ongoing financial commitment to provide growth capital or support operating deficits. Invested capital is subject to risk of loss.

These types of alliances are generally designed to respond to existing trends in the delivery of medicine, to implement anticipated aspects of health care reform, to increase physician availability to the community and/or enhance the managed care capability of the affiliated hospital and physicians. However, these goals may not be achieved, and an unsuccessful alliance may have a material and adverse effect on the financial condition of the sponsoring hospital or health system and also may be counterproductive to any of the above-stated goals.

All such alliances or affiliations carry with them the potential for legal or regulatory risks in varying degrees. The ability of hospitals or health systems to maintain such alliances or affiliations may be altered or eliminated in the future by regulatory agencies, participating physicians or changes in the manner in which such alliances or affiliations operate. There can be no assurance that such issues and risks will not lead to material adverse consequences in the future.

Physician Relations and Contracting. The primary relationship between a hospital and physicians who practice in it is through the hospital's organized medical staff. Medical staff bylaws, rules, regulations and policies establish the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges or who have such membership or privileges curtailed or revoked may grieve such actions and may file legal actions against hospitals and medical staffs. Such actions may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of the hospital governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties. All hospitals, including the Medical Center, are subject to such risks.

In the past the Medical Center has entered into and in the future the Medical Center may enter into various types of relationships with physicians. Some of these relationships may be of material importance to the operations of the Medical Center's facilities and may pose a variety of legal and business risks. The focus of these relationships is a physician practice group or independent practice association that concentrates a large number of physicians in a limited number of contracting organizations. This increases the importance of these contracts and increases the risk of the loss of one or more such contracts.

Joint Ventures with Other Health Care Organizations. In the future, the Medical Center may participate in joint ventures with other nonprofit corporations. In some cases, the Medical Center may fund such joint ventures on a start-up or ongoing basis, and such funding might be significant. Moreover, in certain instances, such joint ventures may conduct operations that are of strategic importance to the Medical Center. Although such joint ventures would be structured as separately licensed limited liability corporations, such operations may subject the Medical Center to potential legal or financial liabilities.

Future Activity. As part of its overall strategic planning and development process, the Medical Center reviews the use, compatibility and business viability of its operations. From time to time, the Medical Center may pursue changes in its operations and changes in the use of or disposition of its facilities. In addition, the Medical Center may consider and pursue investments, ventures, affiliations, development and acquisition of other health care-related entities. These may include home health care, long-term care entities or operations, pharmaceutical providers and other health care enterprises that support the overall operations and mission of the Medical Center. In addition, Medical Center may pursue such transactions with health insurers, HMOs, PPOs, third-party administrators and other health insurance-related businesses. Because of the integration occurring throughout the health care field, the Medical Center will consider such arrangements where there is a perceived strategic or operational benefit. Any such initiative may involve significant capital commitments and/or capital or operating risk in businesses in which Medical Center have less expertise than in hospital operations. There can be no assurance that these projects, if pursued, will not have a material adverse effect on the financial condition of the Medical Center.

Competition Among Health Care Providers

Increased competition from a wide variety of potential sources, including, but not limited to, other hospitals, health care systems, inpatient and outpatient health care facilities, long-term care and skilled nursing services facilities, specialty hospitals, clinics, physicians and others, could adversely affect the utilization and/or revenues of the Medical Center. Existing and potential competitors may not be subject to various restrictions applicable to the Medical Center, may not incur costs of the type incurred by teaching hospitals, such as the Medical Center, and may be more flexible in their ability to adapt to competitive opportunities and risks. Competition, in the future, may arise from new sources not currently anticipated or prevalent. While the effect of such actions is uncertain, it can be expected to increase competition in the health care field generally, and the utilization and revenues of the Medical Center could be adversely affected thereby.

Tenet, a for-profit health care provider, is among the Medical Center's local competitors. See Appendix A - "Information Concerning UCLA Medical Center - Service Area and Market Share - Primary Service Area." All Tenet facilities located within the Medical Center's primary service area are currently for sale. Other for-profit health care systems may be evaluating entry into the markets in which the Medical Center provides services. The entry of one or more for-profits could have an impact on the revenues and profitability of the Medical Center. For-profit enterprises may have access to capital at a lower cost or on more favorable terms than the Medical Center and other nonprofit hospitals and health care systems. In addition, these for-profit providers might not be subject to all of the restrictions to which the Medical Center are subject as a result of its nonprofit and tax exempt status.

Technology and Services

Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, occupational health and safety and outpatient health care delivery may reduce utilization and revenues of the Medical Center in the future. Technological advances in recent years have accelerated the trend toward the use by hospitals, particularly teaching hospitals, and other health care providers of sophisticated and costly equipment and services for diagnosis and treatment. The acquisition and operation of certain equipment or services may continue to be a significant factor in hospital and other provider utilization, but the availability of the Medical Center to offer such equipment or services may be subject to the availability of equipment or specialists, governmental approval or the ability to finance such acquisitions or operations.

Antitrust

Enforcement of the antitrust laws against health care providers is becoming more common. Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, acquisition and affiliation activities, certain pricing or salary setting activities, as well as other areas of activity. The application of the federal and state antitrust laws to health care is still evolving, and enforcement activity appears to be increasing. Violation of the antitrust laws could result in criminal and/or civil enforcement proceedings by federal and state agencies, as well as actions by private litigants. In certain actions, private litigants may be entitled to treble damages, and in others, governmental entities may be able to assess substantial monetary fines. At various times, the Medical Center may be subject to an investigation by a governmental agency charged with the enforcement of the antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party.

The most common areas of potential liability are joint action among providers with respect to payor contracting, medical staff credentialing, merger, acquisition and affiliation activity and use of a hospital's local market power for entry into related health care businesses. With respect to payor contracting, the Medical Center may, from time to time, be involved in joint contracting activity with other hospitals or providers. The precise degree to which this or similar joint contracting activities may expose the participants to antitrust risk from governmental or private sources is dependent on a myriad of factual matters which may change from time to time. Physicians who are subject to adverse peer review proceedings may file federal antitrust actions against hospitals and seek treble damages. Hospitals, including the Medical Center, may have disputes regarding credentialing and peer review, and therefore may be subject to liability in this area.

Another potential area of liability is merger, acquisition and affiliation activity if a hospital's local market power in the inpatient hospital market or related health care business becomes too great. In addition, the creation of market power or monopoly power through contracting with a high percentage of physicians within a given market may result in antitrust risks. Recent court decisions also have established private causes of action against hospitals that use their local market power to promote ancillary health care businesses in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage The Medical Center may also work with, rely upon and sometimes invest in medical groups, independent practice associations, and physician practice management companies. Such activities often present antitrust risk. In addition, if any of these medical groups or management companies is determined to have violated the antitrust laws, the Medical Center also may be subject to liability.

From time to time, the Medical Center may be involved with certain of these types of activities, and the Medical Center cannot predict in general when or to what extent liability, if any, may arise. Liability in any of these or other trade regulation areas may be substantial, depending upon the facts and circumstances of each case.

Labor Relations

Collective Bargaining. Hospitals often are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Certain Medical Center employees are covered by collective bargaining agreements. See Appendix A - "Information Concerning UCLA Medical Center - Other Operational Information - Personnel and Employee Relations." Renegotiation of such agreements upon expiration may result in significant cost increases to the Medical Center. In addition, employee strikes or other adverse labor actions may have an adverse impact on the Medical Center.

Health Care Worker Classification. Health care providers, like all businesses, are required to withhold income taxes from amounts paid to employees. If the employer fails to withhold the tax, the employer becomes liable for payment of the tax imposed on the employee. On the other hand, businesses are not required to withhold federal taxes from amounts paid to a worker classified as an independent contractor. The IRS has established a complex rule for determining whether a worker is an employee or an independent contractor for tax purposes. Misclassification of workers as independent contractors has led to significant annual losses from social security and unemployment taxes. In the past several years, the IRS, through the Employment Tax Examination Program, has assessed employers many millions of dollars in back taxes and penalties and has forced the reclassification of hundreds of thousands of workers. The Medical Center believes that it currently correctly classifies workers as employees or independent contractors for tax purposes, but because of the complexity of the rule for determining whether a worker is an employer or an independent contractor, no assurance can be given that the IRS, upon review, would agree.

Staffing. In 2003, the California Department of Health Services adopted regulations, which became effective January 1, 2004, specifying nurse-to-patient ratios for general acute-care hospitals, acute psychiatric hospitals and specialty hospitals. Due to the shortages of nurses and the variation in demand for services, it will be difficult for California hospitals to fully comply at all times with the new regulations. Management of the Medical Center intends to comply with the new regulations to the fullest extent possible and believes that the Medical Center is currently in compliance with the new regulations. Increased costs associated with compliance with the ratios scheduled to become effective January 1, 2005 are being budgeted for. Management of the Medical Center does not expect that such costs will materially adversely affect the Medical Center.

In recent years, the health care industry has suffered from a scarcity of nursing personnel, respiratory therapists, pharmacists and other qualified health care technicians and personnel. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This trend may be expected to intensify in the future, aggravating the shortage of such personnel, including nursing personnel, thus increasing the difficulty faced by hospitals in complying with the specified nurse-to-patient ratios. Management of the Medical Center cannot predict whether this trend will continue, but, if it does, it could have a material adverse impact on the business, financial condition and results of operations of the Medical Center.

Tax Related Enforcement Activity

IRS Activity. The IRS has been conducting audits of health care organizations since 1990. In recent years, the IRS has increased the frequency and scope of its audit and other enforcement activity with respect to health care organizations. In September 1999, the IRS commenced operation of its Tax Exempt and Government Entities Division (the "TE/GE Division"), which includes a subdivision specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations is expected to increase significantly as a result of the creation of the TE/GE Division.

Unrelated Business Income. In recent years, the IRS and state, county and local tax authorities have been undertaking audits and reviews of the operations of tax-exempt hospitals with respect to their exempt activities and the generation of unrelated business taxable income ("UBTI"). An investigation or audit could lead to a challenge that could result in taxes, interest and penalties with respect to unreported UBTI and in some cases ultimately could affect the exclusion from gross income for federal income tax purposes of the interest payable on the Series 2004 Bonds.

Tax-Exempt Status

The Internal Revenue Code of 1986 (the "Code") imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Series 2004 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States, and a requirement that an information report be filed by the issuer with the IRS. The Regents has covenanted in the Indenture and the Tax Certificate that that The Regents will comply with such requirements. Future failure by The Regents to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Series 2004 Bonds as taxable, retroactively to the date of issuance.

The Regents has not sought to obtain a private letter ruling from the IRS with respect to the Series 2004 Bonds, and the opinion of Bond Counsel is not binding on the IRS. There is no assurance that an IRS examination of the Series 2004 Bonds will not adversely affect the market value of the Series 2004 Bonds. See "Tax Matters" herein.

Licensing, Surveys, Investigations and Other Reviews

Health care providers, including the Medical Center, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare and Medi-Cal participation and payment, state licensing agencies, private payors and the JCAHO. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative activity or response by the Medical Center. These activities generally are conducted in the normal course of business of health care providers. Nevertheless, an adverse result could cause a loss or reduction in the scope of licensure, certification or accreditation of the Medical Center, could reduce the payment received, or could require repayment of amounts previously remitted to the provider.

Management of the Medical Center currently anticipates no difficulty renewing or continuing currently held licenses, certifications or accreditations, nor does it anticipate a reduction in third-party payments from such events that would materially adversely affect the operations or financial condition of the Medical Center. Nevertheless, actions in any of these areas could result in the loss of utilization or revenues or the Medical Center's ability to operate all or a portion of its facilities and, consequently, could have a material and adverse effect on the financial condition of the Medical Center and the Medical Center's ability to pay debt service on the Series 2004 Bonds.

Environmental Laws and Regulations

Health care providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, provider operations or facilities and properties owned or operated by providers. The types of regulatory requirements faced by health care providers include air and water quality control requirements, waste management requirements, specific regulatory requirements applicable to asbestos and radioactive substances, requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital, and requirements for training employees in the proper handling and management of hazardous materials and wastes.

In their role as owners and/or operators of properties or facilities, hospitals may be subject to liability for investigating and remedying any hazardous substances that have come to be located on hospital property, including any such substances that may have migrated off the property. Typical health care provider operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. As such, health care provider operations are particularly susceptible to the practical, financial and legal risks associated with the obligations imposed by applicable environmental laws and regulations. Such risks may result in damage to individuals, property or the environment, may interrupt operations and/or increase their cost, may result in legal liability, damages, injunctions or fines, and may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions, and may not be covered by insurance. There can be no assurance that the Medical Center will not encounter such risks related to the future, and such risks may result in material adverse consequences to the operations or financial condition of the Medical Center.

At the present time, management of the Medical Center is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues or any instance of contamination which, if determined adversely to the Medical Center, would have a material and adverse effect on the financial condition of the Medical Center.

California Seismic Requirements

California State Senate Bill No. 1953 adopted in 1994 requires each acute care hospital in the state to either comply with new hospital seismic safety standards or cease acute care operations by January 1, 2008. Delays in compliance with the January 1, 2008 deadline will be permitted if a hospital owner shows that capacity lost in the closure of a facility cannot be provided by another facility in the area or if a hospital owner agrees that, on or before January 1, 2013, designated services will be provided by moving into an existing conforming building, relocating to a newly built building or continuing in the existing building, retrofitted to comply with seismic safety standards relating to retrofitting, which have not yet been developed.

UCLA Medical Center-Westwood and UCLA NPH are located within approximately 1.7 miles of at least three active earthquake faults. Santa Monica-UCLA Medical Center is located within approximately 6.5 miles of an active earthquake fault. There is potential for strong ground shaking during an earthquake. Each of the existing licensed hospital facilities sustained significant damage during the 1994 Northridge earthquake. Upon completion, each of the Replacement Hospital Facilities will comply with all S.B. 1953 seismic safety standards applicable until 2030. See "The Replacement Hospital Facilities."

The Regents does not carry earthquake coverage.

Construction Risks

Construction projects are subject to a variety of risks, including, but not limited to, delays in issuance of required permits or other necessary approvals, shortages of materials, adverse weather conditions and strikes. Such events could delay occupancy. In addition, costs may increase as a result of, among other factors, change orders, delays in the construction schedule, scarcity of building materials, and adverse weather conditions.

Decrease in Licensed Capacity

The Medical Center is currently licensed to operate 669 beds at UCLA Medical Center-Westwood, 337 beds at Santa Monica-UCLA Medical Center and 136 beds at UCLA NPH. Upon completion of the Replacement Hospital Facility on the UCLA campus in Westwood, it is expected that the number of licensed beds at UCLA Medical Center-Westwood, including UCLA NPH, which will occupy a separate floor of the Replacement Hospital Facility, will decrease to 520. Upon completion of the Replacement Hospital Facility in Santa Monica, it is expected that the number of licensed beds at Santa Monica-UCLA Medical Center will decrease to 271. Although management of the Medical Center believes that the design features of the Replacement Hospital Facilities, including single patient rooms only, will result in more efficient utilization of its facilities, no representation or assurance can be made that the decrease in licensed beds will not adversely affect the financial condition of the Medical Center.

Enforceability of the Indenture

The legal right and practical ability of the Trustee to enforce rights and remedies under the Indenture may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors rights. In addition, enforcement of such rights and remedies will depend upon the exercise of various remedies specified by the Indenture which, in many instances, may require judicial actions that are subject to discretion and delay, that otherwise may not be readily available or that may be limited by certain legal principles.

The various legal opinions delivered concurrently with the issuance of the Series 2004 Bonds are qualified as to the enforceability of the Indenture and various other documents to be entered into in connection with the issuance of the Series 2004 Bonds by limitations imposed by state and federal laws, rulings, policy and decisions affecting remedies and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights or the enforceability of certain remedies or document provisions.

Professional Liability Claims and General Liability Insurance

In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased nationwide, resulting in substantial increases in malpractice insurance premiums, higher deductibles and generally less coverage. Additionally, the recent increase in terrorist activity has made general liability coverage difficult and expensive to obtain. Professional liability and other actions alleging wrongful conduct and seeking punitive damages are often filed against health care providers. For a discussion of the current insurance coverage of the Medical Center, see Appendix A - "Information Concerning UCLA Medical Center - Other Operational Information - Medical Malpractice and General Liability Coverage." As malpractice and general liability insurance continues to become more difficult to obtain, The Regents is unable to predict the availability, extent of coverage or cost of such insurance in the future.

As with all hospitals, there are, at any point in time, a number of medical malpractice actions filed or pending against the Medical Center. Generally, these will be paid or settled from insurance/self-insurance programs (See Appendix A - "Information Concerning UCLA Medical Center - Other Operational Information - Medical Malpractice and General Liability Coverage"), and some will not be pursued by plaintiffs. However, certain actions may seek punitive or other damages, which may not be covered by insurance. Other litigation arises from the corporate and business activities of the Medical Center or from its status as a major employer, or as a result of medical staff peer review or the denial of medical staff privileges. As with medical malpractice, many of these risks are covered by insurance/self-insurance programs, but some are not. For example, some antitrust claims, business and labor disputes are not covered by insurance or other sources and might become, in whole or in part, an unfunded liability of the Medical Center if determined or settled adversely. Although under the California Government Tort Claims Act, The Regents, as a governmental entity, is exempt from claims being made directly against it for punitive damages, individual employees and officers remain subject personally to such claims. Pursuant to a policy of The Regents, indemnification of such individuals may be provided by The Regents in certain limited circumstances. It is the opinion of University management and General Counsel that the majority of such claims will not become an unfunded liability of the Medical Center, and that no single claim or any group of claims, which management considers likely to be of adverse disposition, will have a material and adverse effect on the financial condition of the Medical Center.

Risks Related to Bond Insurance

There can be no assurance that the Insurer will be financially able to meet its contractual obligations under the Insurance Policy. In the event that the Insurer is unable to make payments of principal of or interest on the Series 2004 Bonds as such payments become due, such Series 2004 Bonds are payable solely from moneys received by the Trustee as set forth in the Indenture.

In the event that the Insurer is required to pay principal of or interest on the Series 2004 Bonds, no representation or assurance is given or can be made that such event will not adversely affect the market price for or marketability of such Series 2004 Bonds.

Holders of the Series 2004 Bonds should note that, although the Insurance Policy will insure payment of the principal amount (but not any premium) that is paid to any Holder in connection with the optional or extraordinary redemption of any Series 2004 Bond and that is recovered from such Holder as a voidable preference under applicable bankruptcy laws, such amounts will be repaid by the Insurer to such Holder only at such times and in such amounts as would have applied in the absence of such redemption.

So long as the Insurer performs its obligations under the Insurance Policy, the Series 2004 Bonds cannot be accelerated without the prior written consent of the Insurer, including, without limitation, if the tax-exempt status of the interest on such Series 2004 Bonds is not maintained.

Other Risk Factors

Additional factors which may adversely affect future operations and revenues of the Medical Center or the market value of the Series 2004 Bonds include the following, among others:

(1) Adoption of legislation that would establish a national or statewide single-payor or multi-payor health program or that would establish statewide, national or otherwise regulated rates.

(2) Reduced demand for the services of the Medical Center that might result from decreases in population.

(3) Increased unemployment or other adverse economic conditions in the service area of the Medical Center, which could increase the proportion of patients who are unable to pay fully for the cost of their care.

(4) Efforts by insurers and governmental agencies to limit the cost of hospital services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care providers.

(5) Changes in the level of support for the teaching hospitals of the University by the State.

(6) Changes in federal income tax or other federal, state or local laws that may require the Medical Center to render substantially greater services without charge or at a reduced charge.

(7) Limitations on the availability of, and increased compensation necessary to secure and retain, nursing, technical and other professional personnel.

(8) Employee strikes and other adverse labor actions that could result in a substantial reduction in revenues without corresponding decreases in costs.

(9) Cost and availability of any insurance, such as professional liability, fire, automobile and general comprehensive liability coverages, that health care providers of a similar, size and type generally carry.

(10) The occurrence of a natural or man-made disaster that could damage the facilities of the Medical Center, interrupt utility service to the Medical Center, result in an abnormally high demand for health care services or otherwise impair the operation of the Medical Center and the generation of revenues from its facilities.

(11) Developments that adversely affect the federal or state tax-exempt status of municipal bonds, which, in turn, could make tax-exempt financing unavailable for future projects of the Medical Center.

(12) Adoption of a so-called "flat tax" federal income tax, a reduction in the marginal rates of federal income taxation, elimination or reduction of federal income taxation of dividends or replacement of the federal income tax with another form of taxation, any of which might adversely affect the market value of the Series 2004 Bonds.

(13) Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.

(14) The occurrence of other unanticipated events which could adversely affect the Medical Center's financial performance.

LITIGATION

There is no litigation of any nature pending against The Regents as of the date of this Official Statement to restrain or enjoin the issuance, sale, execution or delivery of the Series 2004 Bonds or in any way contesting or affecting the validity of the Series 2004 Bonds or the security thereof, or any proceedings of The Regents taken with respect to the issuance or sale thereof.

At any given time, including the present, there are certain other claims and disputes, including those currently in litigation, that arise in the normal course of the University's activities. Such matters could, if determined adversely to The Regents, affect expenditures by The Regents, and in some cases, its revenues. Matters currently in litigation include class action lawsuits filed by family members of donors to the School of Medicine's Willed Body Program, which accepts donations of cadavers for educational and research use. These lawsuits arose as a result of recent disclosures that the Director of the Willed Body Program personally profited from sale of cadavers and anatomic material to a third party. The extent of such unauthorized sales is not currently known and The Regents cannot predict the outcome of such litigation. However, University management and the General Counsel of The Regents are of the opinion that no pending actions, including the litigation described herein relating to the Willed Body Program, are likely to have a material adverse effect on The Regents' ability to pay the principal of, premium, if any, and interest on the Series 2004 Bonds when due.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2004 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2004 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Series 2004 Bonds is less than the amount to be paid at maturity of such Series 2004 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2004 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Series 2004 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2004 Bonds is the first price at which a substantial amount of such maturity of the Series 2004 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2004 Bonds accrues daily over the term to maturity of such Series 2004 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2004 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2004 Bonds. Beneficial owners of the Series 2004 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2004 Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Series 2004 Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2004 Bonds is sold to the public.

Any Series 2004 Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax exempt interest received, and a purchaser's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2004 Bonds. The Regents has made certain representations and has covenanted to comply with certain restrictions designed to assure that interest on the Series 2004 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2004 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2004 Bonds. The opinion of the Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2004 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2004 Bonds.

Certain other requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series 2004 Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2004 Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Series 2004 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2004 Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent the Bondholder from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series

2004 Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of The Regents or the Medical Center, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Regents has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2004 Bonds ends with the issuance of the Series 2004 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend The Regents or the Bondholders regarding the tax-exempt status of the Series 2004 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than The Regents and its appointed counsel, including the Bondholders, would have little, if any, right to participate in, the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which The Regents legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2004 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2004 Bonds, and may cause The Regents or the Bondholders to incur significant expense.

RATINGS

Moody's Investors Service and Standard & Poor's, a division of The McGraw-Hill Companies, Inc., are expected to assign the Series 2004 Bonds ratings of "Aaa" and "AAA," respectively, based upon the understanding that upon delivery of the Series 2004 Bonds, the Insurance Policy will be issued by the Insurer. Such ratings reflect only the views of such rating agencies. Explanations of the significance of the ratings must be obtained from the rating agency furnishing such rating. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies circumstances so warrant. A downward revision or withdrawal of any credit rating may have an adverse effect on the market price of the Series 2004 Bonds.

UNDERWRITING

The Series 2004 Bonds are being purchased by the Underwriters listed on the cover hereof (the "Underwriters"). The Underwriters have agreed to purchase the Series 2004 Bonds at a purchase price of $267,824,246.65 (representing the aggregate principal amount of the 2004 Bonds, plus a net original issue premium of $12,747,947.90, less an underwriters' discount of $1,088,701.25). The initial public offering prices of the Series 2004 Bonds may be changed from time to time by the Underwriters. The bond purchase contract relating to the Series 2004 Bonds (the "Purchase Contract") provides that the Underwriters will purchase all the Series 2004 Bonds if any are purchased and that the obligations to make such purchases are subject to certain terms and conditions set forth in the Purchase Contract including, among others, the approval of certain legal matters by their counsel.

CERTAIN LEGAL MATTERS

The validity of the Series 2004 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto." Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for The Regents by its General Counsel and for the Underwriters by Lofton & Jennings, San Francisco, California.

MISCELLANEOUS

References are made herein to certain documents and reports which are brief summaries thereof and which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the Indenture and the Continuing Disclosure Agreement are available upon request from The Regents of the University of California, External Finance, 1111 Franklin, Oakland, California 94607, Attention: Assistant Treasurer - External Finance.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between The Regents and the purchasers or holders of any of the Series 2004 Bonds.

The execution and delivery of this Official Statement has been duly authorized by The Regents.

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

By: /S/ JOHN J. MOORES, SR.
CHAIRMAN

By: /S/ PATRICIA L. TRIVETTE
SECRETARY

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APPENDIX A

INFORMATION CONCERNING UCLA MEDICAL CENTER

INTRODUCTION

The UCLA Medical Center (the "Medical Center") serves as the principal clinical teaching site for the David Geffen School of Medicine (the "School of Medicine") at the University of California, Los Angeles ("UCLA"). The School of Medicine was established by The Regents of the University of California ("The Regents") in 1946 and began operations in 1951. All capitalized terms used in this Appendix A which are not otherwise defined herein shall have the meanings set forth in the front portion of this Official Statement or in Appendix D hereto under the caption "Summary of Certain Provisions of the Indenture and the Continuing Disclosure Agreement – Definitions of Certain Terms."

The Series 2004 Bonds are payable from and secured by a pledge of the Revenues of the Medical Center. See "Security for the Bonds" in the front portion of this Official Statement.

Medical Center Facilities and Services

The Medical Center currently provides services at three separately licensed hospital facilities: (i) UCLA Medical Center-Westwood ("UCLA Medical Center-Westwood"), which includes Mattel Children's Hospital at UCLA ("Mattel Children's Hospital"), located on the UCLA campus in Westwood; (ii) Santa Monica-UCLA Medical Center ("Santa Monica-UCLA Medical Center"), located in Santa Monica, approximately four (4) miles from the UCLA campus in Westwood; and (iii) UCLA Neuropsychiatric Hospital ("UCLA NPH"), also located on the UCLA campus in Westwood.

As described in the front portion of this Official Statement under the caption "The Replacement Hospital Facilities," the Medical Center is currently in the process of constructing facilities to replace each of its existing hospital facilities. Upon completion of its replacement hospital facilities (each, a "Replacement Hospital Facility," and, hereinafter collectively referred to as the "Replacement Hospital Facilities"), the Medical Center will continue to serve as the primary clinical teaching and research setting for the School of Medicine and will provide services at two separate hospital facilities: (i) UCLA Medical Center-Westwood, located on the UCLA campus in Westwood, which will include Mattel Children's Hospital and UCLA NPH, each of which will be located on a separate floor in the UCLA Medical Center Replacement Hospital Facility; and (ii) Santa Monica-UCLA Medical Center, located in Santa Monica.

It is expected that the UCLA Medical Center-Westwood Replacement Hospital Facility will be completed in the spring of 2005 and will be occupied in the fall of 2005. It is expected that the Santa Monica-UCLA Medical Center Replacement Hospital Facility will be completed in stages, commencing in the fall of 2005 and ending in the fall of 2006, and will be fully occupied in the spring of 2007.

UCLA Medical Center-Westwood. UCLA Medical Center-Westwood began providing patient care in 1955 and is currently licensed to operate 669 beds, including Mattel Children's Hospital, operated as a "hospital within a hospital," which is comprised of 78 licensed pediatric beds, a 23-bed Level III Neonatal Intensive Care Unit and a 20-bed pediatric intensive care unit. In addition to Mattel Children's Hospital, UCLA Medical Center-Westwood facilities include comprehensive facilities for clinical training and treatment, specialized laboratories, specialty outpatient clinics and a Level I trauma center. UCLA Medical Center-Westwood serves as a patient referral center for its immediate area and the western region of the United States and its tertiary and quaternary expertise attracts patients from throughout the country and abroad. Upon completion of the UCLA Medical Center-Westwood Replacement Hospital Facility, it is anticipated that UCLA Medical Center-Westwood will be licensed for 520 beds, including 75 psychiatric beds.

Santa Monica-UCLA Medical Center. Santa Monica-UCLA Medical Center was established as a community hospital in 1926 and was acquired by The Regents in 1995. Santa Monica-UCLA Medical Center is currently licensed to operate 337 beds and provides primary and specialty care to residents of West Los Angeles and Santa Monica. Upon completion of the Santa Monica-UCLA Medical Center Replacement Hospital Facility, it is anticipated that Santa Monica-UCLA Medical Center will be licensed for 271 beds.

UCLA Neuropsychiatric Hospital. UCLA NPH began admitting patients in 1961 and is currently licensed to operate 136 beds. UCLA NPH provides comprehensive inpatient and partial-hospitalization care for a wide spectrum of psychiatric, emotional, and developmental disorders for patients of all ages. Upon completion of the UCLA Medical Center-Westwood Replacement Hospital Facility, UCLA NPH will be relocated on a separate floor within the UCLA Medical Center-Westwood Replacement Hospital Facility.

Other Facilities. In addition to the licensed hospital facilities described above, the Medical Center provides services at clinics located on or near the UCLA campus in Westwood and operates the Tiverton House, a one-hundred room residential facility for patients and their families, located immediately adjacent to the UCLA campus in Westwood, which is currently closed for repairs and is expected to reopen in the summer of 2004.

Medical Center Services. The Medical Center provides a comprehensive range of inpatient and outpatient services and programs for adults and children, including the following:

Adult Psychiatry
Cardiology
Cardiothoracic Surgery
Child and Adolescent Psychiatry
Clinical Immunology and Allergy
Clinical Neurophysiology
Clinical Nutrition
Clinical Research Services
Comprehensive Ophthalmology
Cornea-External Ocular Disease
Craniofacial Clinic
Critical Care
Cytopathology
Decedent Pathology
Dermatology
Developmental Studies
Digestive Diseases
East-West Medicine
Emergency Medicine
Endocrinology, Diabetes and Hypertension
Faculty Group Dental Practice
Gastroenterology
General Gynecology Practice
General Internal Medicine
General Obstetrics Practice
General Pediatrics
General Surgery
Genetics
Genitourinary Oncology
Geriatric Medicine
Geriatric Oncology
Geriatric Psychiatry
Glaucoma
Gynecologic Oncology
Head and Neck Oncology
Head and Neck Surgery
Hematology/Oncology
Hospital Dentistry and Special Patient Care
Immunology
Infectious Diseases
Inpatient Acute Rehabilitation
Inpatient Neurological Rehabilitation
Jules Stein Eye Institute Treatment Centers
Laboratory Medicine
Liver and Pancreas Transplantation
Liver Cancer Center
Maternal Fetal Medicine
Maxillofacial Prosthodontics
Neonatology
Nephrology
Neurological Services
Neuro-Oncology
Neuro-Ophthalmology
Neurosurgery
Ophthalmic Oncology
Ophthalmic Pathology
Ophthalmology Clinical Laboratories
Oral and Maxillofacial Pathology
Oral and Maxillofacial Radiology
Oral and Maxillofacial Surgery
Orbital and Ophthalmic Plastic Surgery
Orofacial Pain and Oral Medicine Group
Orthopaedic Oncology
Outpatient Rehabilitation
Pain Medicine Center
Pediatric Hematology/Oncology
Pediatric Oncology
Pediatric Ophthalmology and Strabismus
Pediatric Pain Program
Pediatric Surgery
Periodontics
Plastic and Reconstructive Surgery
Podiatry
Psychosocial and Preventive Oncology
Pulmonary and Critical Care Medicine
Radiation Oncology
Reproductive Endocrinology and Infertility
Retina
Rheumatology and Arthritis
Skin Cancer
Speech Rehabilitation
Surgical Oncology
Surgical Pathology
Urology
Vascular Surgery

For information concerning Medical Center operating statistics, see "Selected Operational Information" below.

School of Medicine

Currently, the School of Medicine has approximately 2,049 full-time faculty who participate in training the medical students and doctoral students currently enrolled in the School of Medicine and the residents presently receiving post-graduate training at the Medical Center. During the current academic year, medical students number approximately 700, residents number approximately 1,330 and doctoral students number approximately 350. The School of Medicine also offers continuing medical education opportunities to practicing physicians and supports numerous allied health training programs.

In addition to the clinical programs described above, the School of Medicine, together with the Medical Center, conducts a wide range of research in basic biomedical sciences and various applied research projects on current problems in many medical specialties. Areas of strength in basic and applied research include:

- Advanced Imaging Technologies
- Atherosclerosis
- Brain Cancer
- Cancer Diagnostics and Therapeutics
- Cardiovascular and Pulmonary Medicine
- Electrophysiology
- Gene Therapy
- Genetic Disorders
- Health Services Research
- HIV Retrovirology
- Immunology
- Intervention Cardiology
- Neonatology
- Neurosciences, including Multiple Sclerosis, Parkinson's Disease, Alzheimer's, Bipolar Disorders, and Schizophrenia
- Organ Transplantation
- Orthopaedics
- Robotic Surgery
- Structural Biology
- Vaccine Development
- Wound Healing and
- Tissue Repair

During fiscal year ended June 30, 2003, National Institutes of Health ("NIH") funded research exceeded $241 million, and total research funding, including NIH funding, exceeded $350 million for over six hundred (600) projects.

The Series 2004 Bonds are not payable from nor secured by any revenues of the School of Medicine. See "Security for the Bonds" in the front portion of this Official Statement.

GOVERNANCE AND MANAGEMENT

The Constitution of the State of California vests full powers of organization and governance of the University of California (the "University") in The Regents. The Regents has delegated authority for Medical Center governance to the President of the University who, in turn, has delegated such authority to the Chancellor of the University of California at Los Angeles. The Chancellor has delegated specific authority to govern the Medical Center to the Vice Chancellor, Medical Sciences. The Associate Vice Chancellor, Hospital System reports to the Vice Chancellor, Medical Sciences. Currently, the position of Associate Vice Chancellor, Hospital System, is occupied by an interim appointee. A nationwide search is being conducted to fill this position. Such search is expected to be completed no later than the summer of 2004.

The Medical Center and the School of Medicine operate collaboratively under the leadership of the Vice Chancellor, Medical Sciences. A management advisory group, currently referred to as the Executive Committee, composed of representatives of the Medical Center, the School of Medicine and other University components involved in the clinical care enterprise at UCLA provide an integrated approach to fiscal and strategic planning, resource allocation and information systems development. The Executive Committee meets every two weeks, provides guidance on all major decisions regarding delivery and financing of clinical care provided by the Medical Center, the School of Medicine and other University components involved in the clinical care enterprise at UCLA, and monitors the construction of the Replacement Hospital Facilities.

MEDICAL STAFF

UCLA Medical Center-Westwood. Members of the Medical Staff at UCLA-Medical Center Westwood are classified as Active, which hold faculty appointments with the School of Medicine, and Courtesy and Consultant, neither of which hold faculty appointments with the School of Medicine. As of February 29, 2004, there were 1,391 Active Staff, 81 Courtesy Staff and 3 Consultant Staff. Patients are admitted by the Active Staff and by the Courtesy Staff. Approximately 62% of the Active Staff are age 50 or under. Approximately 57% of the Courtesy Staff are age 50 or under.

Santa Monica-UCLA Medical Center. Members of the Medical Staff at Santa Monica-UCLA Medical Center are classified as Active, who regularly admit patients or who are regularly involved in medical staff functions as determined by Santa Monica-UCLA Medical Center department-specific rules and regulations, Courtesy, who do not regularly admit patients, and Consultant. As of February 29, 2004, there were 651 Active Staff, 184 Courtesy Staff and 40 Consultant Staff. Patients are admitted by the Active Staff and by the Courtesy Staff. Approximately 60% of the Active Staff are age 50 or under. Approximately 40% of the Courtesy Staff are age 50 or under.

UCLA NPH. Members of the Medical Staff at UCLA NPH are classified as Active, which includes attending physicians with admitting privileges and Ph.D. non-physicians, Teaching Only, which hold full-time faculty appointments with the School of Medicine, and Consulting. As of February 29, 2004, there were 142 Active Staff, including 124 physicians, 18 Teaching Only and 40 Consulting, which are required to be members of the Active Staff at either UCLA Medical Center-Westwood or Santa Monica-UCLA Medical Center. Patients are admitted by Active Staff who are physicians. Approximately 58% of the Active Staff who are physicians are age 50 or under.

Resident Staff and Affiliated Residents. During the current academic year, there are approximately 1,330 residents of the clinical departments of the School of Medicine, of which approximately 790 are receiving their training on the UCLA campus in Westwood. In addition, training program affiliations have been established with a number of health care facilities in Southern California. More than 500 interns, residents and fellows are rotating through such training programs on any given day.

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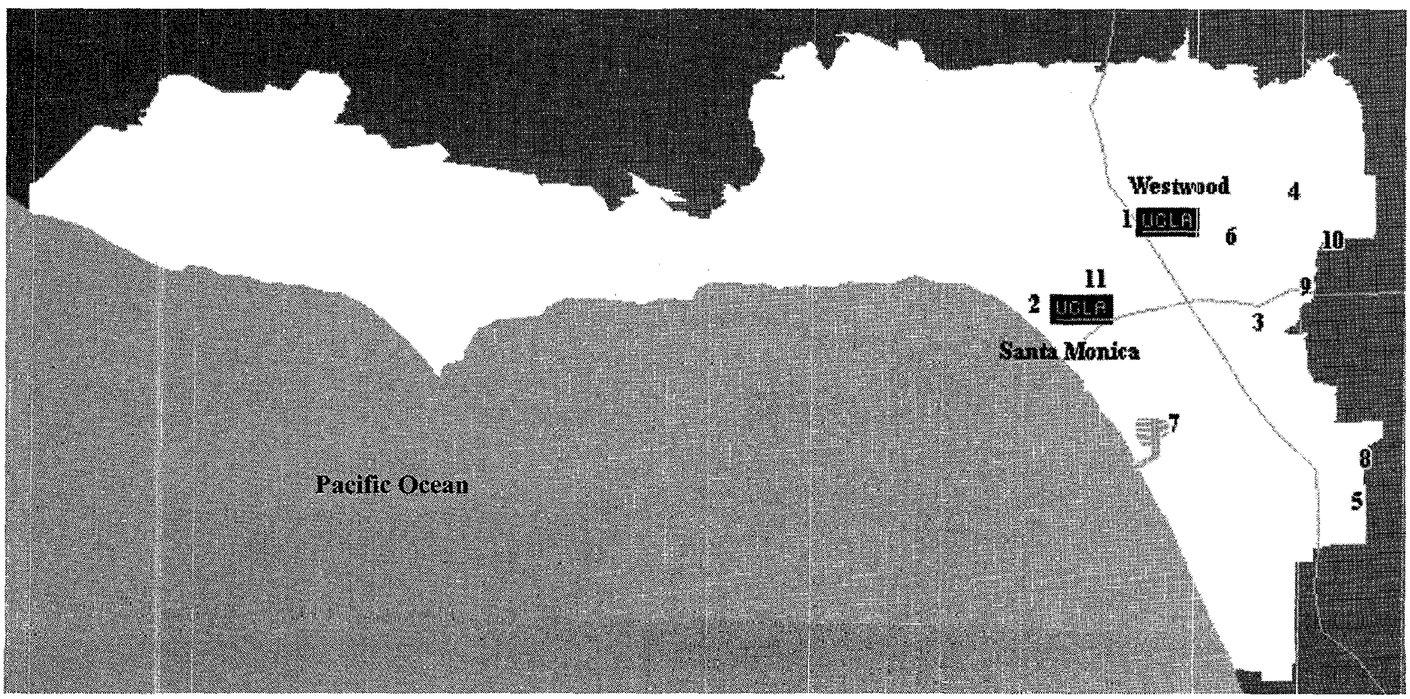
SERVICE AREA AND MARKET SHARE

Primary Service Area. The Medical Center's Primary Service Area (the "Primary Service Area" or the "PSA") consists of 68 zip codes, which encompass West Los Angeles and surrounding areas. The PSA extends to Malibu on the west, is bordered by the Mid-Wilshire area to the east, stretches north up to Bel Air and Beverly Hills and south to Manhattan Beach. See the Primary Service Area Map set forth below. In calendar year 2003, the population of the Primary Service Area was approximately 932,000, as projected by Claritas, a marketing information resources company. For the most recent data available from the State of California Office of Statewide Health Planning and Development relating to market share in the Primary Service Area, see the table set forth below under the caption "Primary Service Area Market Share." In calendar year 2003, Medical Center data indicates that the Primary Service Area accounted for 41% of total Medical Center discharges.

Primary Service Area Map



UCLA Hospital Facilities:

1. UCLA Medical Center-Westwood
   UCLA Neuropsychiatric Hospital
2. Santa Monica-UCLA Medical Center

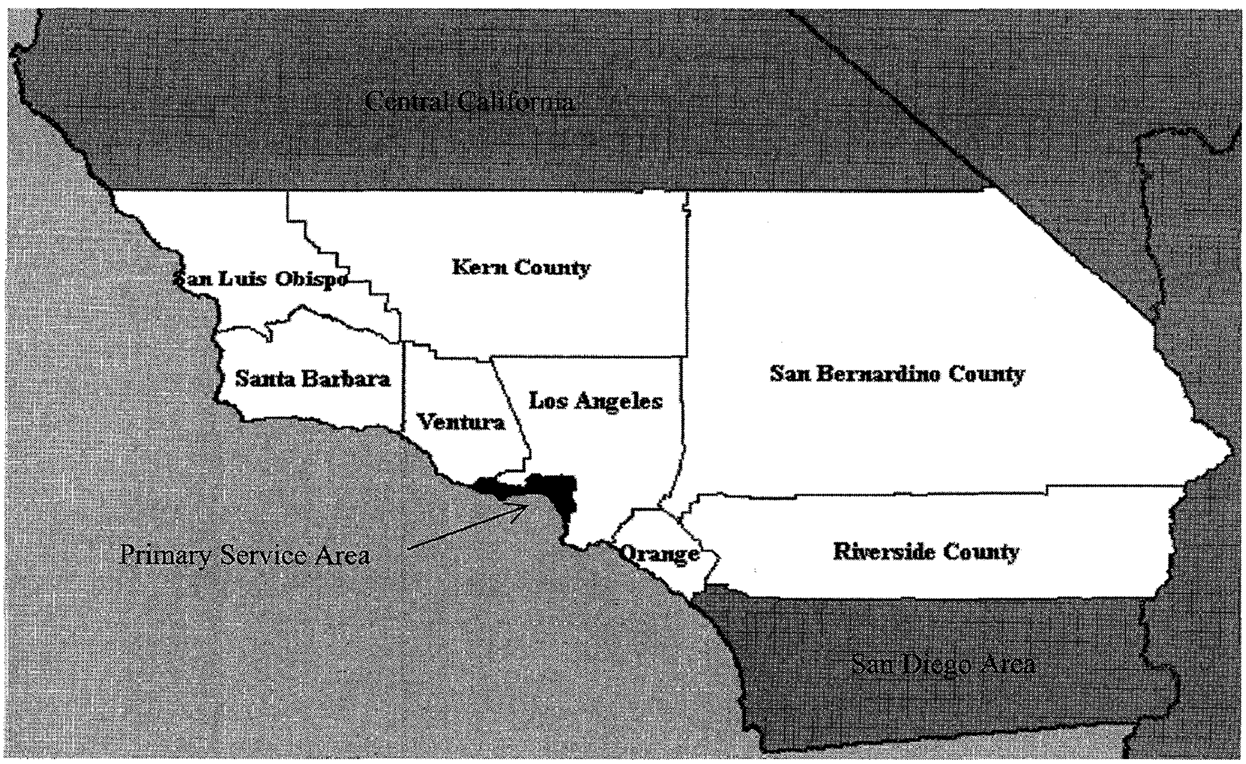
Other Primary Service Area Hospitals:

3. Brotman Medical Center
4. Cedars-Sinai Medical Center
5. Centinela Hospital Medical Center
6. Century City Hospital
7. Daniel Freeman Marina Hospital
8. Daniel Freeman Memorial Hospital
9. Kaiser Foundation Hospital – West Los Angeles
10. Midway Hospital Medical Center
11. St. John's Hospital and Health Center

In addition to the hospital facilities shown on the map and listed above, West Los Angeles Veterans Administration Hospital is located in the Primary Service Area.

Secondary Service Area. The Secondary Service Area (the "Secondary Service Area") consists of the following eight counties, Los Angeles, Orange, Ventura, Riverside, San Bernardino, Kern, San Luis Obispo, and Santa Barbara, and covers approximately 45,448 square miles. In calendar year 2003, the population of the Secondary Service Area was approximately 18,563,100, including approximately 9,904,100 in Los Angeles County, as projected by Claritas. For the most recent data available from the State of California Office of Statewide Health Planning and Development relating to market share in the Secondary Service Area, see the table set forth below under the caption "Secondary Service Area Market Share." In calendar year 2003, Medical Center data indicates that the Secondary Service Area accounted for 53% of total Medical Center discharges (excluding discharges from the Primary Service Area).

Secondary Service Area Map



Other. In addition, the Medical Center's higher acuity clinical programs attract patients from the remaining areas of the State, the United States and abroad. In calendar year 2003, Medical Center data indicates that remaining areas of the State accounted for approximately 2.0% of total Medical Center discharges, remaining areas of the United States accounted for approximately 3.0% of total Medical Center discharges and areas outside the United States accounted for approximately 1.0% of total Medical Center discharges.

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Primary Service Area Market Share. The following table presents certain historical utilization statistics for the Primary Service Area for the twelve-month period ended December 31, 2002. Data for the twelve-month period ended December 31, 2002 is the most current data available from the State of California Office of Statewide Health Planning and Development.

Primary Service Area Market Share

Health Care Organization	Discharges	Percentage of Discharges	Patient Days	Average Length of Stay	Licensed Beds[1]	Occupancy Rate - Licensed Beds
Cedars Sinai Medical Center	20,879	23.3%	129,842	6.2	877	86.3%
UCLA Medical Center[2]	**17,395**	**19.4%**	**95,386**	**5.5**	**1,144**	**62.1%**
St. John's Hospital and Health Center	8,662	9.7%	50,892	5.9	233	83.0%
Brotman Medical Center[3]	4,683	5.2%	38,900	8.3	420	48.1%
Kaiser Foundation Hospital-West Los Angeles	4,433	4.9%	16,627	3.8	293	39.3%
Centinela Hospital Medical Center[3]	3,443	3.8%	20,389	5.9	370	64.4%
Daniel Freeman Memorial Hospital[3]	2,965	3.3%	18,194	6.1	358	50.1%
Daniel Freeman Marina Hospital[3]	2,804	3.1%	15,789	5.6	166	26.2%
Century City Hospital[3]	2,747	3.1%	20,125	7.3	195	54.1%
Midway Hospital Medical Center[3]	1,896	2.1%	11.427	6.0	225	43.9%

(1) Licensed bed data is Fourth Quarter 2002 data.

(2) Includes UCLA Medical Center-Westwood, Santa Monica-UCLA Medical Center and UCLA Neuropsychiatric Hospital.

(3) Tenet Healthcare Corporation Facility.

Source: Compiled by the Medical Center from State of California Office of Statewide Health Planning and Development data. Data for the twelve-month period ended December 31, 2002 is the most current data available.

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Secondary Service Area Market Share. The following table presents certain historical utilization statistics for the Secondary Service Area for the twelve-month period ended December 31, 2002. Data for the twelve-month period ended December 31, 2002 is the most current data available from the State of California Office of Statewide Health Planning and Development.

Secondary Service Area Market Share

Health Care Organization	Discharges	Percentage of Discharges	Patient Days	Average Length of Stay	Licensed Beds[1]	Occupancy Rate- Licensed Beds
Cedars Sinai Medical Center	44,574	2.4%	274,067	6.2	877	86.3%
Los Angeles County/USC Medical Center	39,376	2.1%	241,059	6.1	1,395	51.4%
UCLA Medical Center[2]	**38,504**	**2.1%**	**237,814**	**6.2**	**1,144**	**62.1%**
Long Beach Memorial Medical Center	29,952	1.6%	127,802	4.3	541	69.8%
Loma Linda University Medical Center	29,637	1.6%	170,627	5.8	789	62.8%
Huntington Memorial Hospital	25,765	1.4%	135,088	5.2	522	69.9%

(1) Licensed bed data is Fourth Quarter 2002 data.

(2) Includes UCLA Medical Center-Westwood, Santa Monica-UCLA Medical Center and UCLA Neuropsychiatric Hospital.

Source: Compiled by the Medical Center from State of California Office of Statewide Health Planning and Development data. Data for the twelve-month period ended December 31, 2002 is the most current data available.

SOURCES OF REVENUE

The following table summarizes historical net patient service revenues by patient sponsor for the two fiscal years ended June 30, 2002 and June 30, 2003 and the seven months ended January 31, 2003 and January 31, 2004. The information provided below was compiled from records which classify revenue activity according to the expected source of payment at the time of admission. In some cases, patients' bills are ultimately paid by different sources and, therefore, while the following figures are believed to be substantially accurate, they may not reflect the actual sources of revenue received.

Patient Sponsor Mix - Net Patient Service Revenues
(Dollars in Thousands)

Patient Sponsor	Fiscal Year Ended June 30, 2002	Fiscal Year Ended June 30, 2003	Seven Months Ended January 31, 2003	Seven Months Ended January 31, 2004
Medicare	$220,589	$217,819	$134,114	$142,751
Medi-Cal	60,507	57,927	27,305	36,760
Commercial	22,256	25,077	16,521	11,732
Contracts (Discount/Per Diem)	392,412	451,382	255,336	267,115
Contracts (Capitated)[1]	44,838	41,757	24,412	19,636
Non-Sponsored/Self-Pay	26,950	31,001	20,679	15,363
TOTAL	$767,552	$824,963	$478,367	$493,357

(1) Includes Medicare capitated revenues.

SELECTED OPERATIONAL INFORMATION

The following table presents certain historical operating statistics for the Medical Center for the fiscal years ended June 30, 2002 and June 30, 2003 and the seven months ended January 31, 2003 and January 31, 2004.

	Fiscal Year Ended June 30,		Seven Months Ended January 31,	
	2002	2003	2003	2004
Admissions	40,697	40,626	24,173	22,665
Average Daily Census	711	701	708	668
Average Length of Stay	6.4	6.3	6.3	6.3
Medical Center Case Mix Index(1)	1.65	1.70	1.68	1.76
Patient Days:				
Medicare	70,796	70,182	41,448	40,926
Medi-Cal	31,247	29,532	17,212	18,344
Commercial	3,075	3,649	2,469	1,578
Contracts (Discount/Per Diem)	122,036	127,029	75,553	69,716
Contracts (Capitated)(2)	23,731	17,109	10,168	8,240
Non-Sponsored/Self-Pay	8,492	8,458	5,466	4,721
TOTAL PATIENT DAYS	259,377	255,959	152,316(3)	143,525
Outpatient Visits:				
Hospital Clinics(4)	845,681	837,607	487,665	479,650
Emergency Room	71,273	70,697	41,813	40,159
TOTAL VISITS	916,954	908,304	529,478	519,809

(1) The case mix index is a measure of the severity of illness or acuity calculated as provided in the Medicare Prospective Payment System. The higher the case mix index, the more severe the illness. Case Mix Index data provided is for all Medical Center patients.

(2) Includes Medicare capitated patient days.

(3) The Medical Center closed its extended care center on July 1, 2003. Total Patient Days for the seven months ended January 31, 2003 restated without including the extended care center days are 144,866.

(4) Includes specialty clinics and primary care clinics

HISTORICAL FINANCIAL INFORMATION

General

The financial data set forth below under the captions "Statement of Revenues, Expenses and Changes in Net Assets" and "Statement of Net Assets," insofar as it relates to each of the fiscal years ended June 30, 2002 and June 30, 2003, has been derived from the annual audited financial statements of the Medical Center and notes thereto set forth in Appendix B (the "Medical Center Financial Statements"). In addition to the discussion below, the "Statements of Revenue, Expenses and Changes in Net Assets" and the "Statement of Net Assets" should be read in conjunction with the Medical Center Financial Statements set forth in Appendix B. The unaudited financial data for the seven months ended January 31, 2003 and January 31, 2004 are derived from Medical Center unaudited financial statements. The unaudited financial data were prepared by the Medical Center on a basis consistent with that of the annual audited financial statements and included, in the opinion of management of the Medical Center, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of that information. The financial results for such periods are not necessarily indicative of the results expected for the fiscal year ended June 30, 2004 or for any future period.

The Medical Center Financial Statements have been prepared in accordance with generally accepted accounting principles, including all applicable statements of the Governmental Accounting Standards Board ("GASB") and all statements of the Financial Accounting Standards Board through November 30, 1989.

Statement of Revenues, Expenses and Changes in Net Assets

The following table shows the financial results for the two fiscal years ended June 30, 2002 and June 30, 2003 derived from the Medical Center Financial Statements, and unaudited results for the seven months ended January 31, 2003 and January 31, 2004.

Statement of Revenues, Expenses and Changes in Net Assets
(Dollars in Thousands)

	Fiscal Years Ended June 30,		Seven Months Ended January 31, (Unaudited)	
	2002	2003	2003	2004
Net patient service revenue	$767,552	$824,963	$478,367	$493,357
Other operating revenue	57,813	51,076	30,608	31,509
TOTAL OPERATING REVENUE	825,365	876,039	508,975	524,866
Operating expenses	749,707	796,783	457,045	471,908
Depreciation and amortization	41,647	44,349	26,032	26,661
Provision for doubtful accounts	26,042	18,150	19,056	13,739
TOTAL OPERATING EXPENSES	817,396	859,282	502,133	512,308
INCOME FROM OPERATIONS	7,969	16,757	6,842	12,558
Non-operating expenses	(749)	(6,215)	(5,103)	(3,722)
INCOME BEFORE OTHER CHANGES IN NET ASSETS	7,220	10,542	1,739	8,836
Other changes in net assets	99,041	98,290	120,121	99,035
INCREASE IN NET ASSETS	$106,261	$108,832	$121,860	$107,871

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Statement of Net Assets

The following table shows the financial position at June 30, 2002 and June 30, 2003 derived from the Medical Center Financial Statements and the unaudited financial position at the seven months ended January 31, 2003 and January 31, 2004.

Statement of Net Assets
(Dollars in Thousands)

	Financial Position at June 30,		Financial Position at January 31, (Unaudited)	
	2002	2003	2003	2004
ASSETS				
Current Assets:				
Cash	$12,920	$18,229	$20	$11,277
Patient accounts receivable, net	176,885	179,509	166,549	187,720
Other current assets	36,179	40,417	42,982	41,341
Total Current Assets	225,984	238,155	209,551	240,338
Capital Assets, net	601,192	811,020	719,665	917,218
Restricted Assets	16,406	14,090	15,702	15,005
TOTAL ASSETS	843,582	1,063,265	944,918	1,172,561
LIABILITIES				
Current Liabilities:				
Current portion of long-term debt and capital leases	7,056	11,685	7,056	11,685
Other current liabilities[(1)]	145,015	141,134	130,636	149,952
Total Current Liabilities	152,071	152,819	137,692	161,637
Long-term debt and capital leases, net of current portion	152,832	162,935	146,687	155,542
TOTAL LIABILITIES	304,903	315,754	284,379	317,179
TOTAL NET ASSETS	$538,679	$747,511	$660,539	$855,382

(1) See Note 9 of the Medical Center Financial Statements attached hereto as Appendix B and "Other Operational Information - Los Angeles Campus Internal Line of Credit."

MANAGEMENT'S DISCUSSION OF FINANCIAL AND OPERATIONAL PERFORMANCE

Summary of Significant Accounting Policies

The preparation of financial statements in accordance with generally accepted accounting principles requires management of the Medical Center to make estimates and assumptions that affect the amounts reported in the financial statements. Management of the Medical Center regularly evaluates the accounting policies and estimates it uses to prepare its financial statements. In general, those estimates are based on historical experience and various assumptions that management believes to be reasonable under the particular facts and circumstances. Actual results may vary from those estimates.

Basis of Presentation. The Medical Center Financial Statements have been prepared in accordance with generally accepted accounting principles, including all applicable statements of GASB, and all statements of the Financial Accounting Standards Board through November 30, 1989. The proprietary fund method of accounting is followed and uses the economic resources measurement focus and the accrual basis of accounting. In addition, the Medical Center Financial 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 such principles do not contradict GASB.

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 and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

Revenues. 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.

Provision for Doubtful Accounts. The Medical Center provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Medical Center estimates this allowance based on the aging of its accounts receivable and its historical collection experience by hospital and for each type of payor.

Historical Performance

Introduction. The discussion set forth below should be read in conjunction with the Medical Center Financial Statements set forth in Appendix B, including Management's Discussion and Analysis, which is set forth on pages 2 through 14 of the Medical Center Financial Statements. Management's Discussion and Analysis included in Appendix B is not a required part of the Medical Center Financial Statements and has not been audited. However, Management's Discussion and Analysis is supplementary information required by GASB.

Seven Months Ended January 31, 2004 Compared to Seven Months Ended January 31, 2003. Total operating revenue for the seven months ended January 31, 2004 increased approximately 3.1% over the seven months ended January 31, 2003 due to increases in prices, contract rate increases, Medicare case mix, and accrued Medicaid funding for covered outpatient services provided pursuant to California Assembly Bill 915. Total operating expenses increased approximately 2.0% over the comparable seven-month period ended January 31, 2003.

Income before other changes in net assets increased by approximately $7.1 million for the seven-month period ended January 31, 2004 over the seven-month period ended January 31, 2003.

On January 31, 2004, the cash balance was approximately $11.3 million greater than the cash balance on January 31, 2003. This increase in cash balance resulted primarily from loans from the Chancellor of the University of California at Los Angeles. See "Working Capital Programs - Los Angeles Campus Internal Line of Credit" below. Total current liabilities fluctuate with changes in accounts payable, accrued expenses, and third party payor settlements.

Total patient days decreased by approximately 5.8% from the comparable seven-month period ended January 31, 2003. This decrease resulted primarily from the closure of the Center for Extended Care (the "CEC") on July 1, 2003, which resulted from a management decision to discontinue a low margin service. Management anticipates that closure of the CEC will improve financial performance going forward.

Total outpatient visits decreased by approximately 1.8% from the comparable seven-month period ended January 31, 2003. This decrease is primarily related to the strategically planned elimination of outpatient rehabilitation services at the Santa Monica-UCLA Medical Center in order to maximize inpatient capacity in the Santa Monica-UCLA Medical Center Replacement Hospital Facility.

Fiscal Year 2003 Compared to Fiscal Year 2002. Net patient revenues increased in fiscal year 2003 by $57.4 million, or approximately 7.5%, over fiscal year 2002, as a result of improved payor mix and favorable renegotiation of contracts, which resulted in increased rates. Total operating expenses increased approximately 5.1% over the same period to support the increase in total operating revenue.

Net income before other changes in net assets was $10.5 million for fiscal year 2003 compared to $7.2 million for fiscal year 2002, which included a $7.0 million one-time gain on the sale of the laundry facility.

The cash balance increased from approximately $12.9 million at June 30, 2002 to approximately $18.2 million at June 30, 2003. Improvement in cash balance at June 30, 2003 resulted primarily from increased cash collections, which increased by $92 million over the prior fiscal year.

Total patient days decreased by 1.3%. This decrease primarily resulted from a decrease in the Medi-Cal and Contracts (Capitated) categories, the lowest payors for the Medical Center, and the phase out of the CEC, which closed July 1, 2003.

Total outpatient visits decreased by 0.9% over the prior year. However, the overall charge-per outpatient-visit increased by 36% over the prior fiscal year. The increase in charge-per-outpatient visit resulted from a 15% price increase effective October 1, 2002 and the utilization of more expensive outpatient services.

Management Strategy. The Medical Center is committed to remaining financially strong in order to continue providing high quality care to all patients. Financial management has primarily targeted revenues and costs. The core philosophy of the Medical Center's financial management strategy is to measure performance, compare it with identified targets, and communicate the results as broadly as possible. Implementation of the financial management strategy has resulted in elimination of redundancies and delays and has improved patients' overall experience at the Medical Center. Areas of concentration include:

Revenue Cycle Management: The Medical Center focuses on the revenue cycle to maintain days in accounts receivable and cash flows. This focus includes an expansion of customized follow-up based on payor contract terms, stratified follow-up based on dollar amount on other accounts, collaborative review of contracts to ensure ease of administration and to enhance collections, enforcement of late charge policies, the capture of high-cost charge items, and integrated customer service.

Contracting: In response to the heavy penetration of managed care in the Southern California area, the Medical Center has developed an integrated contract review and evaluation process which provides for the negotiation of hospital and physician rates as one unit and also provides for the evaluation of all payor products as one comprehensive package. Each contract is reviewed for consistency with institutional goals, profitability and ease of administration. Contract review includes collaborative review by all affected parties to minimize potential payor audits which cause delay in cash flows. Contract revenues increased $59 million, or approximately 15%, in fiscal year 2003 over fiscal year 2002. Contract revenues increased $11.8 million, or approximately 5%, for the seven-month period ended January 31, 2004 over the seven-month period ended January 31, 2003.

Cost Reduction, Process Re-Engineering and Revenue Enhancement: The Medical Center approaches cost reduction with clear priorities that are aligned with the mission of the Medical Center, the School of Medicine and the other University components involved in the clinical care enterprise at UCLA (hereinafter sometimes collectively referred to as "UCLA Healthcare"). New and existing programs are evaluated for their strategic value and their long-term financial viability. Collaboration across all sectors of UCLA Healthcare has resulted in a wide variety of cost-reduction programs, including collaborative projects to avoid unnecessary duplication of resources and the development of technology, such as telemedicine, to maximize available resources. Revenue-enhancing efforts have focused, and will continue to focus, on improving the payor mix, strengthening private insurer contracts and reducing the number of days accounts remain unpaid.

See also "Operational and Financial Strategies and Areas of Focus" below.

DEBT SERVICE COVERAGE

The following table shows the actual historical debt service coverage ratio for the two fiscal years ended June 30, 2002 and June 30, 2003.

Historical Debt Service Coverage
(Dollars in Thousands)

	Fiscal Year Ended June 30, 2002	Fiscal Year Ended June 30, 2003
Income before other changes in net assets	$ 7,220	$ 10,542
Depreciation and amortization	41,647	44,349
Interest expense	7,799	8,114
Income Available for Debt Service (A)	$56,666	$63,005
Long-term debt repayment[1]	$5,916	$7,399
Interest expense[1]	7,186	7,730
Total Debt Service (B)	$13,102	15,129
Actual Historical Debt Service Coverage (A/B)	**4.3x**	**4.2x**

(1) Source: Medical Center Financial Statements attached hereto as Appendix B; includes Series 1994 bonds, Series 2002 Bonds, subordinated debt, and capital lease obligations. For a description of the long-term debt and the capitalized leases, see Note 8 to the Medical Center Financial Statements.

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OTHER OPERATIONAL INFORMATION

Licenses, Accreditations and Memberships

Each of the Medical Center's hospital facilities is licensed by the California Department of Health Services. UCLA Medical Center-Westwood received a three-year accreditation from the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO"), on May 26, 2001, and is scheduled for its next JCAHO survey in May 2004. Santa Monica-UCLA Medical Center received a three-year accreditation from JCAHO on August 26, 2003. UCLA NPH received a three-year accreditation from JCAHO on January 24, 2002. All three hospital facilities are members of the American Hospital Association, the California Association of Hospitals and Health Systems, and the University Health System Consortium. In addition, UCLA Medical Center-Westwood is a member of the Council of Teaching Hospitals.

Medical Malpractice and General Liability Coverage

The Regents self-insure for the primary layer of coverage (at $7.5 million per occurrence) for medical malpractice and general liability claims against the University's five medical schools and associated medical centers, including the Medical Center, and the University's nine student health centers. Commercial excess insurance coverage of $267.5 million has been purchased for medical malpractice and general liability claims in excess of the $7.5 million per occurrence self-insured retention. Third party claims administrators manage medical malpractice and general liability claims against The Regents. Octagon Risk Services manages the medical malpractice claims and Sedgwick Claims Management manages the general liability claims.

The Medical Center currently has no material medical malpractice or other general liability claims or lawsuits pending which are not covered by medical malpractice or general liability insurance and no suits have ever been filed against the Medical Center or The Regents in excess of the combined self-insurance and excess commercial insurance limits. The Regents has never paid any medical malpractice or general liability claim in excess of available insurance.

Personnel and Employee Relations

As of February 1, 2004, a full-time equivalent staff of 6,570 were employed at the Medical Center, approximately 82% of whom are represented by unions in University-wide bargaining units. Registered professional nurses are represented by the California Nurses Association (CNA). Technical staff, Research Associates and Health Care Professionals are represented by the University Professional and Technical Employees (UPTE). Service and Patient Care Technical employees are represented by the American Federation of State, County and Municipal Employees (AFSCME). Skilled crafts personnel at the Medical Center are represented by Local 501 of Operating Engineers. Clerical staff are represented by the Coalition of University Employees (CUE). The Regents currently has contracts with each of these bargaining units. The AFSCME Patient Care Technical employee contract is scheduled to expire on April 30, 2004, the AFSCME Service employee contract is scheduled to expire on June 30, 2004, the CUE contract, the UPTE Technical staff contract and the UPTE Research Associates contract are each scheduled to expire on September 30, 2004, the CNA contract is scheduled to expire on April 30, 2005, the Local 501 contract is scheduled to expire on December 31, 2005, and the UPTE Health Care Professional contract is scheduled to expire on June 30, 2006. Negotiations with respect to the AFSCME Patient Care Technical employee contract, the AFSCME Service employee contract and the CUE contract are currently underway.

Working Capital Programs

Los Angeles Campus Internal Line of Credit. Since fiscal year 2001, the Chancellor of the University of California at Los Angeles has made an internal line of credit (the "Internal Line of Credit") available to the Medical Center. The amount available to be drawn by the Medical Center under the Internal Line of Credit has varied over time. Since its establishment, the Medical Center has drawn on the Internal Line of Credit at various times. Amounts drawn in prior years were classified as current liabilities and were repaid by the end of the fiscal year in which drawn. As of January 31, 2004, the total amount drawn by the Medical Center on the Internal Line of Credit was $55 million. In February 2004, the Chancellor and the Medical Center agreed that the amount available to be drawn under the Internal Line of Credit would be $75 million, that the Internal Line of Credit would be converted from a current liability into a long term liability, with no defined repayment schedule for principal for the foreseeable future, and that interest on any amount drawn on the Internal Line of Credit would accrue at the earnings rate on the short-term investment pool of The Regents. As of the date of this Official Statement, the Medical Center has drawn $75 million under the Internal Line of Credit. The Chancellor and the Medical Center may change the terms of the Internal Line of Credit at their sole discretion and the Chancellor may cancel the Internal Line of Credit at his sole discretion. However, an Internal Line of Credit has been provided since fiscal year 2001.

University Working Capital Program. The Regents has an internal working capital program (the "University Working Capital Program") which allows the Medical Center to receive internal advances up to 60% of the Medical Center's gross receivables, net of contractual allowances, for any working capital needs, including payment of debt service on the Series 2004 Bonds. Interest on any such advance is accrued at the earnings rate on the short-term investment pool of The Regents. Repayment of any advances made to the Medical Center under the University Working Capital Program is not secured by a pledge of Revenues. The Medical Center does not have any current advances under the University Working Capital Program.

The Regents may cancel or change the terms of the University Working Capital Program at its sole discretion. However, The Regents has provided working capital advances under informal or formal programs for each of its medical centers since the opening or acquisition of each medical center. The Regents has not pledged the University Working Capital Program to the repayment of debt service on any Series of Bonds, including the Series 2004 Bonds.

OPERATIONAL AND FINANCIAL STRATEGIES AND AREAS OF FOCUS

In November 2002, the Chancellor, acting jointly with the Medical Center, the School of Medicine and the other components of the UCLA clinical enterprise, engaged The Hunter Group ("THG") to conduct a comprehensive review of the effectiveness of their strategic planning, the delivery of services reconfiguration and building program and the operational and financial performance of the UCLA clinical enterprise in order to ensure the continued availability of resources necessary to pursue their mission of education, research, patient care and public service. The scope of the review included an examination of the following key areas: (i) building programs; (ii) market and environment; (iii) management structure; (iv) hospital system operations; (v) managed care contracting; (vi) medical staff; (vii) physician group; (viii) finance; and (ix) medical enterprise strategic plan. In April 2003, upon completion of its 16-week review, THG provided management with a comprehensive performance improvement plan, including recommendations regarding the improvement of the financial performance of the UCLA clinical enterprise.

Management review of the UCLA clinical enterprise, including review of the performance improvement plan provided by THG, has resulted in the development of a number of operational and financial strategies and areas of focus. A brief discussion of several of the operational and financial strategies and areas of focus are set forth below. See also "Management's Discussion of Financial and Operational Performance" above.

Operational and Financial Strategies

Organizational Processes and Operations

- Utilize effective systems for communication and education to create an organizational structure and culture that encourages change and risk-taking and brings all management, employees and physicians along in the process of achieving the vision of UCLA Healthcare.

- Continue the development of processes and systems that focus on cost containment through productivity improvement, clinical resource management and targeted cost-per-case reductions.

- Enhance revenue by focusing on basic systems and controls throughout the revenue cycle process.

Cash Management

- Aggressively monitor the source and use of cash. Develop a cash flow model that identifies all sources and uses of cash for three years. Monitor results on a monthly basis and make adjustments as appropriate.

Quality Improvement and Physician Relations

- Ensure that the emphasis, at all levels, is on high quality care and access for the patient and family. Tools to be used include use of patient satisfaction survey results to identify target areas or departments for improvement and continued coordination with physicians to develop clinical pathways/guidelines to ensure consistent quality and predictability of patient outcomes.

- Work with School of Medicine faculty leaders to develop communication vehicles and educational programs that maintain a common focus on the UCLA Healthcare's vision of the future.

- Continue to review the effectiveness of the referral program from physicians who are not members of the Medical Staff at any of the Medical Center facilities.

- Jointly develop "Centers of Excellence" in programs that enhance health-care delivery, such as a spine center, a stroke center and a heart center.

School of Medicine Faculty Development and Reorganization of Primary Care Network

- Develop a unified organizational structure for all School of Medicine faculty departmental practices to supervise and coordinate the clinical activities. Emphasize the focus on consolidation of billing and practice management services that that will improve cash collections.

- In consultation with School of Medicine faculty leaders, develop and implement a clinical funds flow model that identifies a consistent source of funds, on an annual basis, that supports mission critical core programs and recruitments. In conjunction with the model, develop a strategic finance policy, which calculates a distribution amount weighing a combination of net income, cash flow and capital expenditure, needs.

- Review and evaluate operation of system of clinic sites (referred to as the "Primary Care Network") to revise UCLA Healthcare's current involvement in, and financial support of, the Primary Care Network.

Delivery System Reconfiguration and Building Programs

- Develop a plan for the reconfiguration and streamlining of inpatient and outpatient services in connection with the move to the UCLA Medical Center-Westwood Replacement Hospital Facility. Tasks include working with physicians throughout the process to determine their perceptions on the impact on their departments by relocating or consolidating inpatient and/or outpatient functions and determining appropriate bed configuration, operational needs and likely location to meet future needs.

- Ensure that each Replacement Hospital Facility is completed on schedule and within the projected cost. Tasks include the development of a structure that coordinates all of the key individuals needed to ensure the timely completion, and transition, into each Replacement Hospital Facility, within appropriate cost controls.

Areas of Focus

Maintenance of Excellence

In its July 2003 Best Hospital Survey, *U.S. News & World Report* ranked the Medical Center as the third ranked hospital in the United States and ranked UCLA NPH as the best psychiatric hospital in the western United States. In addition, the July 2003 Best Hospital Survey ranked seventeen Medical Center departments in the top twenty in the United States, including the Department of Geriatrics located at Santa Monica-UCLA Medical Center, which was ranked number one in the United States.

Significant achievements and services and programs provided by UCLA Medical Center-Westwood include:

- **Multi-Organ Transplantation Services**. UCLA Medical Center-Westwood, a pioneer in human organ transplantation, is among the largest multi-organ transplantation centers in the United States and is one of the few transplantation centers which provides a full spectrum of services for adults and children.

- **Nervous System Disorders Research**. Research in neurology and neurosurgery has advanced knowledge in programs such as epilepsy surgery, traumatic brain injury, skull-based surgery, neurovascular surgery, dementia, imaging, and movement disorders. Most recently, protocols developed at UCLA Medical Center-Westwood, providing for the use of "clot busters" in the treatment of stroke, have resulted in stopping, and in some instances, reversing the damage caused by stroke. Such protocols are now applied by many emergency medical personnel nationwide.

Significant services and programs provided by the Mattel Children's Hospital, which operates as a "hospital within a hospital" at UCLA Medical Center-Westwood, include:

- **Pediatric Craniofacial Clinic**. This clinic treats children who suffer from congenital and acquired deformities affecting the face, head and neck.

- **Extracorporeal Membrane Oxygenation**. This treatment for life-threatening respiratory problems is provided on a modified heart lung machine. Mattel Children's Hospital is one of three hospitals within its Primary Service Area with provides this treatment to newborns and is the only hospital its Primary Service Area which provides this treatment to adolescents.

- **Pediatric Cardiology Program**. This program provides comprehensive evaluation and management of a wide range of pediatric congenital and acquired heart disease.

- **Pediatric Hematology/Oncology Programs**. These programs emphasize the development of new diagnostics and treatments to improve the survival rates for children with cancer.

Significant achievements, services and programs provided by Santa Monica-UCLA Medical Center include:

- **Geriatric Services**. As indicated above, geriatric services provided by the department at Santa Monica-UCLA Medical Center were ranked number one in the United States in the July 2003 Best Hospital Survey by *U.S .News & World Report*. Geriatricians at Santa Monica-UCLA Medical Center address a broad spectrum of health-related factors that impact patients who are 65 years and older which can influence the development and effects of chronic and multiple medical conditions.

- **Rape Treatment Center**. This center, which was a pioneer in the development of current methods employed in providing emergency services, forensic examinations, counseling and psychological support to rape victims, provides care for sexual-assault victims.

Significant achievements and services and programs provided by UCLA NPH include:

- **Substance Abuse Services**. This inpatient unit offers comprehensive treatment specializing in alcoholism and addiction services for adults by applying the combined expertise of physician addiction specialists, psychologists, licensed clinical social workers, marriage and family therapists, and registered nurses.

- **Memory Improvement and Dementia Prevention Program**. Services include state-of-the art care for people suffering from age-related memory and cognitive decline. In addition, this program promotes innovative research and professional education for the early detection and prevention of these conditions, with an emphasis on advanced molecular brain imaging, genetics, neuropsychiatry and other technologies.

- **Autism Evaluation Clinic**. This clinic provides diagnostic, psychological, and psychiatric services to individuals with autism.

Quality Improvements

In order to continue to distinguish UCLA Healthcare as a provider of excellent medical care in an environment in which patients, payors and health systems place more and more emphasis on reducing the cost of health care, UCLA Healthcare has developed initiatives aimed at maintaining and accurately measuring quality. Initiatives include advances in information technology and improving customer service and quality in clinical settings.

Information Technology. The information technology ("IT") systems strategy is to leverage enterprise-wide financial, ancillary, administrative, and clinical systems across all three hospital facilities and associated ambulatory services in order to optimize IT efficiency and enhance operational productivity. Aspects of the IT strategy include an electronic medical record, all digital imaging capabilities in radiology, cardiology, and pathology, paperless document management and workflow applications, and convergence of voice and data services over a single network infrastructure using voice-over-IP telephony. In order to ensure availability, security and disaster-resilience, the Medical Center's IT architecture calls for multiple redundant and distributed systems and networks.

Improving Customer Service and Quality in Clinical Settings. To improve service and quality, management of the Medical Center has implemented a number of programs. At UCLA Medical Center-Westwood, management has introduced Project HOPE (Help Optimize the Patient Experience), a leadership-led process improvement team which has improved patient satisfaction in the area of coordination of care. Goals include improved patient communication with physicians and nurses, reduced waiting times for procedures and tests, and access to more effective inpatient resource materials. At Santa Monica-UCLA Medical Center, the Continuity and Transition Performance and Improvement team is working to improve hospital discharge procedures and patient education material and is implementing a process to ensure that each patient is routinely prepared to care for himself/herself at home. Other efforts include increasing staff and physician support programs, including enhanced patient feedback tools, promotion of the Service and Teamwork Achieve Results (STAR) employee recognition program, and offering a number of popular stress reduction and skill enhancement courses for clinicians.

FUTURE PLANS

Services and Programs. The Medical Center expects to continue to focus its efforts on maintaining its leading-edge position in clinical diagnostic and treatment modalities. In addition, the Medical Center will seek to optimize its clinical program configuration across the Replacement Hospital Facilities, based on acuity, cost and margin, efficiency, and clinical faculty input, will seek to continue to leverage, both formally and informally, its relationships with other health care providers to maximize inpatient activity at both Replacement Hospital Facilities, and will resize the Primary Care Network in order to provide a solid base for referrals while not placing an undue financial burden on the Medical Center and the other components of UCLA Healthcare.

Facilities. In addition to construction of the Replacement Hospital Facilities currently underway, which is described in the front portion of this Official Statement under the caption "The Replacement Hospital Facilities," other projects are planned to support the growth of key programs and/or improve operational efficiency. Such projects are expected to include the projects described below.

200 Medical Plaza Renovations. This project consists of the phased renovation of approximately 55,000 gross square feet in an ambulatory care facility completed in 1991, located immediately adjacent to the UCLA Medical Center-Westwood Replacement Hospital Facility, to allow for the relocation of diagnostic and treatment services, which serve both outpatients and inpatients, including nuclear medicine and the cobalt unit, and the expansion of outpatient surgery. Construction is scheduled to start in the summer of 2004 and be completed when the UCLA Medical Center-Westwood Replacement Hospital Facility is occupied in the fall of 2005.

UCLA Medical Center-Westwood Clinical Laboratories Relocation: This project, designed to improve operational efficiency, consists of the relocation of clinical laboratory services to a site adjacent to the UCLA Medical Center-Westwood Replacement Hospital Facility and the 200 Medical Plaza Building.

Funding for these projects is expected to be provided from a combination of sources, including State Infrastructure improvement funds, Medical Center reserves, cash generated from operations and donations.

APPENDIX B

University of California, Los Angeles Medical Center

Report on Audits of Financial Statements For the Years Ended June 30, 2003 and 2002

University of California, Los Angeles Medical Center
Report on Audits of Financial Statements

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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
350 South Grand Avenue
Los Angeles CA 90071
Telephone (213) 356 6000
Facsimile (813) 637 4444

Report of Independent Auditors

The Regents of the University of California
Oakland, California

In our opinion, the accompanying financial statements, as shown on pages 15 through 37, present fairly, in all material respects, the financial position of the University of California, Los Angeles Medical Center (the "Medical Center"), a division of the University of California ("University"), at June 30, 2003 and 2002, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Medical Center's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Medical Center are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the University that is attributable to the transactions of the Medical Center. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2003 and 2002, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

September 19, 2003

University of California, Los Angeles Medical Center
Management's Discussion and Analysis
(Dollars in thousands)

Introduction

The discussion and analysis of the UCLA Medical Center's (the "Medical Center") financial performance provides an overview of the Medical Center's financial activities for the fiscal year ended June 30, 2003. Please read this section in conjunction with the Medical Center's financial statements, starting on page 15 and the notes to the financial statements, starting on page 19.

Overview

The Medical Center is part of the University of California (the "University"). The Medical Center operates licensed bed facilities as follows: the 671 bed UCLA Medical Center located in Westwood, the 337 bed Santa Monica-UCLA Medical Center located in Santa Monica, and the 136 bed Neuropsychiatric Hospital located in Westwood. The financial statements also include the activities of Tiverton House, a 100-room facility for patients and their families.

The UCLA Medical Center serves as the principal teaching site for the David Geffen School of Medicine at UCLA. The Medical Center's mission is to provide excellent patient care in support of the educational and scientific programs of the Schools of the UCLA Center for the Health Sciences.

The Westwood campus opened in 1955 as a 320-bed hospital and expanded to its current capacity of 668 beds in 1967. Currently, construction is under way on a new 525-bed state-of-the-art replacement hospital expected to be completed by 2005. The replacement hospital will meet the State of California's SB 1953, Earthquake Seismic Regulations.

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

In 1995, the Santa Monica Hospital Medical Center was acquired by The Regents and renamed "Santa Monica – UCLA Medical Center." This hospital is also dedicated to serving the University's teaching and research missions while meeting the healthcare needs of Los Angeles's westside. The Santa Monica campus features several nationally recognized clinical programs located within its seven-acre campus. Several sections of this medical center are also in the process of replacement. In 1998, UCLA Healthcare signed a strategic alliance with Orthopaedic Hospital/Los Angeles. This alliance will result in the relocation of Orthopaedic Hospital inpatient services to Santa Monica when replacement facilities are completed in 2005.

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

The Tiverton House is a 100-room guest hotel for patients and their families. Tiverton was temporarily closed in March, 2002 in order to repair water damage. This work is expected be completed by March, 2004 and Tiverton will re-open at full capacity at that time.

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

For the fiscal year ended June 30, 2003 the consolidated Medical Centers reported net income before other changes in net assets of $10.5 million generating a margin of 1.2%. The year ended with a cash position of $18.2 million. This is a significant improvement over the prior fiscal year, which reported net income before other changes in net assets of $7.2 million and cash of $12.9 million. The prior year's net income included a gain on the sale of a laundry facility of $6.9 million.

Despite wage increases and nursing shortages, the Medical Center's financial performance improved due to changes in payor mix, price increases, re-structured managed care arrangements and renegotiation of major third-party contracts, increased cash collections and capital lease financing of equipment.

These significant events are summarized below:

- Changes in Payor Mix

  Total inpatient days decreased by 1.3%. The average length of stay was flat compared to the prior year. The Medical Center saw a decline in Capitated and Medi-Cal days of 27.9% and 5.5% respectively. Of all payors, these two provide the lowest reimbursement to the Medical Center. Days reimbursed by Contracts, one of the best payors, increased by 4.1%. This shift in payor mix contributed to an increase in net patient revenue.

- Price increases

  The Medical Center increased its prices for room rates by 20% on July 1, 2002 and increased its prices for non-room charges by approximately 15% on October 1, 2002. These price increases contributed to an increase in net patient revenue of 7.5% over the prior year.

- Restructured managed care arrangements and renegotiation of major third-party contracts.

  In fiscal year 2001, the Medical Center began the process of converting full-risk capitated contracts to per-diem arrangements. Two of the full-risk capitated plans converted on January 1, 2003. As a result of these conversions, capitated membership declined from approximately 27,000 members in fiscal year 2002 to approximately 21,000 members in fiscal year 2003. The largest full-risk capitated plan and the largest per-diem contract were renegotiated in fiscal year 2002 resulting in significant increases in the premiums for fiscal year 2003.

- Cash collections

  During fiscal year 2003, the Medical Center continued to work on ways to improve its cash position. By a combination of improvements in collection efforts, renegotiated contract rates, increases in prices and improved payor mix, the cash collected on patient accounts increased by $92 million or 14.3% over fiscal year 2002.

- Capital Leases for Equipment

  The Medical Center continued its efforts to obtain financing for capital needs. During fiscal year 2003 the Medical Center financed $22.1 million of equipment with capital leases. The interest rates on these leases range between 0.0% and 2.89%.

- Wage increases and nursing shortages

  The nation-wide nursing shortage had a significant impact on both the salary costs of hospital-employed nurses as well as the rate charged for nurses employed from nurse registry agencies. In fiscal year 2002 the union representing the nurses renegotiated a three-year contract with annual wage increases ranging from 7% to 9.2%. This contract increased the Medical Center's labor costs by approximately $12.9 million in fiscal year 2003. Nursing registry costs have remained high for fiscal year 2003. The fiscal year 2003 average monthly cost was $2.0 million. Nursing made up approximately 90% of this cost. Overall, labor and benefit costs per hospital-paid employee increased by 4.6% over fiscal year 2002.

(Dollars in thousands)

Operating Statistics

The following table presents utilization statistics for the Medical Center for fiscal years ended June 30, 2003 and 2002:

Statistics	2003	2002	Change	Percentage Change
Admissions	40,626	40,697	(71)	(0.2%)
Average daily census	701	711	(10)	(1.4%)
Average length of stay	6.3	6.4	(0.1)	(1.6%)
Patient Days:				
Medicare	70,182	70,796	(614)	(0.9%)
Medi-Cal (includes County)	29,532	31,247	(1,715)	(5.5%)
Commercial	3,649	3,075	574	18.7%
Contracts (discounted/per diem)	127,029	122,036	4,993	4.1%
Contracts (capitated)	17,109	23,731	(6,622)	(27.9%)
Non-sponsored/Self-pay	8,458	8,492	(34)	(0.4%)
Total Patient Days	255,959	259,377	(3,418)	(1.3%)
Outpatient visits:				
Hospital clinics	789,544	799,095	(9,551)	(1.2%)
Home Health/Hospice	48,063	46,586	1,477	3.2%
Emergency visits	70,697	71,273	(576)	(0.8%)
Total visits	908,304	916,954	(8,650)	(0.9%)

Total admissions were flat when compared to the prior fiscal year. Admissions increased by 6.3% for Contracts, one of the Medical Center's best payors. Conversely, admissions dropped by 29.6% for the Medical Center's lowest-paying payor, full-risk capitation. The decline in full-risk capitated contracts is due to conversion of some contracts to per-diem arrangements and a decline in the enrollment for capitated plans.

Total patient days decreased by 3,418 or 1.3%. The decrease was mainly due to a decrease in the Medi-Cal and Capitated payors and due to the phase out of the Center for Extended Care which closed on July 1, 2003. Historically this Center has contributed approximately 14,000 days to the patient census. The Center's census days were low margin patients and the closure is expected to improve financial performance going forward.

Total outpatient visits decreased by 0.9% over the prior year. This decrease was primarily in the clinical/ambulatory units at the Westwood and Santa Monica campuses. Even though the visits are down from prior year, the overall charge per visit increased by 36% over the prior year. This is partly due to the 15% price increase on October 1, 2002 and patients utilizing more expensive outpatient services.

(Dollars in thousands)

Statement of Revenues, Expenses and Change in Net Assets

This statement shows the revenues, expenses and changes in net assets for the Medical Center for fiscal year 2003 compared to the prior year. This statement is found on page 16.

The following table summarizes the operating results.

	2003	2002	Change	Percentage Change
Net patient service revenue	$824,963	$767,552	$ 57,411	7.5%
Other operating revenue	51,076	57,813	(6,737)	(11.7%)
Total operating revenue	876,039	825,365	50,674	6.1%
Total operating expenses	859,282	817,396	41,886	5.1%
Income from operations	16,757	7,969	8,788	110.3%
Total non-operating expenses	(6,215)	(749)	(5,466)	(729.8%)
Net income before change in net assets	10,542	7,220	3,322	46.0%
Margin	1.2%	0.9%	0.3%	33.3%
Other changes in net assets	198,290	99,041	99,249	100.2%
Net assets - beginning of year	538,679	432,418	106,261	24.6%
Net assets - end of year	$747,511	$538,679	$208,832	38.8%

Revenues:

Total operating revenues for the year ended June 30, 2003 were $876.0 million, an increase of $50.7 million or 6.1% over fiscal year 2002. Net patient service revenue for fiscal year 2003 increased by $57.4 million over the prior year. The increase was due to improved payor mix, renegotiated contracts and price increases. Patient services revenues are net of estimated allowances from contractual arrangements with Medicare, Medi-Cal and other third-party payors and have been estimated based on the terms of reimbursement and contracts currently in effect. Other operating revenue consisted primarily of Clinical Teaching Support Funds (CTS) and other non-patient services such as contributions, cafeteria and campus revenues. The decrease in other operating revenue was due to a one-time CTS augmentation of $2.1 million received in the prior year and a decrease in current year contributions for patient care.

(Dollars in thousands)

The following table shows net patient revenue by funding source for fiscal years ended June 30, 2003 and June 30 2002:

Payor	2003	2002	Change	Percentage Change
Medicare (non-risk)	$217,819	$220,589	($2,770)	(1.3%)
Medi-Cal (includes County)	57,927	60,507	(2,580)	(4.3%)
Commercial	25,077	22,256	2,821	12.7%
Contracts (discounted/per-diem)	451,382	392,412	58,970	15.0%
Contracts (capitated)	41,757	44,838	(3,081)	(6.9%)
Non-sponsor/Self-pay	31,001	26,950	4,051	15.0%
Total	$824,963	$767,552	$57,411	7.5%

Net revenues for Medicare represent payments for services provided to patients under Title XVIII of the Social Security Act. Payments for inpatient services provided to Medicare beneficiaries are paid on a per-discharge basis at rates set at the national level with adjustments for prevailing area labor costs. The Medical Center also receives additional payments for direct and indirect costs for graduate medical education, disproportionate share of indigent patients, capital reimbursement, and outlier payments on cases with unusually high costs of care. Hospital outpatient care is reimbursed under a prospective payment system. Medicare reimburses the Medical Center for allowable costs 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. Settlements with the Medicare program for prior years cost reports are recognized in the year the settlement is resolved. Excluding negative settlement adjustments of $4.5 million for fiscal year 2003 and positive adjustments of $1.0 million for fiscal year 2002, net patient revenue for Medicare increased by $2.7 million over the prior fiscal year. This increase is primarily due to an increase in volume and case mix.

Payments for Medi-Cal patients are made on a per-diem basis for inpatient services and outpatient services are paid on a fixed-fee schedule. The Medi-Cal net patient revenue also includes the Medical Education funding of $10.2 million for fiscal year 2003 and $10.5 million for fiscal year 2002 and a settlement from a class-action lawsuit regarding outpatient payments of $1.4 million for fiscal year 2003 and $0.5 million for fiscal year 2002. Excluding the Medical Education funding and settlements, the net patient revenue for Medi-Cal decreased by $3.2 million from fiscal year 2002. This decrease is due to a decline in the Medi-Cal volume.

Contract net patient revenue (discounted/per-diem) increased by $59.0 million due to volume increases in both inpatient and outpatient services, contract rate increases, increases to pricing and conversion of full-risk capitated contracts to per-diem arrangements.

The net patient service revenue for contracts that are full-risk capitation decreased by $3.0 million due primarily to conversion of some contracts to per-diem arrangements and a decline in the enrollment.

Commercial net patient revenue increased by $2.8 million due to volume and increases in the Medical Center's pricing. Reimbursement for commercial insurance is typically based on a percentage of the gross charge.

The non-sponsored/self pay net revenue increased from the prior fiscal year by $4.0 million. This category fluctuates from year to year depending on the volume and type of patients. Reimbursement for uninsured patients is significantly reduced by the provision for doubtful accounts, which is included in operating expense.

Operating Expenses:

Total operating expenses for fiscal year 2003 were $859.3 million, an increase of $41.9 million or 5.1% over fiscal year 2002. This increase was primarily due to the impact on labor costs of salary increases, increases in employee benefit costs, inflationary increases in medical supplies and increases in purchased services.

Salaries and employee benefit expenses increased by $34.3 million over the prior fiscal year due to inflationary increases in benefits for health insurance, increase for workers' compensation insurance and wage increases from union contracts. Amounts paid for nurse registry and other contract labor is also included in this category.

Payments for professional services decreased by $1.9 million or 11.7% from fiscal year 2002 primarily due to reduction in consulting services.

Medical supply expense increased by $12.4 million or 9.9% mainly due to a 3.9% inflationary increase in pharmaceuticals and a 9.9% increase in other supplies on a volume-adjusted basis due to inflation and an increase in prosthetics.

Other supplies and purchased services increased by $2.6 million over the prior fiscal year due to volume and inflationary increase.

Depreciation and amortization expense was $2.7 million more than the prior fiscal year due to investments in capital equipment.

Provision for doubtful accounts decreased by $7.9 million from prior year due to improved collection results.

The insurance expense of $6.7 million was primarily the Medical Center's contribution to the University of California self-insured malpractice fund. This expense was comparable to the prior fiscal year's expense.

Non-Operating Revenue (Expense):

Total non-operating expense was $6.2 million for fiscal year 2003 compared to $0.7 million in the prior fiscal year due primarily to the $6.9 million gain on the sale of the laundry facility in the prior fiscal year.

Income (Loss) before Other Changes in Net Assets:

The Medical Center's net income before other changes in net assets was $10.5 million for fiscal year 2003 compared to $7.2 million for fiscal year 2002, a significant improvement over the prior fiscal year. Excluding the one-time sale of the laundry facility in the prior fiscal year, settlements from the Medicare and Medi-Cal programs and the one-time CTS augmentation in the prior fiscal year, the Medical Center's net income improved by $10.7 million over the prior year due to successfully managing operations with higher wage and benefit increases, cost containment, price increases, and continuing negotiations of contract rate increases.

Other Changes in Net Assets:

The lower section of the Statement of Revenues, Expenses and Changes in Net Assets shows the other changes to net assets in addition to the income or loss. Net assets are the difference between the total assets and total liabilities. The other changes in net assets represent additional funds the Medical Center receives and cash outflow for support and transfers to other university entities.

Included in the other changes in net assets are the following:

(1) Proceeds received and pending from the Federal Emergency Management Agency (FEMA) for the hospitals' replacement projects were $171.4 million in fiscal year 2003. The total anticipated funding from FEMA for the replacement hospitals' project is $505.1 million.

(2) Contributions from the University for the building program of $25.0 million are related to the hospitals' replacement projects and represent advances related to the pending issuance of the State Public Works Board Bonds.

(3) Donated assets represent gift funds that have been used for the hospitals' replacement. The gift funds are only recorded on the Medical Center's financial statements when an expenditure for the project has been incurred. The Medical Center recorded $27.3 million of gift funds for fiscal year 2003.

(4) Health system support represent transfers primarily to the School of Medicine for academic and clinical support including the Primary Care Network. The Medical Center transferred $25.4 million this fiscal year.

In total, the net assets increased for the year by $208.8 million to $747.5 million. The majority of this increase is due to FEMA funds, contributions from the University, and Gift Funds for the hospitals' replacement projects.

(Dollars in thousands)

Statement of Net Assets

The following table is an abbreviated statement of net assets at 6/30/03 and 6/30/02. The complete statement is found on page 15.

	6/30/03	6/30/02	Change	Percentage Change
Cash	$ 18,229	$ 12,920	$ 5,309	41.1%
Patient accounts receivable (net)	179,509	176,885	2,624	1.5%
Other current assets	40,417	36,179	4,238	11.7%
Total current assets	238,155	225,984	12,171	5.4%
Capital assets (net)	811,020	601,192	209,828	34.9%
Other assets	14,090	16,406	(2,316)	(14.1%)
Total assets	1,063,265	843,582	219,683	26.0%
Current liabilities	152,819	152,071	748	0.5%
Long-term debt	162,935	152,832	10,103	6.6%
Total liabilities	315,754	304,903	10,851	3.6%
Net assets				
Invested in capital assets (net)	668,420	473,724	194,696	41.1%
Restricted	21,068	23,158	(2,090)	(9.0%)
Unrestricted	58,023	41,797	16,226	38.8%
Total net assets	$ 747,511	$538,679	$208,832	38.8%

Total current assets increased by $12.2 million compared to prior year due to an increase to cash of $5.3 million, an increase in net patient accounts receivable of $2.6 million and an increase of $4.2 million in other current assets.

Cash increased by $5.3 million or 41.1% in fiscal year 2003 due primarily to increased cash collections. Cash collections for the Medical Center increased by $92 million over the prior year.

Net patient accounts receivable increased due to an increase in net patient revenue of $57.4 million.

Other current assets, which includes non-patient receivables, inventory and prepaid expenses, increased by $4.2 million or 11.7% over the prior fiscal year. The increase was primarily related to an increase in inventory and other receivables.

Capital assets increased by $209.8 million over prior year with the majority of this increase related to the hospitals' replacement projects. The funding for these costs is primarily from FEMA, gift funds and contributions from the University.

Other assets, which includes the long-term portion of cash held by trustees and the Santa Monica Hospital Foundation assets, decreased by $2.3 million from the prior year. This decrease is related to a drop in the Foundation Assets for amounts transferred to the general cash account from the Foundation.

Current liabilities increased by $0.7 million or 0.5% over the prior fiscal year due to a decrease in accounts payable by $7.2 million, an increase in accrued payroll of $2.0 million, cost report payable increase of $6.3 million and current portion of long-term debt increase of $4.6 million due to leases and a decrease of $4.9 million on other liabilities. The increase in accrued payroll is due to the timing of the pay periods. The decrease in accounts payable is due to paying vendors more timely. The cost report payable represents potential liabilities to the Medicare Program for pending or disputed cost report issues.

Long-term debt includes the 1994 Hospital Revenue Bonds, 1989 Multiple Purpose Project Bonds, 2002 Hospital Revenue Bonds, and long-term leases. The Medical Center financed $22.1 million of capital equipment through leases during fiscal year 2003.

Liquidity and Capital Resources

The Statement of Cash Flows can be found on page 17.

During the fiscal year 2003, the Medical Center generated $50.6 million from operating activities. Cash flows from non-capital financing activities shows the Medical Center's cash was reduced by $25.4 million for transfers to the University for health system support and general support. Included in cash flows from capital and related financing activities, the proceeds from FEMA ($115.9 million), gifts ($27.3 million) and contributions from the University related to the pending issuance of the State Public Works Board Bonds ($25.0 million) were used to partially fund capital assets of $176.0 million. The majority of this expense was for the hospitals' replacement projects. The principal payment of $7.3 million is related to bonds and capital leases. The Medical Center's capital and financing activities also included a reduction of cash of $8.1 million for interest payments. Cash flows from investment activities show that $1.2 million was provided by interest income and $2.1 million from the Santa Monica Foundation. Overall cash increased to $18.2 million in fiscal year 2003 from $12.9 million in fiscal year 2002.

(Dollars in thousands)

The following table shows key liquidity and capital ratios for fiscal years 2003 and 2002:

	2003	2002
Days Cash on Hand	8.3	6.2
Days of Revenue in Accounts Receivable	82	83
Debt Service Coverage (times)	4.2	4.3

Days cash on hand increased to 8.3 days in fiscal year 2003 from 6.2 days in fiscal year 2002. Days cash on hand measures the average number of days' expenses the Medical Center maintains in cash. This is a relatively low amount. The goal set by the University of California Office of the President is 60 days. During fiscal year 2003, the Medical Center had available a $30 million line of credit from the University for its cash needs. The average outstanding amount was $8 million. This line of credit was fully repaid in May 2003.

The days of revenue in accounts receivable measures the average number of days it takes to collect patient accounts receivable. Fiscal year 2003 days in accounts receivable decreased by 1 day to 82. The main reason for this decrease was increased cash collections. Ideally, the Medical Center would like the days in accounts receivable number to be in the mid 70's and continues to work on improving its cash collection efforts.

Debt service coverage ratio measures the amount of funds available to cover the principal and interest on long-term debt. The Medical Center's ratio for fiscal year 2003 is 4.2 versus 4.3 in fiscal year 2002. This is a very favorable ratio indicating that the Medical Center is able to generate sufficient income to cover its debt.

The Medical Center's limited cash position is the result of prior investments in the Medical Center's replacement hospitals' projects and transfers to the University for health system and general support. The cash position remains a major challenge for the Medical Center. The Medical Center will not be financially secure until it can build adequate reserves, a long-term objective that will take the next 3-5 years to achieve. The Medical Center is acting on a variety of measures to build or preserve the cash reserves that it generated. It postponed capital purchases for the existing hospitals, as there will be a substantial investment in new equipment in the replacement hospitals. The Medical Center has also been able to implement a leasing program for required equipment purchases. During fiscal year 2003, the Medical Center had access to a short-term loan from the University to cover cash shortages. For fiscal year 2004, the Medical Center will have access to a $55 million short-term loan from the University to cover any cash shortages due to expenditures for the replacement projects.

Regulatory Activity

Medi-Cal Supplemental Payments. The Office of Inspector General (OIG) in the Department of Health and Human Services conducted a statewide survey in relation to supplemental payments (i.e., SB 1255, SB 1732 and Medi-Cal Med Ed programs) made under California's Selective Provider Contract Program for fiscal years 1999 through and including fiscal year 2002. The OIG's draft report to the State Department of Health Services claims that there was an overpayment of supplemental funds.

The Hospital Facilities Seismic Safety Act (SB 1953). During fiscal year 2003, the Medical Center's capital program continued to address the requirements in The Hospital Facilities Seismic Safety Act. The projected cost for the Medical Center, which will be compliant with the requirements by January 1, 2008, is $903.6 million. The capital cost of compliance will be financed through the use of State lease revenue bonds, Medical Center reserves, FEMA funds, gift funds and debt. In fiscal year 2003 $219.9 million was spent.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA). This Act mandates that new privacy regulations became effective April 2003. Costs of compliance with these new regulations including improvements to information technology, procedures to maintain tighter security over patient records, and providing instructional programs for physicians, residents and hospital staff, approximated $0.5 million for fiscal year 2003. On-going annual costs to comply with HIPPA approximate $1.3 million.

Cautionary Note Regarding Forward-Looking Statements

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

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

University of California, Los Angeles Medical Center
Statements of Net Assets
June 30, 2003 and 2002
(Dollars in thousands)

	2003	2002
Assets		
Current assets:		
Cash	$ 18,229	$ 12,920
Restricted assets, held by trustee	6,978	6,752
Patient accounts receivable, net of estimated uncollectibles of $38,083 and $38,868, respectively	179,509	176,885
Other receivables, net of estimated uncollectibles of $1,909 and $1,725, respectively	7,420	5,631
Inventory	15,011	12,917
Prepaid expenses and other assets	11,008	10,879
Total current assets	238,155	225,984
Restricted assets:		
Assets held by trustee	776	1,000
Donor restricted	13,314	15,406
Capital assets, net	811,020	601,192
Total assets	1,063,265	843,582
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	69,670	76,918
Accrued salaries and benefits	56,880	54,832
Third-party payor settlement	9,459	3,149
Current portion of long-term debt and capital leases	11,685	7,056
Other liabilities	5,125	10,116
Total current liabilities	152,819	152,071
Long-term debt and capital leases, net of current portion	162,935	152,832
Total liabilities	315,754	304,903
Net Assets		
Invested in capital assets, net of related debt		
Restricted:	668,420	473,724
Nonexpendable:		
Endowments	337	337
Expendable:		
Capital projects	791	1,754
Debt service	7,754	7,752
Other	12,186	13,315
Unrestricted	58,023	41,797
Total net assets	$ 747,511	$ 538,679

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

University of California, Los Angeles Medical Center
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2003 and 2002
(Dollars in thousands)

	2003	2002
Net patient service revenue	$824,963	$767,552
Other operating revenue:		
Clinical teaching support	22,638	25,215
Other	28,438	32,598
Total other operating revenue	51,076	57,813
Total operating revenue	876,039	825,365
Operating expenses:		
Salaries and employee benefits	471,043	436,768
Professional services	14,059	15,919
Medical supplies	137,967	125,573
Other supplies and purchased services	166,972	164,419
Depreciation and amortization	44,349	41,647
Provision for doubtful accounts	18,150	26,042
Insurance	6,742	7,028
Total operating expenses	859,282	817,396
Income from operations	16,757	7,969
Nonoperating revenue (expenses):		
Interest income	1,179	1,331
Interest expense	(8,114)	(7,799)
Gain on disposal of capital assets	720	5,719
Total nonoperating expenses	(6,215)	(749)
Income before other changes in net assets	10,542	7,220
Other changes in net assets:		
Proceeds received or receivable from FEMA	171,392	97,604
Contributions from University for building program	24,983	15,651
Donated assets	27,283	14,052
Health system support	(25,368)	(25,479)
Transfers to University, net	-	(2,787)
Increase in net assets	208,832	106,261
Net assets - beginning of year	538,679	432,418
Net assets - end of year	$747,511	$538,679

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

University of California, Los Angeles Medical Center
Statements of Cash Flows
For the Years Ended June 30, 2003 and 2002
(Dollars in thousands)

	2003	2002
Cash flows from operating activities:		
Receipts from patients and third-party payors	$805,086	$719,064
Payments to employees	(392,609)	(366,871)
Payments to suppliers	(327,909)	(284,582)
Payments for benefits	(76,386)	(62,903)
Other receipts	42,407	53,594
Net cash provided by operating activities	50,589	58,302
Cash flows from noncapital financing activities:		
Health system support	(25,368)	(25,479)
Transfers to University	-	(509)
Net cash used by noncapital financing activities	(25,368)	(25,988)
Cash flows from capital and related financing activities:		
Transfers from University	-	531
Proceeds from FEMA	115,927	97,604
Proceeds from long-term borrowings	-	32,862
Proceeds from contributions from University for building program	24,983	15,651
Proceeds from sale of capital assets	185	7,108
Proceeds from internal line of credit	32,938	29,533
Purchases of capital assets	(176,046)	(148,274)
Principal paid on long-term debt and capital leases	(7,399)	(38,337)
Principal paid on internal line of credit	(32,938)	(29,533)
Interest paid on long-term debt and capital leases	(8,114)	(7,799)
Capital gifts	27,283	14,052
Net cash used by capital and related financing activities	(23,181)	(26,602)
Cash flows from investing activities:		
Interest income received	1,179	1,331
Change in restricted assets, held by trustee	(2)	-
Change in Foundation investments	2,092	855
Net cash provided by investing activities	3,269	2,186
Net increase in cash	5,309	7,898
Cash - beginning of year	12,920	5,022
Cash - end of year	$ 18,229	$ 12,920

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

University of California, Los Angeles Medical Center
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2003 and 2002
(Dollars in thousands)

	2003	2002
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	$ 16,757	$ 7,969
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization expense	44,349	41,647
Provision for doubtful accounts	18,150	26,042
Changes in operating assets and liabilities:		
Patient accounts receivable	(20,774)	(58,679)
Other receivables	(1,789)	2,933
Inventory	(2,094)	(589)
Prepaid expenses and other assets	(129)	(1,938)
Accounts payable and accrued expenses	(7,248)	26,542
Accrued salaries and benefits	2,048	6,995
Third-party payor settlements	6,310	10,195
Other liabilities	(4,991)	(2,815)
Net cash provided by operating activities	$ 50,589	$ 58,302

	2003	2002
Supplemental noncash activities information:		
Gain (loss) on disposal of capital assets	$ 535	$ (1,224)
Capital lease obligations incurred	$ 22,131	$ 5,750
Receivable from FEMA	$ 55,936	$ -
Transfers to University	$ -	$ 2,809

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

1. Organization

The University of California, Los Angeles Medical Center (the "Medical Center") is a part of the University of California (the "University"). The University is administered by The Regents of the University of California ("The Regents"), a California public corporation established under Article IX, Section 9 of the California Constitution. The Regents, an independent board, is composed of 26 members. The Medical Center's activities are monitored by The Regents' Committee on Health Services, with direct management authority being delegated to the Provost, Medical Sciences by the Chancellor of the Los Angeles campus. The Medical Center operates licensed bed facilities as follows: the 671 bed UCLA Medical Center, the 337 bed Santa Monica – UCLA Medical Center, and the 136 bed Neuropsychiatric Hospital. The financial statements also include the activities of Tiverton House, a 100 room facility for patients and their families.

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"), and all statements of the Financial Accounting Standards Board through November 30, 1989. The proprietary fund method of accounting is followed and uses 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.

Cash

All University operating entities invest surplus cash balances in a short-term investment pool ("STIP") managed by the Treasurer of The Regents. The Regents is responsible for 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 at June 30, 2003 and 2002 was $18,229 and $12,920, respectively. None of these amounts are insured by the FDIC.

2. Summary of Significant Accounting Policies (Continued)

Cash (Continued)

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

Additional information on cash and investments can be obtained from the 2002-2003 annual report of the University.

Restricted Assets, Held By Trustee

Indenture requirements of bond financing (see Note 8, "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. Assets held by trustee consist of short-term investments, recorded at cost, which approximates fair value.

Restricted Assets, Donor Restricted

Santa Monica Foundation investments, which are part of the Medical Center, are recorded at fair value, which approximates cost. Pledges and charitable remainder trusts are discounted using a risk free rate of interest, and an actuarially determined liability for gift annuity funds. Investment property is recorded at cost.

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.

Prepaid Expenses and Other Assets

The Medical Center's prepaid expenses and other assets are primarily prepayments for pharmaceutical and medical supply inventory, rent, equipment and maintenance contracts.

2. Summary of Significant Accounting Policies (Continued)

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 5 to 20 years. Interest on borrowings to finance facilities is capitalized during 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.
    - 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.

2. Summary of Significant Accounting Policies (Continued)

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 capital appropriations, health system support, proceeds received or receivable from FEMA, donated assets 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.

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.

2. Summary of Significant Accounting Policies (Continued)

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 system support in the statements of revenues, expenses and changes in net assets.

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 system support.

Compensated Absences

The Medical Center accrues annual leave for employees at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked.

Tax Exemption

The Regents of the University of California is 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 conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

2. Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

The GASB has issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, effective for years beginning July 1, 2003. The Medical Center does not expect that Statement No. 39 will have an effect on its financial statements.

The GASB has also issued Statement No. 40, *Deposit and Investment Risk Disclosures,* effective for years beginning July 1, 2005. Statement No. 40 establishes additional disclosure requirements addressing common risks of investments. The statement will have no effect on the Medical Center's net assets or changes in net assets.

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 non-acute services, certain outpatient services and medical education costs related to Medicare beneficiaries are paid based, in part, on a cost reimbursement methodology. Medicare reimburses hospitals for covered outpatient services rendered to its beneficiaries by way of an outpatient prospective payment system based on ambulatory payment classifications. The Medical 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 hospitals' (the UCLA Medical Center, the Santa Monica – UCLA Medical Center, and the Neuropsychiatric Hospital) Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 1999, June 30, 2000, and June 30, 2000, respectively.

3. Net Patient Service Revenue (Continued)

- ***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).

- ***Medical Education Fund*** – The Medical Education Fund provides for a supplemental payment in recognition of both direct and indirect medical education costs associated with inpatient health care services rendered to Medi-Cal beneficiaries. For the years ended June 30, 2003 and 2002, the Medical Center received additional revenue of $10,293 and $10,460, 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 reimburse the Medical Center for reasonable and customary charges. Workers' compensation plans pay negotiated rates and 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, which are 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 plans 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.

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

(Dollars in thousands)

3. Net Patient Service Revenue (Continued

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 25% and 26% of net patient accounts receivable at June 30, 2003 and 2002, respectively.

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

	2003	2002
Medicare (Non-Risk)	$217,819	$220,589
Medicare (Risk)	29,648	26,454
Medi-Cal (Non-Risk)	40,062	55,189
Commercial Insurance	25,077	22,256
Contract (Discounted or Per-Diem)	451,382	392,412
Contract (Capitated)	12,109	18,384
County	17,865	5,318
Non-sponsored/self-pay	31,001	26,950
Total	$824,963	$767,552

4. Charity Care

Information related to the Medical Center's charity care for the years ended June 30 is as follows:

	2003	2002
Charity care at established rates	$9,023	$11,294
Estimated cost of charity care (unaudited)	3,616	5,316

Estimated cost in excess of reimbursement for Medi-Cal and county services was $28,616 and $21,369 for the years ended June 30, 2003 and 2002, respectively (unaudited).

(Dollars in thousands)

5. Restricted Assets, Held By Trustee

Assets held for future debt service are invested as follows at June 30:

	2003	2002
Commercial paper	$7,754	$7,752
Less restricted assets, current	(6,978)	(6,752)
Restricted assets, net of current	$ 776	$1,000

6. Restricted Assets, Donor Restricted

The composition of restricted assets, donor restricted, for the years ended June 30 are as follows:

	2003	2002
Cash	$ 30	$ 48
Certificate of deposits	500	500
Investment pool	5,776	6,349
Pledges	411	1,005
Investment property	3,013	3,354
Charitable remainder trusts	3,584	4,150
Total	$13,314	$15,406

Donor restricted assets are available for the following purposes:

	2003	2002
Capital purposes	$ 791	$ 1,754
Endowments	337	337
General	12,186	13,315
	$13,314	$15,406

(Dollars in thousands)

7. Capital Assets

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

	2001	Additions	Disposals	2002	Additions	Disposals	2003
Original Cost							
Land	$ 12,757	$ -	$ -	$ 12,757	$ -	$ -	$ 12,757
Buildings and improvements	409,600	22,501	(8,741)	423,360	6,038	-	429,398
Equipment	241,718	15,653	(13,231)	244,140	31,928	(6,245)	269,823
Construction in progress	214,595	115,865	-	330,460	216,516	-	546,976
Capital assets, at cost	878,670	154,019	(21,972)	1,010,717	254,482	(6,245)	1,258,954
	2001	**Depreciation**	**Disposals**	**2002**	**Depreciation**	**Disposals**	**2003**
Accumulated Depreciation and Amortization							
Buildings and improvements	211,874	16,134	(5,771)	222,237	17,763	-	240,000
Equipment	173,783	25,513	(12,008)	187,288	26,586	(5,940)	207,934
Accumulated depreciation and amortization	385,657	$41,647	($17,779)	409,525	$ 44,349	($5,940)	447,934
Capital assets, net	$493,013			$ 601,192			$ 811,020

A majority of the construction in progress relates to the replacement of the hospitals at UCLA Medical Center and Santa Monica – UCLA Medical Center. The construction for the replacement hospitals is managed by the University's Capital Programs group. Capital Programs tracks all construction projects and negotiates contracts with third-party vendors. The Medical Center capitalizes construction costs based on work performed as communicated by Capital Programs.

Equipment under capital lease obligations and related accumulated amortization is $27,882 and $3,465 in 2003, respectively, and $5,750 and $612 in 2002, respectively.

During 2003 and 2002, the University has been making seismic improvements in order to be in compliance with Senate Bill 1953, the Hospital Facilities Seismic Safety Act. A portion of the improvements are financed under a lease-revenue bond with the State of California Public Works Board, as discussed in Note 17. The portion of the facilities related to the state lease-revenue bonds are contributed at cost by the University to the Medical Center to support the operations of the Medical Center. These amounts totaling $24,983 and $15,651 during 2003 and 2002, respectively, are shown as Contributions from University for building program on the Statement of Revenues, Expenses and Changes in Net Assets. Also, as discussed in Note 17, the financing arrangements are still being determined.

(Dollars in thousands)

8. Long-term Debt and Capital Leases

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

	Outstanding Debt	
	2003	**2002**
The Regents of the University of California Refunding 1994 Hospital Revenue Bonds, interest rates from 4.8% to 5.5%, payable semi-annually and annual principal payments through 2020	$103,650	$108,730
The Regents of the University of California Hospital Revenue Bonds, 2002 Series A, interest rate is 4.55%, payable semi-annually and annual principal payments through December 2009	32,020	32,420
The Regents of the University of California Revenue Bonds (1989 Multiple Purpose Project Bonds), interest rates from 4.8% to 10%, payable semi-annually with annual principal payments through 2023	13,310	13,686
Capital lease obligations, primarily for computer equipment, with fixed interest rates ranging from 0% to 4.1% payable through 2007, collateralized by underlying equipment	25,640	5,052
Total debt and capital leases	174,620	159,888
Less: Current portion of debt and capital leases	(11,685)	(7,056)
Noncurrent portion of debt and capital leases	$162,935	$152,832

(Dollars in thousands)

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

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

	Revenue Bonds	Capital Lease Obligations	Total
Year Ended June 30, 2003			
Current portion at June 30, 2002	$ 5,856	$ 1,200	$ 7,056
Reclassification from noncurrent	6,218	5,810	12,028
Principal payments	(5,856)	(1,543)	(7,399)
Current portion at June 30, 2003	$ 6,218	$ 5,467	$ 11,685
Noncurrent portion at June 30, 2002	$148,980	$ 3,852	$152,832
New obligations	-	22,131	22,131
Reclassification to current	(6,218)	(5,810)	(12,028)
Noncurrent portion at June 30, 2003	$142,762	$20,173	$162,935
Year Ended June 30, 2002			
Current portion at June 30, 2001	$ 5,170	$ -	$ 5,170
Reclassification from noncurrent	5,905	1,898	7,803
Principal payments	(5,219)	(698)	(5,917)
Current portion at June 30, 2002	$ 5,856	$ 1,200	$ 7,056
Noncurrent portion at June 30, 2001	$122,023	$ -	$122,023
New obligations	32,862	5,750	38,612
Reclassification to current	(5,905)	(1,898)	(7,803)
Noncurrent portion at June 30, 2002	$148,980	$ 3,852	$152,832

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

Funds from The Regents of the University of California Refunding Hospital Revenue Bond Series 1994 ("1994 Bonds") were issued to advance refund the outstanding 1986 Bonds, a portion of the outstanding 1990 Bonds, and to pay certain expenses incurred in connection with the issuance of the 1994 Hospital Revenue Bonds. The Regents of the University of California Hospital Revenue Bonds, 2002 Series A ("2002 Bonds and collectively with the 1994 Bonds, the "Hospital Revenue Bonds") is a private placement to refinance the acquisition of Santa Monica Hospital Medical Center. Proceeds from the 2002 Bonds were used to repay $32,420 of interim financing in The Regents' Commercial Paper program for the acquisition. The Hospital Revenue Bonds are collateralized solely by revenues of the Medical Center. 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.

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, including the Tiverton House. 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. Additional information on the Revenue Bonds can be obtained from the 2002-2003 annual report of the University.

(Dollars in thousands)

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

Future debt service payments for each of the five fiscal years subsequent to June 30, 2003 and thereafter are as follows:

Year Ending June 30,	Revenue Bonds	Capital Leases	Total Payments	Principal	Interest
2004	$ 13,720	$ 6,057	$ 19,777	$ 11,685	$ 8,092
2005	13,689	6,057	19,746	12,107	7,639
2006	13,737	5,651	19,388	12,223	7,165
2007	13,715	5,040	18,755	12,069	6,686
2008	13,670	4,388	18,058	11,852	6,206
2009 – 2013	89,536	-	89,536	69,571	19,965
2014 – 2018	40,821	-	40,821	34,366	6,455
2019 – 2023	11,970	-	11,970	10,747	1,223
Total future debt service	210,858	27,193	238,051	$174,620	$63,431
Less: Interest component of future payments	(61,878)	(1,553)	(63,431)		
Principal portion of future payments	$148,980	$25,640	$174,620		

9. Internal Line of Credit

In fiscal year 2003, the Medical Center received an internal line of credit amounting to $30,000 with the Chancellor of the UCLA campus. Interest on this internal line of credit is paid at the STIP rate. The Medical Center drew down funds at various times during the year, and repaid these amounts in subsequent months. The largest drawdown at any time during the year totaled $19,900. Total cumulative amounts drawn on the internal line of credit during the year ended June 30, 2003 were $32,938. The line of credit was fully repaid as of June 30, 2003.

(Dollars in thousands)

10. Operating Leases

The Medical Center leases certain facilities under operating leases with terms of 1 to 10 years. Total rental expense on operating leases for the years ended June 30, 2003 and 2002 was $7,476 and $6,993, respectively. As of June 30, 2003, amounts payable under noncancelable operating leases are as follows:

Year Ending June 30,		
2004		$ 3,698
2005		3,134
2006		3,075
2007		3,078
2008		2,899
2009 - 2012		9,978
	Total	$25,862

11. 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.

The actuarial value of UCRP assets and the actuarial accrued liability as of June 30, 2003 were $41.4 billion and $33.0 billion, respectively. The net assets held in trust for pension benefits on the UCRP Statement of Plan's Fiduciary Net Assets were $35.3 billion at June 30, 2003. For the years ended June 30, 2003 and 2002, 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 pre-tax 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.

(Dollars in thousands)

11. Retirement Plans (Continued)

Information as to contributions made, Plan assets and liabilities, as they relate to Medical Center employees, is not readily available. Additional information on the Plans can be obtained from the 2002-2003 annual report of the University.

12. 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.

The Medical Center paid $16,433 and $13,265 for the years ended June 30, 2003 and 2002, and these amounts are included in salaries and employee benefits, and insurance on the statement of revenues, expenses and changes in net assets.

13. 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:

	2003	2002
Salaries and employee benefits	$ 115	$ 50
Professional services	5,417	4,699
Medical supplies	(2,029)	(1,095)
Other supplies and purchased services	30,712	30,663
Interest (income) expense	(800)	761
Insurance	6,648	6,836
Total	$40,063	$41,914

(Dollars in thousands)

13. Transactions with Other University Entities (Continued)

Additionally, the Medical Center makes payments to the University of California, Los Angeles 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 $65,431 and $70,711 in 2003 and 2002, respectively. Of these amounts, $40,063 and $41,914 are reported as operating expenses for the years ended June 30, 2003 and 2002, respectively, and $25,368 and $25,479 are reported as health system support for the years ended June 30, 2003 and 2002, respectively. Amounts of $0 and $2,787 were net Transfers to the University in 2003 and 2002, respectively.

14. Federal Emergency Management Administration

The Medical Center was impacted by the January 1994 Northridge earthquake. As a result, the Medical Center negotiated with the Federal Emergency Management Agency (FEMA) and with the State of California for grant funds for the replacement of the UCLA Medical Center and the Santa Monica-UCLA Medical Center. The Medical Center received approval for grant funds as follows:

	FEMA	State of California
UCLA Medical Center	$432,900	$44,100
Santa Monica-UCLA Medical Center*	72,200	-
	$505,100	$44,100

*includes the Orthopaedic Hospital funds; see Note 15

Under the terms of the agreement, the Medical Center will be reimbursed for eligible costs of rebuilding the acute care facilities. The Medical Center capitalizes construction costs based on cash receipts and pending reimbursements from FEMA. As of June 30, 2003 and 2002, total cash received from FEMA was $115,927 and $97,604, respectively.

14. Federal Emergency Management Administration (Continued)

The grants are subject to final settlement after submission of reports and audits thereof by FEMA. If the results of the audit determine that the construction costs incurred were ineligible for reimbursement, the University would be required to find alternative financing sources. As of June 30, 2003, FEMA has not completed any audits.

15. Orthopaedic Hospital Alliance

In June 1998, The Regents approved a Master Alliance Agreement between The Regents, on behalf of the Medical Center, and Orthopaedic Hospital, a California non-profit public benefit corporation. Under terms of the agreement, the parties agreed to develop comprehensive combined programs in the field of orthopaedic medicine.

The parties received approval by FEMA for the transfer of Orthopaedic Hospital's FEMA grant in the amount of $30,200 (see Note 14) to the Santa Monica-UCLA Medical Center Replacement Hospital project. Orthopaedic Hospital will relocate its inpatient business to the Santa Monica-UCLA Replacement Hospital upon its completion.

16. State Funds for Hospital Equipment

The 2000 State Budget Act provided $50 million in state capital appropriations for non-seismic capital improvement (i.e., infrastructure) projects at the University's medical centers. The Medical Center was allocated $10 million of the $50 million state capital appropriation. When expended, the Medical Center will account for these funds as a state capital appropriation in the statements of revenues, expenses and changes in net assets.

17. Commitments and Contingencies

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

The 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.

(Dollars in thousands)

17. Commitments and Contingencies (Continued)

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 $180 million was allocated to the Medical Center. As of June 30, 2003, the financing arrangements are still being determined.

The Medical Center is in construction to build new replacement hospitals at the UCLA Medical Center and Santa Monica-UCLA Medical Center locations. The total cost of these Medical Center projects is currently estimated to be approximately $904 million, excluding interest. The replacement hospital financing sources are estimated as follows:

FEMA	$505,100
State Matching funds	44,100
Gift Funds	159,500
State Lease Revenue Bonds	180,000
Medical Center reserves	14,900
	$903,600

Gift funds received for construction in progress totaling $27,283 in 2003 and $14,052 in 2002 are reflected in the statements of revenues, expenses and changes in net assets.

18. Subsequent Event

On September 2, 2003, the Medical Center received $55 million from David Geffen School of Medicine and the Chancellor of UCLA as short-term loans. These funds are being provided to assist the Medical Center with its cash needs during the 2004 fiscal year. The loans are to be repaid on March 1, 2004, including interest at the rate earned by STIP. Repayment of these loans is not dependent on the cash position of the Medical Center.

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APPENDIX C

THE UNIVERSITY OF CALIFORNIA

GENERAL

The University of California (the "University") is the public institution of higher education designated by the State of California (the "State") in its Master Plan for Higher Education for the training of individuals for the professions, for the awarding of doctoral degrees in all fields of human knowledge, and for the conduct of research. Since its founding in 1868, the University has conferred over 1,546,000 higher education degrees. The University's administrative offices are located in Oakland, California.

The University is governed by a 26-member Board of Regents, 18 of whom are appointed by the Governor and approved by a majority vote of the State Senate (currently for a 12-year term), one student Regent, who is appointed by the board to a one-year term, and seven ex officio Regents who are members of the board by virtue of their elective or appointed positions. The ex officio Regents are the Governor of the State, Lieutenant Governor of the State, Speaker of the Assembly, State Superintendent of Public Instruction, President of the Alumni Associations of the University, Vice President of the Alumni Associations of the University, and the President of the University.

Classes began at Berkeley in 1873 and the University presently operates general campuses located in Berkeley, Davis, Irvine, Los Angeles, Riverside, San Diego, Santa Barbara and Santa Cruz; a health science campus located in San Francisco; and more than 200 laboratories, research stations, affiliated schools, and activity locations. Under the Education Abroad Program, the University operates study programs at over 100 host institutions in 34 countries. A tenth general campus located in Merced is under construction and anticipated to open in Fall 2005.

During the year ended June 30, 2003, the University provided instruction to over 196,000 full time equivalent undergraduate and graduate students. The University is engaged in numerous sponsored research projects, in addition to operating three major laboratories for the United States Department of Energy, which conduct broad and diverse basic and applied research in nuclear science, energy production, national defense, and in environmental and health areas. The University operates a cooperative extension program reaching into nearly every area of the State and numerous public service programs. In connection with the University's five medical schools and other health science disciplines, the University operates five acute care academic medical centers with a total of over 3,500 licensed beds and over 2,900 available beds.

The University has a preeminent faculty of approximately 8,100 members as of April 2003. Researchers affiliated with the University have been awarded 45 Nobel Prizes, the pinnacle of achievement for groundbreaking research; 14 of the Nobel Prizes have been won since 1995. Current faculty includes 21 Nobel laureates. No public university has won more Nobel Prizes than the University. University affiliated researchers have received 48 National Medals of Science -- more than 10 percent of the medals presented -- since Congress created the award in 1959. A total of 335 University researchers have been elected to the prestigious National Academy of Sciences. The University has more members of the National Academy of Sciences than any other college or university. Since the first MacArthur Fellowships were bestowed in 1981, 50 faculty, researchers, artists and others affiliated with the University have been awarded these prestigious $500,000 grants. Also, more Guggenheim fellowships have been awarded to University faculty than to any other university or college.

As of April 2003, the University employed, on a full-time and part-time basis, approximately 50,000 faculty and other academic personnel and 110,606 staff and management personnel. The University expects that, during the year ending June 30, 2004, enrollment levels and the scope and level of research activities remain at approximately the levels attained during the year ended June 30, 2003.

The following table shows average enrollments (computed on the basis of full-time equivalents) of the University by campus for the general campus and for health science students across campuses for fiscal years 1999 to 2003. Further information on University enrollment can be found at http://budget.ucop.edu/enrollments/enroll.html.

UNIVERSITY OF CALIFORNIA
FULL TIME AVERAGE ENROLLMENTS (1) FOR FISCAL YEARS 1999 TO 2003

	1998-99	1999-00	2000-01 (3)	2001-02 (3)	2002-03(3)
Berkeley	28,443	28,776	28,987	31,776	32,469
Davis	20,413	20,672	21,628	22,672	25,919
Irvine	15,758	16,910	17,980	19,719	21,553
Los Angeles	28,376	28,805	29,496	32,220	32,768
Riverside	9,764	10,667	11,954	13,238	14,439
San Diego	17,340	17,763	18,086	19,534	21,162
Santa Barbara	18,188	18,859	18,835	20,633	21,082
Santa Cruz	10,574	10,870	11,726	12,786	13,666
Total General Campus	148,856	153,322	158,692	172,578	183,058
Health Sciences (2)	12,544	12,578	12,553	12,726	13,130
Total University	161,400	165,900	171,245	185,304	196,188

1 Does not include students in self supporting programs.
2 Includes San Francisco campus enrollment.
3 Includes summer enrollment of 232 in 2000-01, 5,624 in 2001-02 and 8,099 in 2002-03.

Source: University of California Office of the President ("UCOP"), Budget Office

INDEBTEDNESS OF THE REGENTS

The Regents of the University of California ("The Regents") has outstanding various revenue bonds and other obligations, as listed below, maturing from 2004 through 2036. These special obligations are secured by and payable from revenues of the facilities financed, investment income, student fees and rental payments. In October 1996, The Regents established its commercial paper program in an amount not to exceed $550 million outstanding. As of March 31, 2004, all $550 million of commercial paper was issued and outstanding. In addition, The Regents had outstanding principal on loans and private placements with various financial institutions of approximately $117 million as of March 31, 2004.

The following table lists the outstanding public indebtedness of The Regents as of March 31, 2004.

OBLIGATIONS ISSUED AND OUTSTANDING
as of March 31, 2004 (dollars in thousands)

		Amount Issued	Amount Outstanding
General Revenue Bonds			
2003 Series A		$914,270	$914,270
2003 Series B		385,835	385,835
Multiple Purpose Projects			
1991 Series:	Refunding Revenue Bonds Series E	283,930	276,965
	Revenue Bonds Series F	298,660	278,280
	Revenue Bonds Series G	64,115	47,400
	Revenue Bonds Series H	109,185	103,455
	Revenue Bonds Series I	24,020	20,490
	Revenue Bonds Series J	64,060	51,075
	Revenue Bonds Series K	294,045	285,225
	Revenue Bonds Series L	65,220	55,250
	Revenue Bonds Series M	131,925	129,690
	Revenue Bonds Series N	44,825	40,240
	Revenue Bonds Series O	346,020	346,020
	Revenue Bonds Series P	19,850	19,850
	Revenue Bonds Series Q	364,255	364,255
Hospital Revenue Bonds			
UCLA Medical Center, Series 1994, Refunding Revenue Bonds*		136,530	98,335
UCLA Medical Center, Series 2002		32,420	31,520
UC Davis Medical Center, Series 1996		345,880	21,050
UC Davis Medical Center, Series 2003		347,775	346,025
UCSF-Stanford Health Care, 1998 Series A		104,685	98,430
UC San Diego Medical Center, Series 2000		69,000	62,680
Research Facilities Revenue Bonds			
1998 Refunding Series C		89,015	89,015
1998 Series D		49,110	45,955
2001 Series E		122,800	122,800
Certificates of Participation			
Various Energy Projects:	Series A	60,465	56,470
	Series B	10,390	8,845
	Series C	10,815	7,010
2002 Series A		45,455	43,815
Commercial Paper			
Series A		430,000	430,000
Series B		120,000	120,000
Total		$5,384,555	$4,900,250

* To be refunded by The Regents of the University of California Hospital Revenue Bonds (UCLA Medical Center), Series 2004 B.

Source: UCOP, External Finance

The State Public Works Board of the State of California (the "SPWB") has issued various lease revenue bonds, maturing from 2003 through 2028, for the purpose of financing or refinancing various facilities for the University. In connection with these lease revenue bonds of the SPWB, The Regents has leased the financed facilities from the SPWB pursuant to facility leases, which require The Regents to pay rental payments in amounts sufficient to pay the principal of and interest on such lease revenue bonds. Such lease rental payments are appropriated annually by the State as a line item for the University's operating budget. The Regents has appropriated and paid in a timely manner all rental payments due pursuant to its leases with the SPWB, including during periods in the summers of 1990, 1992, 2002 and 2003 when adoption of the State Budget was substantially delayed. The following table sets forth the outstanding lease revenue bonds of the SPWB which were issued for the purpose of financing facilities at various campuses of the University as of March 31, 2004:

State Public Works Board of the State of California	Amount Outstanding (in 000's)
High Technology Facilities Lease Revenue Bonds:	
1986 Series A (San Diego Facility)	$12,870
1986 Series A (Irvine Facility)	1,620
1990 Series A (Various University of California Projects)	63,348
Lease Revenue Bonds:	
1992 Series A (Various University of California Projects)	19,440
1993 Series B (Various University of California Projects)	105,458
1994 Series A (Various University of California Projects)	21,435
1994 Series B (Various University of California Projects)	9,835
1997 Series C (Various University of California Projects)	137,920
2002 Series A (UCLA Replacement Hospital)	167,315
2003 Series A (UC Davis MIND Institute)	32,760
Lease Revenue Refunding Bonds:	
1993 Series A (Various University of California Projects)	344,250
1997 Series A (Various University of California Projects)	124,795
1997 Series B (Various University of California Projects)	14,325
1998 Series A (Various University of California Projects)	37,240
1998 Series B (Various University of California Projects)	26,215
1998 Series C (Various University of California Projects)	10,285
1998 Series F (Various University of California Projects)	10,700
2001 Series A (Various University of California Projects)	32,140
Total Outstanding	$1,171,951

Source: UCOP, External Finance

The Regents has never defaulted in the payment of maturing principal of or interest on any of its loans, bonds, notes, or certificates or in the payment of rental due under capital leases of its facilities.

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

The Constitution of the State of California 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 government subject only to such legislative control as may be necessary to ensure compliance with the terms of the endowments of the University and the security of its funds and such competitive bidding procedures as may be applicable to the University by statute for the letting of construction contracts, sales of real property, and purchasing of materials, goods and services. The Regents is a board composed of both ex officio members and members appointed by the Governor and approved by the Senate.

The members of the Board of Regents and the Officers of The Regents as of April 9, 2004 are listed below. Additional information and a current list of Regents can be obtained at http://www.ucop.edu/regents/regents.html.

Appointed Regents:

Richard C. Blum
San Francisco

Ward Connerly
Sacramento

Judith L. Hopkinson
Santa Barbara

Odessa Johnson
Modesto

Joanne Kozberg
Los Angeles

Sherry L. Lansing
Los Angeles

David S. Lee
Morgan Hill

Monica C. Lozano
Los Angeles

George M. Marcus
Palo Alto

Velma Montoya
Hollywood

John J. Moores, Sr.
San Diego

Matthew Murray
Berkeley

Gerald L. Parsky
Los Angeles

Norman J. Pattiz
Culver City

Peter Preuss
La Jolla

Haim Saban
Los Angeles

Tom Sayles
San Diego

Ex-Officio Regents:

Arnold Schwarzenegger
Governor of California

Cruz Bustamante
Lieutenant Governor

Fabian Núñez
Speaker of the Assembly

Jack O'Connell
State Superintendent of
Public Instruction

Laurence Seigler
President of the
Alumni Associations of the
University of California

Barbara Bodine
Vice President of the
Alumni Associations of the
University of California

Robert C. Dynes
President of the
University of California

The Officers of The Regents:

President
Arnold Schwarzenegger
Governor of California

Chairman
John J. Moores, Sr.

Vice Chairman
Peter Preuss

Treasurer
David H. Russ

General Counsel
James E. Holst

Secretary
Patricia L. Trivette

FINANCIAL INFORMATION

Financial information for the University is set forth in the University's Annual Financial Report for the fiscal year ended June 30, 2003. The University's financial report for the fiscal years ended June 30, 1998 through June 30, 2003 can be found at http://www.ucop.edu/ucophome/cao/reports/

BUDGETARY PROCESS

The University presents to the State a single budget for the ten-campus system ("The Regents' Budget"). For the most part, State funds for the operating budget are appropriated to the University in a lump sum, although amounts for a few programs of particular interest to the State are appropriated by line item. Capital budget funds are appropriated by project, except that funds for minor capital projects are appropriated as a lump sum. Operating funds received from the State are allocated by the President to the campuses and to the Office of the President after consultation with the Executive Budget Committee, Chancellors, Vice Presidents and faculty groups. Because the processes for developing, negotiating, and allocating the operating and capital budgets are somewhat different, they are discussed separately below.

Budget Consultation. Development and implementation of the budget is an ongoing process that comes together in the activities of the Executive Budget Committee. This committee, which meets monthly, is chaired by the President and includes faculty senate members, two Chancellors, an Academic Vice Chancellor, and several senior management members of the Office of the President. The group is charged with preparing recommendations for the allocation and distribution of The Regents' Budget, and has the responsibility of monitoring and overseeing the allocation of funds. Administrators from the Office of the President also meet regularly with faculty and student groups to keep them informed of budget developments and seek their advice on budget issues. Further, there is usually a budget discussion at the monthly meeting of the Council of Chancellors.

The Regents' Budget. The Regents' Budget is the University's annual budget statement. It provides a description of the existing budget, including income and expenditures from all fund sources, and serves as the budget request to the State for the coming year, describing in some detail the need for additional funds.

Committees of the Board of Regents review the draft Regents' Budget. Any changes requested at that session are incorporated in the budget, which is then presented for approval by the full Board of Regents in November.

Governor's Budget/Budget Act. The Governor's Budget is presented by the Governor to the Legislature each January. Although the Governor's Budget usually incorporates many of the additional funds requested in The Regents' Budget, it does not necessarily parallel funding requests made in The Regents' Budget. The Governor's recommended budget is debated during legislative hearings each spring and in June the Legislature is required by California law to send its own recommended budget back to the Governor. At that point, the Governor may delete, but not add, funds. A two-thirds vote by the Legislature can override the Governor's veto of funds. Following the Governor's action, if any, on the Legislature's recommended budget, it becomes final as the "State Budget Act."

Negotiations with the State and Legislative Budget Hearings. Throughout the year, University staff engage in discussion of issues and priorities with staff in the Department of Finance, the Legislative Analyst's Office, and with Legislative committee staff. The staff negotiations sometimes culminate in a meeting between the President and the Governor to resolve, if possible, any remaining issues before the Governor's Budget is published. University staff also work closely with the Legislative Analyst's office. In February, the Legislative Analyst publishes an analysis of, and recommendations for legislative action on, the Governor's Budget. This analysis is the principal agenda for the legislative hearings, including hearings on the budget recommended for the University by the Governor. The Regents' Budget is heard separately by the Assembly and the Senate. In a normal year, there are 5-6 operating budget hearings and 2-3 capital budget hearings in each house. Differences between the two houses are resolved in a conference committee, usually in mid-June, after which the budget is returned to the Governor.

Allocations to Campuses. The President allocates funds to the campuses after consultation with the Executive Budget Committee, Chancellors, Vice Presidents and faculty groups. Two allocations are made each year: a preliminary and a final. The first allocates increases or decreases in State funds recommended in the Governor's Budget. This allocation is subject to revision as a result of legislative actions on the Governor's Budget and based on the University's continuing internal budget consultation process. Final allocations are usually made in July, after the State Budget Act is signed, at which time only minimal consultation and fewer changes to the budget base are usually required.

Capital Budget. The capital budget consists of individual major projects (over $400,000) proposed for funding along with a lump sum for minor capital projects (under $400,000). The internal process for developing the capital budget is an interactive process, with campuses initially submitting schedules and brief descriptions of both State and non-State funded projects. After compilation and review of campus submittals by the Office of the President, discussions are held with campus representatives regarding project need, justification, priority and likelihood of funding. Revised schedules are sent to the campuses for approval or dissent. Campuses then make a second submittal in greater detail for each project. The capital portion of The Regents' Budget is prepared from these more detailed submittals. Major capital projects are approved by the State on a line-item basis; funds for minor capital projects are approved on a lump-sum basis. In addition to State funds, the University also uses gift funds, certain fees and reserves, and other funds available to The Regents for capital projects.

Current Budget Matters. The 2003-04 Budget Act appropriated $2.898 billion in State General Funds to support the University's operations and programs, a reduction of approximately $252 million or 8.7% less than the 2002-03 State General Fund appropriation. The Governor instituted additional mid-year cuts of $29.9 million, of which $12.2 million was targeted to eliminating outreach programs, $2 million was targeted to the Institute for Labor and Employment, and $15.7 million was unallocated.

The 2004-05 Governor's Budget proposes State General Funds of $2.670 billion to support the University's operations and programs, a reduction of approximately $227.5 million or 7.9% less than the 2003-04 State General Fund appropriation approved in the Budget Act (before mid-year cuts). The proposed budget includes $205.1 million in reductions to be offset with student fee increases for undergraduates, graduate academics, professional school students, nonresidents, and establishment of a new fee to be charged for excess units taken by undergraduate students; another $23.2 million in reductions related to proposed enrollment reductions; $143.9 million in base budget reductions; and $144.7 million in additional funds to restore funds cut from the 2003-04 budget on a one-time basis, provide additional one-time funds to keep the Merced campus on track to open by Fall 2005, and to fund other normal base budget adjustments for debt service and annuitant health benefits.

The University is considering options for addressing the cuts proposed in the Governor's Budget. The Governor's Budget proposes a 40% increase in fees for graduate students with a 20% return to financial aid. The University is pursuing alternatives with the Governor's office to reduce the graduate fee increase, which may result in an increase in fees for undergraduate students above the 10% proposed in the Governor's Budget. A proposed enrollment reduction of 10%, or 3,200 full time equivalent students, is being implemented with a guarantee to those eligible students denied admission that they will be admitted to a UC campus for their upper division work if they complete their lower division work at a community college. Other budget cuts proposed in the Governor's Budget include a $35.3 million reduction associated with an increase in the student/faculty ratio; a $45.4 million reduction in academic and institutional support; an $11.6 million reduction in state-funded research; and elimination of state funding for the Institute for Labor and Employment ($4.0 million), outreach ($33.3 million), and the California Digital Project, a K-12 Internet program ($14.3 million). The Governor's Budget also provided restoration of a one-time $80.5 million unallocated cut in 2003-04; an increase of $2.7 million in one-time funds for the Merced campus; $34.4 million for cost increases in annuitant health care benefits; and $27.1 million in lease revenue bond payment reimbursements.

Additional budget information can be found at http://universityofcalifornia.edu/news/budget/welcome.html

EMPLOYER–EMPLOYEE RELATIONS

Under the Higher Education Employee Relations Act (HEERA), the law that provides for collective bargaining in higher education became effective July 1, 1979. Currently, the University negotiates with 13 unions over terms and conditions of employment for more than 60,000 of the University's approximately 151,700 employees statewide.

It is always difficult to determine with assurance the future course of employer–employee relations. Nevertheless, at the present time, The Regents has no reason to anticipate that the future labor relations climate within the University will have a material adverse impact upon the ability of The Regents to make payment on its outstanding indebtedness.

RETIREMENT PLAN FUNDS

The Regents maintains the University of California Retirement Plan (the "Plan"), a defined benefit pension plan, which provides lifetime retirement income, disability protection, death benefits, and preretirement survivor benefits to eligible employees of the University of California. The Plan includes four membership classifications: members with Social Security, members without Social Security, Safety members (police and firefighters), and Tier Two members.

In 1990-91, the Regents adopted a full funding policy that provides for actuarially determined periodic contributions at rates that provide for sufficient assets to be available when benefits are due. Under the full funding policy, the Regents suspend contributions to the Plan according to a formula that measures market or actuarial value to actuarial accrued liability, current liability, and normal cost. University and member contributions to the Plan have generally not been required since November 1, 1990 for most membership classifications. Member pretax contributions otherwise made to the Plan are redirected to the University of California Defined Contribution Plan on a mandatory basis.

As of June 30, 2003, the Plan's independent actuary reported that the actuarial accrued liability of the Plan (calculated on an entry age normal cost basis) was approximately $33.0 billion. The Plan's net assets held in trust for pension benefits as of June 30, 2003 was approximately $35.3 billion.

Employees hired before October 1, 1961 participate in the California Public Employees' Retirement System ("CalPERS"). The University's total contribution to CalPERS (including contributions on behalf of employees at the Department of Energy Laboratories) was approximately $184,000 and $290,000 for the years ended June 30, 2002 and June 30, 2003, respectively.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE CONTINUING DISCLOSURE AGREEMENT

The following is a brief summary of certain provisions of the Indenture and the Continuing Disclosure Agreement which are not described elsewhere in this Official Statement. This summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Indenture and the Continuing Disclosure Agreement in their entirety to which reference is made for the detailed provisions.

DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain terms used in this Official Statement. Other capitalized terms used herein are defined in the Indenture.

Accountant means any nationally recognized firm of independent auditors (but not an individual) selected by The Regents.

Alternate Credit Facility means any financial guaranty or municipal bond insurance policy, irrevocable direct-pay letter of credit, line of credit, standby bond purchase agreement, revolving credit agreement or other credit arrangement obtained by The Regents pursuant to the provisions of the Supplemental Indenture establishing the terms and provisions of a Series of Bonds, which Alternate Credit Facility is in effect and has been delivered to the Trustee to provide credit support for a Series of Bonds, as the same may be amended from time to time pursuant to its terms.

Alternate Liquidity Facility means any irrevocable direct-pay letter of credit, line of credit, standby bond purchase agreement, revolving credit agreement or other liquidity arrangement obtained by The Regents pursuant to the provisions of the Supplemental Indenture establishing the terms and provisions of a Series of Bonds, which Alternate Liquidity Facility is in effect and has been delivered to the Trustee to provide liquidity support for a Series of Variable Rate Bonds, as the same may be amended from time to time pursuant to its terms.

Annual Debt Service means for each Fiscal Year the aggregate amount (without duplication) of principal and interest scheduled to become due (either by maturity or by mandatory redemption) and sinking fund (or installment purchase or lease rental or similar) payments required to be paid in that Fiscal Year on all Long-Term Indebtedness, less any amounts on deposit in escrow to be applied during that Fiscal Year to pay principal or interest on Long-Term Indebtedness; provided that if a Financial Products Agreement has been entered into with respect to Long-Term Indebtedness, interest on such Long-Term Indebtedness shall be included in the calculation of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on such Long-Term Indebtedness in such Fiscal Year at the rate or rates stated in such Long-Term Indebtedness plus any Financial Product Payments payable in such Fiscal Year minus any Financial Product Receipts receivable in such Fiscal Year; provided that in no event shall any calculation made pursuant to this clause result in a number less than zero being included in the calculation of Annual Debt Service, and provided further that such calculation shall not include any termination payments paid or received with respect to any Financial Product Agreement or any other interest rate swap or similar agreement.

Auction means, with respect to any Series of Auction Bonds, each periodic implementation of the Auction Procedures for such Series of Bonds.

Auction Bonds means any Series of Bonds when they bear interest at an Auction Rate.

Auction Period with respect to a Series of Auction Bonds shall have the meaning set forth in the Supplemental Indenture establishing the terms and provisions of such Series of Auction Bonds.

Auction Procedures means, with respect to a Series of Auction Bonds, the procedures for conducting

Auctions during an Auction Period as set forth in the Supplemental Indenture establishing the terms and provisions of such Series of Auction Bonds.

Auction Rate means, with respect to a Series of Auction Bonds, the interest rate for such Series of Auction Bonds for each Auction Period determined pursuant to the Auction Procedures as set forth in the Supplemental Indenture establishing the terms and provisions of such Series of Auction Bonds.

Authorized Denomination means, with respect to the Series 2004 Bonds, $5,000 or any integral multiple thereof.

Balloon Indebtedness means Long-Term Indebtedness 25% or more of the original principal of which becomes due (either by maturity or mandatory redemption) or may be tendered for purchase or payment at the option of the holder during any period of 12 consecutive months, which portion of the principal is not required by the documents governing such Indebtedness to be amortized below 25% by mandatory redemption prior to such date.

Beneficial Owner means any Person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond, including, without limitation, any Persons holding Bonds through the Custodian or other depository or nominees.

Bonds means The Regents of the University of California Hospital Revenue Bonds (UCLA Medical Center), authorized by, and at any time Outstanding pursuant to, the Indenture.

Book Value means, when used in connection with Property, Plant and Equipment or other Property of The Regents, the value of such property, net of accumulated depreciation, as it is carried on the books of The Regents and in conformity with generally accepted accounting principles.

Business Day means, unless otherwise defined in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds, any day other than a Saturday, Sunday, or a day on which banking institutions in San Francisco, California or in the city in which the Principal Corporate Trust Office of the Trustee is located are authorized or obligated by law or executive order to be closed.

Capitalization Ratio means, as of any date of calculation, the percentage derived from dividing (a) the amount of Indebtedness, by (b) the sum of the amount of Indebtedness plus the total net assets of the Medical Center, all as determined in accordance with generally accepted accounting principles.

Capitalized Interest Account means an account by that name established in the Interest Account pursuant to the Indenture.

Certificate, Statement, Request and **Order of The Regents** mean, respectively, a written certificate, statement, request, or order signed on behalf of The Regents by the Treasurer, Associate Treasurer or an Assistant Treasurer of The Regents or any other person designated and authorized to sign for The Regents in a resolution or an action item of The Regents filed with the Trustee.

Code means the Internal Revenue Code of 1986, or any successor statute thereto and any regulations promulgated from time to time thereunder. Reference to any particular Code section, in the event of such a successor Code, shall be deemed to be reference to the successor to such Code section.

Completion Indebtedness means any Long-Term Indebtedness incurred for the purpose of financing the completion of construction or equipping of any project for which Long-Term Indebtedness has theretofore been incurred in accordance with the provisions of the Indenture, to the extent necessary to provide a completed and fully equipped facility of the type and scope contemplated at the time said Long-Term Indebtedness was incurred, and in accordance with the general plans and specifications for such facility as originally prepared and approved in connection with the related financing, modified or amended only in conformance with the provisions of the documents pursuant to which the related financing was undertaken.

Continuing Disclosure Agreement means, with respect to each Series of Bonds requiring an undertaking regarding disclosure under Rule 15c2-12, the Continuing Disclosure Agreement, dated the date of issuance and delivery of such Series of Bonds, by and between The Regents and the trustee and dissemination agent named therein, as originally executed and as the same may from time to time be amended or supplemented pursuant to its terms.

Costs of Issuance means, with respect to a Series of Bonds, all items of expense directly or indirectly payable by or reimbursable to The Regents and related to the authorization, execution, sale and delivery of a Series of Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees (including legal fees) and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, fees and expenses incurred in connection with securing a Credit Facility, fees and expenses incurred in connection with securing a Liquidity Facility, and any other cost, charge or fee in connection with the original delivery of a Series of Bonds.

Costs of Issuance Account means an account by that name in the Costs of Issuance Fund established pursuant to the Indenture.

Costs of Issuance Fund means the fund by that name established pursuant to the Indenture.

Credit Facility means a financial guaranty or municipal bond insurance policy, an irrevocable direct-pay letter of credit, a line of credit, a standby bond purchase agreement, a revolving credit agreement or other credit arrangement obtained by The Regents pursuant to which a Credit Provider provides credit support for a Series of Bonds, as the same may be amended from time to time pursuant to its terms, or any replacement therefor.

Credit Provider means the issuer or provider of a Credit Facility, including an Insurer, and any successor or successors to such issuer or provider.

Custodian means (a) The Depository Trust Company, New York, New York, or (b) any successor thereto engaged by The Regents to operate a book-entry system for recording, through electronic or manual means, the beneficial ownership of the Bonds; provided, that such book-entry system operated by the Custodian may include the use of subsystems of recording the beneficial ownership of Bonds which are operated by parties other than the Custodian and the use of a nominee for the Custodian and the term "Custodian," as used in the Indenture, includes any party operating any such subsystem.

Draw means, with respect to any Credit Facility or Liquidity Facility provided with respect to a Series of Bonds, any drawing or other request for the advancement of funds made by or on behalf of the Trustee in the manner authorized by and in accordance with the terms and conditions of such Credit Facility or Liquidity Facility, as applicable.

Event of Default means any of the events specified as such in the Indenture.

Financial Products Agreement shall mean an interest rate swap, cap, collar, option, floor, forward or other hedging agreement, arrangement or security, however denominated, identified to the Trustee in a Certificate of The Regents as having been entered into with a Qualified Provider not for investment purposes but with respect to Indebtedness (which Indebtedness shall be specifically identified in the Certificate of The Regents) for the purpose of (1) reducing or otherwise managing the risk of interest rate changes or (2) effectively converting interest rate exposure, in whole or in part, from a fixed rate exposure to a variable rate exposure, or from a variable rate exposure to a fixed rate exposure.

Financial Product Payments shall mean payments periodically required to be paid to a counterparty pursuant to a Financial Products Agreement.

Financial Product Receipts shall mean amounts periodically required to be paid to The Regents by a counterparty pursuant to a Financial Products Agreement.

Financial Statements means, for any period, the financial statements for the Medical Center, all stated in accordance with generally accepted accounting principles, which have been examined by an Accountant and contain such Accountant's report thereon.

Fiscal Year means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official fiscal year period of The Regents.

Gross Revenue Fund means the fund by that name established pursuant to the provisions of the Indenture.

Guaranty means all loan commitments and all obligations of The Regents guaranteeing in any manner whatever, whether directly or indirectly, any obligation of any other Person which: (i) is secured by a pledge of or security interest in the Revenues; and (ii) would, if such other Person were The Regents, constitute indebtedness for borrowed money.

Holder or **Bondholder**, whenever used with respect to a Bond, means the person in whose name such Bond is registered.

Income Available for Debt Service means as to any period of time, income before other changes in net assets relating to the Medical Center for such period, to which shall be added depreciation, amortization and interest on Indebtedness, all as determined in accordance with generally accepted accounting principles; provided that no such determination shall include: (i) any gain or loss resulting from either (a) the extinguishment of Indebtedness, (b) any disposition of capital assets not made in the ordinary course of business, (c) adjustments to the value of assets or liabilities resulting from changes in generally accepted accounting principles or (d) any reappraisal, revaluation or write-down of assets or any other extraordinary or unusual non-cash item; (ii) any unrealized gain or loss resulting from changes in the fair market value of investments, any Financial Product Agreement or any other interest rate swap and similar agreement; or (iii) any nonrecurring items that do not involve the receipt, expenditure or transfer of assets.

Indebtedness means any Guaranty and any indebtedness or obligation of The Regents for borrowed money: (i) secured by a pledge of or security interest in the Revenues; or (ii) relating to the Medical Center and payable from Revenues, as determined in accordance with generally accepted accounting principles, including obligations under conditional sales contracts or other title retention contracts, and rental obligations under leases which are considered capital leases under generally accepted accounting principles; excluding, however, any advances made by or obligation to The Regents, including any internal line of credit made available to the Medical Center by the Chancellor of the University of California at Los Angeles. Indebtedness as defined in the Indenture shall not include Financial Products Agreements or Financial Product Payments.

Indenture means the Indenture, dated as of March 1, 1990, as amended and restated by a Third Supplemental Indenture, thereto, dated as of May 1, 2004, as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

Independent Consultant means a firm (but not an individual) which: (i) is in fact independent; (ii) does not have any direct financial interest or any material indirect financial interest in The Regents; and (iii) is not connected with The Regents as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions, and designated by The Regents, qualified to pass upon questions relating to the financial affairs of facilities of the type or types similar to the Medical Center and having a favorable reputation for skill and experience in the financial affairs of such facilities.

Industry Restrictions means federal, state or other applicable governmental laws or regulations placing restrictions and limitations on the rates, fees and charges to be fixed, charged and collected by The Regents with respect to the Medical Center.

Information Services means one of the following services selected by the Trustee: Financial Information, Inc., Daily Called Bond Service; Kenny Information Systems, Called Bond Department; Moody's Investors Service, Information Center; Standard & Poor's Rating Services, Called Bond Record; and any other information service providing information with respect to called bonds as The Regents may designate to the Trustee.

Insurance or **Insurance Policy** means, with respect to the Series 2004 Bonds, the financial guaranty insurance policy issued by Ambac Assurance Corporation insuring the payment when due of the principal of and interest on the Series 2004 Bonds as provided therein, and means, with respect to any other Series of Bonds, a Credit Facility in the form of a financial guaranty insurance policy or a municipal bond insurance policy issued by an Insurer insuring the payment when due of the principal of and interest on such Series of Bonds as provided therein.

Insurance and Condemnation Proceeds Fund means the fund by that name established pursuant to the Indenture.

Insurance Consultant means The Regents' risk manager, or a consulting actuary, which is selected by The Regents, or an independent Person, having experience and a favorable reputation in consulting on the insurance requirements of health care facilities in the State of the general size and character of the Medical Center, which is selected by The Regents.

Insurance Policy or **Insurance** means, with respect to the Series 2004 Bonds, the financial guaranty insurance policy issued by Ambac Assurance Corporation insuring the payment when due of the principal of and interest on the Series 2004 Bonds as provided therein, and means, with respect to any other Series of Bonds, a Credit Facility in the form of a financial guaranty insurance policy or a municipal bond insurance policy issued by an Insurer insuring the payment when due of the principal of and interest on such Series of Bonds as provided therein.

Insurer means, with respect to the Series 2004 Bonds, Ambac Assurance Corporation, a Wisconsin domiciled stock insurance company, or any successor thereto or assignee thereof, and means with respect to any other Series of Bonds, the issuer or provider of Insurance with respect to such Series of Bonds and any successor to such issuer or provider or assignee thereof.

Interest Account means the account by that name in the Revenue Fund established pursuant to the Indenture.

Interest Payment Date means, with respect to the Series 2004 Bonds, November 15 and May 15 of each year, commencing November 15, 2004.

Investment Securities means any of the following which at the time are legal investments (as determined by The Regents) under the laws of the State of California for moneys held under the Indenture and then proposed to be invested therein:

(1) Direct obligations of the United States of America (including obligations issues or held in book-entry form on the books of the Department of the Treasury of the United States of America or any Federal Reserve Bank) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America or tax-exempt obligations which are rated in the highest rating category of any Rating Agency;

(2) Obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by any agency or instrumentality of the United States of America;

(3) Bonds of the State of California or of any county or city of the State of California for which any Rating Agency is maintaining a rating at least equal to the higher of "A" (or equivalent) or such Rating Agency's then current rating on any Series of Bonds;

(4) Obligations the interest on which is excluded from gross income for federal income taxation pursuant to the Code and which are rated by any Rating Agency in a rating category at least equal to the higher of "A" (or equivalent) or such Rating Agency's then current rating on any Series of Bonds, or in the highest short term rating category of any Rating Agency;

(5) Receipts representing direct interests in Investment Securities described in clause (1) and (2) of this definition;

(6) Repurchase agreements with any financial institution which is rated by any Rating Agency in a rating category at least equal to the higher of "A" (or equivalent) or such Rating Agency's then current rating on any Series of Bonds, or repurchase agreements, fully secured by collateral security described in clauses (1) or (2) of this definition, continuously having a market value at least equal to the amount so invested so long as such underlying obligations or securities are in the possession of the Trustee or the Securities Investors Protection Corporation;

(7) Interest-bearing bankers acceptances and demand or time deposits (including certificates of deposit) in banks (including the Trustee), provided such deposits are either: (a) secured at all times, in the manner and to the extent provided by law, by collateral security described in clauses (1) or (2) of this definition, of a market value no less than the amount of moneys so invested; or (b) in banks (including the Trustee) having a combined capital and surplus of at least fifty million dollars ($50,000,000) and whose rating by any Rating Agency, or the rating of its parent holding company, is at least equal to the higher of "A" (or equivalent) or such Rating Agency's then current rating on any Series of Bonds; or (c) fully insured by the Federal Deposit Insurance Corporation;

(8) Commercial paper rated in the highest rating category (without regard to any gradation of such rating category) of any Rating Agency, and issued by corporations organized and operating within the United States and having total assets in excess of five hundred million dollars ($500,000,000);

(9) Collateralized investment agreements or other collateralized contractual arrangements with corporations, financial institutions or national associations within the United States fully secured by collateral security described in clause (1) or (2) of this definition or investment agreements or other contractual arrangements with corporations, financial institutions or national associations within the United States, provided that the senior long-term debt of such corporations, institutions or associations is rated by any Rating Agency in a rating category at least equal to the higher of "A" (or equivalent) or such Rating Agency's then current rating on any Series of Bonds;

(10) Any money market fund or mutual fund that is comprised of investments described in clauses (1) through (9) of this definition and which fund or investments are continuously rated by any Rating Agency in a rating category at least equal to the higher of "A" (or equivalent) or such Rating Agency's then current rating on any Series of Bonds;

(11) The short term investment pool of The Regents; and

(12) Any other investment approved in writing by the Credit Provider for each Series of Bonds Outstanding.

Lien means any mortgage or pledge of, or security interest in, or lien or encumbrance on, the Medical Center, excluding Liens applicable to any portion of the Medical Center in which The Regents has only a leasehold interest unless the Lien is with respect to such leasehold interest.

Liquidity Facility means an irrevocable direct-pay letter of credit, a line of credit, a standby bond purchase agreement, a revolving credit agreement or other liquidity arrangement obtained by The Regents pursuant to which a Liquidity Provider provides liquidity support with respect to a Series of Bonds, as the same may be amended from time to time pursuant to its terms, or any replacement therefor.

Liquidity Provider means the issuer or provider of a Liquidity Facility and any successor or successors to such issuer or provider.

Long-Term Debt Service Coverage Ratio means, for any period of time, the ratio determined by dividing Income Available for Debt Service by Maximum Annual Debt Service.

Long-Term Indebtedness means: (i) Indebtedness having an original maturity greater than one (1) year or renewable at the option of The Regents for a period greater than one (1) year from the date of original incurrence or issuance thereof unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding for a period of at least thirty (30) consecutive days during each calendar year; and (ii) Indebtedness which would otherwise constitute Short-Term Indebtedness incurred pursuant to the provisions of the Indenture described below in subparagraph (d) under the caption "Limitations on Indebtedness."

Mandatory Sinking Account Payment means, with respect to Bonds of any Series and maturity, the amount required by the Indenture to be paid by The Regents on any single date for the retirement of Term Bonds of such Series and maturity.

Maximum Annual Debt Service means the greatest amount of Annual Debt Service becoming due and payable in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) There shall be excluded from the Indebtedness of The Regents a percentage of the debt of any Person guaranteed by The Regents, based on the ratio (the "Ratio") of Income Available for Debt Service of the Person whose debt is guaranteed by The Regents (calculated as if such Person were The Regents), over the Maximum Annual Debt Service of such Person (calculated as if such Person were The Regents). If the Ratio is less than 1.25, there shall be no exclusion of guaranteed debt. If the Ratio is greater than or equal to the values set forth below, the applicable percentage of the Person's guaranteed debt shall be excluded from Indebtedness of The Regents, as follows:

Ratio	Percentage of Debt of Person to be Excluded
1.25	20%
1.50	40%
1.75	60%
2.00	80%

Additionally, if the guaranteed debt is secured by a first deed of trust and the Book Value of the property subject to the first deed of trust is at least equal to the principal amount of the debt being guaranteed, 100% of the guaranteed debt shall be excluded from Indebtedness of The Regents.

Notwithstanding the foregoing, in no event shall any portion of the guaranteed debt be excluded from Indebtedness of The Regents if The Regents has made any payment with respect to such guaranteed debt in any of the three (3) Fiscal Years preceding the date of calculation of Maximum Annual Debt Service.

(b) For any Balloon Indebtedness, the computation of Maximum Annual Debt Service shall assume that such Indebtedness is to be amortized over a period of years to be specified by The Regents up to a 25-year period, beginning on the date of calculation of Maximum Annual Debt Service, assuming level debt service and a rate of interest (determined as of the time of calculation of Maximum Annual Debt Service) equal to the average rate, certified in a Certificate of The Regents delivered to the Trustee, at which The Regents could reasonably expect to borrow with such specified term.

(c) If interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula, the interest rate on such Long-Term Indebtedness for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the average interest rate calculated pursuant to the provisions of the agreement pursuant to which such Long-Term Indebtedness was incurred during the one calendar year prior to the date of calculation or the interest rate that, in the opinion of The Regents, would have been the average interest rate calculated during the one year prior to the date of calculation had such Long-Term Indebtedness been outstanding for the previous year.

(d) Debt service on Long-Term Indebtedness incurred to finance capital improvements shall be included in the calculation of Maximum Annual Debt Service only in proportion to the amount of interest on such Long-Term Indebtedness which is payable in the then-current Fiscal Year from sources other than the proceeds of such Long-Term Indebtedness.

(e) If moneys or Investment Securities described in clause (1) of the definition thereof have been deposited with a trustee in an amount, together with earnings thereon, sufficient to pay the principal of or interest on Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, shall be excluded from the calculation of Maximum Annual Debt Service.

Maximum Interest Rate with respect to a Series of Auction Bonds or a Series of Variable Rate Bonds shall have the meaning set forth in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Medical Center means the assets and operations which comprise the UCLA Medical Center, as shown on its most recent audited financial statements, which for the Fiscal Year ended June 30, 2003, are as reported on by PricewaterhouseCoopers LLP in their report dated September 19, 2003, and as of June 30, 2003 date included 1,144 licensed beds.

Moody's means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any nationally recognized securities rating agency designated by The Regents by written notice to the Trustee.

Non-Recourse Indebtedness means indebtedness secured by a lien on property of the Medical Center, liability for which is effectively limited to the property subject to the lien with no recourse, directly or indirectly, to any other property of the Medical Center.

Opinion of Bond Counsel means a written opinion of nationally recognized municipal bond counsel selected by The Regents.

Opinion of Counsel means a written opinion of the General Counsel of The Regents or such other counsel (who may be counsel for The Regents) selected by The Regents.

Optional Redemption Account means the account by that name in the Redemption Fund established pursuant to the Indenture.

Outstanding, when used as of any particular time with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of The Regents shall have been discharged in accordance with the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

Parity Debt means Indebtedness: (i) the proceeds of which are used at or for the benefit of the Medical Center; (ii) incurred by The Regents in accordance with the provisions of the Indenture described under the caption "The Indenture – Limitation on Indebtedness;" and (iii) secured by a lien on or security interest in the Revenues or other collateral equally and ratably with the obligations of The Regents under the Indenture.

Participating Underwriter means any of the original underwriters of a Series of Bonds required to comply with Rule 15c2-12, as the same may be amended from time to time, in connection with the offering of such Series of Bonds.

Permitted Encumbrances means and includes:

(a) Any judgment lien or notice of pending action so long as such judgment or pending action is being contested and execution thereon is stayed or while the period for responsive pleading has not lapsed;

(b) (i) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (ii) any liens on any Property for taxes, assessments, levies, fees, water and sewer charges, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due for less than sixty (60) days; (iii) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property which rights do not materially impair the use of such Property or materially and adversely affect the value thereof; (iv) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property in any manner, or materially and adversely affect the value thereof; and (v) to the extent that it affects title to any Property, the Indenture;

(c) Liens arising by reason of good faith deposits in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(d) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable The Regents to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements, and any Lien in the nature of a banker's lien or right of setoff with respect to deposits which The Regents is not required to maintain with the bank in question;

(e) Any Lien arising by reason of any escrow established to pay debt service with respect to Indebtedness;

(f) Any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds;

(g) Liens on moneys deposited by patients or others as security for or as prepayment for the cost of patient care;

(h) Liens on Property received through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon, up to the fair market value of such Property;

(i) Statutory rights of the United States of America by reason of federal funds made available under 42 U.S.C. Section 291 et seq. and similar rights under other federal and state statutes or regulations by reason of federal or state funds being made available to Medical Center under such federal or state statutes or regulations, including, without limitation, funds made available under 42 U.S.C.A. 5121 et seq.;

(j) Leases, liens or encumbrances authorized pursuant to the California State Building Construction Act of 1955, as amended, codified at California State Government Code Section 15800 and following;

(k) Liens on accounts receivable and the proceeds thereof, which Liens shall be senior to the security interest created in the Revenues and secure Short-term Indebtedness, provided that the aggregate principal amount of Short-term Indebtedness secured by such accounts receivable shall not exceed an amount equal to 10% of the amount of Revenues as shown on the Financial Statements for the most recent Fiscal Year for which Financial Statements are available immediately preceding the incurrence of such Short-term Indebtedness;

(l) Liens securing Non-Recourse Indebtedness on Property not necessary for the delivery of patient care or the provision of other significant services at the Medical Center;

(m) The Lien created pursuant to the pledge of the Indenture;

(n) Liens securing Parity Debt and Financial Product Payments;

(o) Liens or encumbrances existing as of the date of issuance of the Series 1990 Bonds, the initial Series of Bonds issued under the Indenture; and

(p) Liens or encumbrances with respect to amounts payable from third-party payors.

Person means a corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Principal Account means the account by that name in the Revenue Fund established pursuant to the Indenture.

Principal Corporate Trust Office or **principal corporate trust office** means the office of the Trustee at which it conducts its corporate trust business with respect to the Bonds and, means as of the date of issuance of the Series 2004 Bonds, the corporate trust office of the Trustee located at 550 Kearny Street, Suite 600, San Francisco, California 94108, or such other or additional offices as may be designated by the Trustee.

Project means, with respect to a Series of Bonds, the project described in the Tax Certificate delivered in connection with the issuance of such Series of Bonds.

Project Account means an account by that name in the Project Fund established pursuant to the Indenture.

Project Fund means the fund by that name established pursuant to the Indenture.

Property means any and all rights, titles and interests in and to any and all property of The Regents comprising the Medical Center whether real or personal, tangible or intangible and wherever situated.

Property, Plant and Equipment means all Property of The Regents which is considered property, plant and equipment of The Regents comprising the Medical Center under generally accepted accounting principles.

Purchase Date means, with respect to any Series of Variable Rate Bonds, a date upon which a Variable Rate Bond of such Series is to be tendered to the Trustee for purchase pursuant to the terms and provisions of the Supplemental Indenture establishing the terms and provisions of such Series of Variable Rate Bonds.

Purchase Fund means, with respect to any Series of Bonds, any fund by that name established by the Trustee to hold funds to pay the Purchase Price of tendered Bonds.

Purchase Price means, with respect to any Series of Bonds, the amount set forth in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds as the amount to be paid to the Holder of such Bonds when such Bonds are tendered for purchase or deemed tendered for purchase.

Qualified Provider shall mean any financial institution or insurance company which is a party to a Financial Products Agreement if the unsecured long-term debt obligations of such financial institution or insurance company (or of the parent or a subsidiary of such financial institution or insurance company if such parent or subsidiary guarantees the performance of such financial institution or insurance company under such Financial Products Agreement), or obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such financial institution or insurance company (or such guarantor parent or subsidiary), (i) in the case of Financial Products Agreements with a term of less than ten (10) years, are rated in one of the three highest rating categories by at least one Rating Agency (without regard to any gradation of such rating category) at the time of the execution and delivery of the Financial Products Agreement and (ii) in the case of Financial Products Agreements with a term of ten (10) years or more, are either (a) rated in one of the two highest rating categories by at least one Rating Agency (without regard to any gradation of such rating category) at the time of the execution and delivery of the Financial Products Agreement or (b) are rated "A" or equivalent by any Rating Agency (without regard to any gradation of such rating category) at the time of the execution and delivery of the Financial Products Agreement and whose obligations under the Financial Products Agreement are fully secured by collateral security described in clauses (1) or (2) of the definition of Investment Securities having a market value (exclusive of accrued interest) at least equal to one hundred percent (100%) of the amount of such obligations.

Rating Agency means, on any given date, any nationally recognized rating agency which then has outstanding a credit rating on any Series of Bonds.

Rebate Fund means the fund by that name established pursuant to the Indenture.

Rebate Instructions means, with respect to any Series of Bonds, the instructions delivered to the Trustee by The Regents pursuant to the Tax Certificate delivered in connection with such Series of Bonds.

Record Date means, with respect to the Series 2004 Bonds, the first day of the calendar month in which an Interest Payment Date occurs whether or not such day is a Business Day.

Redemption Fund means the fund by that name established pursuant to the Indenture.

Redemption Price means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

Remarketing Agent means, with respect to any Series of Variable Rate Bonds, the remarketing agent or agents appointed by The Regents pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Variable Rate Bonds.

Representation Letter means the Blanket Issuer Letter of Representations delivered to the Custodian by The Regents and any supplements and amendments thereto or any replacement therefor.

Revenue Fund means the fund by that name established pursuant to the Indenture.

Revenues means all: (i) revenues, income, receipts and moneys received by or on behalf of The Regents and derived from the Medical Center, excluding gifts, grants, bequests, donations and contributions, and including (a) proceeds with respect to, arising from or related to the Medical Center and derived from condemnation and insurance awards (except to the extent such proceeds are required or permitted by the terms to be used for purposes inconsistent with their use for the payment of principal of, redemption premium, if any, and interest on the Bonds) and (b) cash or investments held by The Regents for the account or benefit of the Medical Center; and (ii) any revenues, income, receipts and moneys added to the definition of "Revenues" pursuant to the Indenture.

Rule 15c2-12 means Securities and Exchange Commission Rule 15c2-12, as supplemented and amended from time to time pursuant to its terms.

S&P means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized rating agency designated by The Regents by written notice to the Trustee.

Serial Bonds means the Bonds, falling due by their terms in specified years, for which no Mandatory Sinking Account Payments are provided.

Series, whenever used with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as provided in the Indenture.

Series 1990 Bonds means The Regents of the University of California Hospital Revenue Bonds (UCLA Medical Center) Series 1990 issued pursuant to the Indenture, all of which have been paid at maturity or defeased.

Series 1994 Bonds means The Regents of the University of California Refunding Hospital Revenue Bonds (UCLA Medical Center) Series 1994 issued pursuant to the Indenture.

Series 2002 Bonds means The Regents of the University of California Hospital Revenue Bonds (UCLA Medical Center) Series 2002, issued pursuant to the Indenture.

Short-Term Indebtedness means Indebtedness which: (i) has a final maturity not more than one (1) year after the date of creation thereof; and (ii) is not, pursuant to the terms of a revolving credit or similar agreement or otherwise, renewable or extendable at the option of The Regents to a date or for a period or periods ending more than three hundred sixty-five (365) days after the date of creation thereof, excluding any Indebtedness incurred pursuant to the Indenture which would otherwise constitute Short-Term Indebtedness.

Sinking Accounts means the subaccounts in the Principal Account so designated and established pursuant to the Indenture.

Special Record Date means, with respect to a Series of Bonds, the date established by the Trustee pursuant to the provisions of the Supplemental Indenture establishing the terms and provisions of such Series of Bonds as a record date for the payment of defaulted interest on such Series of Bonds.

Special Redemption Account means the account by that name in the Redemption Fund established pursuant to the Indenture.

State means the State of California.

Supplemental Indenture means any indenture duly authorized and entered into between The Regents and the Trustee supplementing, modifying or amending the Indenture, but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

Tax Certificate means, with respect to a Series of Bonds, the Tax Certificate, dated the date of issuance and delivery of such Series of Bonds, executed by The Regents, as originally executed and as it may from time to time be amended or supplemented pursuant to its terms.

Term Bonds means the Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

The Regents means The Regents of the University of California, a corporation organized and existing under and by virtue of Article IX, Section 9, of the Constitution of the State of California.

Total Revenues means the sum of total operating revenue, plus interest income, of the Medical Center, as shown on the Financial Statements.

Trustee means BNY Western Trust Company, a state banking corporation organized and existing under the laws of the State of California or its successor as Trustee as provided in the Indenture.

Unit means any enterprise or activity of The Regents other than the Medical Center.

Variable Rate with respect to a Series of Bonds shall have the meaning set forth in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

Variable Rate Bonds means any Bonds of any Series during any period when such Series of Bonds bears interest at a Variable Rate as such term is defined in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

THE INDENTURE

The Indenture sets forth the terms of the Bonds, the nature and extent of the security, various rights of the Bondholders, rights, duties and immunities of the Trustee and rights and obligations of The Regents. **This Summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.**

Pledge of Revenues; Revenue Fund; Gross Revenue Fund

Pledge. Subject to the provisions of the Indenture permitting the application of Revenues for the purposes and on the terms and conditions set forth therein, there were pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture, all of the Revenues and any amounts held in any fund or account (other than the Rebate Fund and any Purchase Fund) established pursuant to the Indenture. Said pledge constitutes a first lien on and security interest in such assets and attached and became valid and binding from and after delivery by the Trustee of the Series 1990 Bonds, without any physical delivery thereof or further act.

Revenue Fund. Not less than five (5) Business Days prior to any Interest Payment Date or principal payment date with respect to the Bonds, The Regents shall pay to the Trustee for deposit in the Revenue Fund such amount as shall be required to make the transfers and deposits required to be made by the Indenture. To the extent the interest rate on any of the Bonds has not yet been determined, the Trustee shall assume such rate to be the Maximum Interest Rate per annum then payable with respect to such Bonds or such other rate as The Regents shall specify to the Trustee at the time of such transfer.

Notwithstanding the foregoing, if three (3) Business Days prior to any Interest Payment Date or principal payment date with respect to the Bonds, the aggregate amount in the Revenue Fund is for any reason insufficient or unavailable to make the required payments of principal (or Redemption Price) of or interest on the Bonds then becoming due (whether by maturity, redemption or acceleration), The Regents shall forthwith transfer the amount of any such deficiency to the Trustee. Each transfer by The Regents to the Trustee shall be in lawful money of the United States of America and paid to the Trustee at its Principal Corporate Trust Office. All such moneys shall be promptly deposited by the Trustee upon receipt in a special fund designated as the "Revenue Fund" which the Trustee shall establish, maintain and hold in trust. All moneys deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

If by two (2) Business Days prior to any Interest Payment Date or principal payment date with respect to the Bonds, the Trustee has not received moneys sufficient to make the transfers and deposits required to be made on the immediately following Interest Payment Date or principal payment date, the Trustee shall immediately notify The Regents of such insufficiency by telephone or facsimile and confirm such notification by written notice.

Gross Revenue Fund. The Regents covenants and agrees that, so long as any Bonds remain Outstanding, in the event that an Event of Default shall occur, all of the Revenues shall be deposited as soon as practicable upon receipt in a fund designated as "The Regents of the University of California Medical Center (Los Angeles Campus) Gross Revenue Fund" (the "Gross Revenue Fund"), which The Regents shall establish and maintain with the Trustee. To the extent Revenues to be deposited in the Gross Revenue Fund are encumbered by Parity Debt, The Regents agrees to allocate and deposit in the Gross Revenue Fund an amount of such Revenues equal to the product of such Revenues and the ratio represented by (x) the outstanding principal amount of the Bonds to (y) the outstanding principal amount of the Bonds plus the outstanding principal amount of Parity Debt.

All Revenues shall continue to be deposited in the Gross Revenue Fund until all Events of Default known to the Trustee shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, whereupon all amounts on deposit in the Gross Revenue Fund shall be returned to the name and credit of The Regents. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Trustee shall use and withdraw amounts in said fund first to pay fees, expenses and disbursements of the Trustee and its agents in the event such fees, disbursements or expenses have not otherwise been paid by The Regents, second to pay maintenance and operation expenses of the Medical Center, third to make the transfers and deposits required by the Indenture to pay interest and principal on the Bonds, and then to make such other payments which the Trustee, in its discretion, shall determine to be in the best interests of the Holders of the Bonds. The Regents shall be entitled to submit requests to the Trustee concerning the order of payment of maintenance and operation expenses of the Medical Center. The Trustee shall maintain records concerning all expenditures made or authorized by the Trustee pursuant to the provisions of the Indenture described herein. In the event that an Event of Default shall occur, The Regents agrees to execute and deliver all instruments as may be required to implement the provisions of the Indenture described herein. The Regents further agrees that a failure to comply with the terms of the Indenture described herein shall cause irreparable harm to the Holders from time to time of the Bonds and shall entitle the Trustee, with or without notice, to take immediate action to compel the specific performance of the obligations of The Regents as provided pursuant to the provisions of the Indenture described under this caption.

Issuance of Additional Series of Bonds

The Regents may by Supplemental Indenture establish one or more Series of Bonds in addition to the Series 2002 Bonds and the Series 2004 Bonds, payable from Revenues and secured by the pledge made under the Indenture, and The Regents may issue and the Trustee shall, upon the Order of The Regents, authenticate and deliver to the purchasers thereof Bonds of any Series so established, in such principal amount as shall be determined by The Regents, but only upon compliance by The Regents with the provisions of the Indenture, and subject to the following specific conditions, which pursuant to the provisions of the Indenture are made conditions precedent to the issuance of any such additional Series of Bonds:

(a) The Supplemental Indenture establishing the terms and conditions of such Series shall specify the purposes for which such Series is being issued, which shall be one or more of the following: (1) to provide moneys to acquire, implement, install, construct or complete a Project, including reimbursements of any sums advanced by The Regents for such purposes, by depositing into the Project Fund the proceeds of such Series to be so applied; (2) to refund all or part of the Bonds of any one or more Series then Outstanding, by depositing with the Trustee, in trust, moneys or Investment Securities described in clause (1) of the definition thereof set forth in the Indenture and above under the caption "Definition of Certain Terms" in the necessary amount to discharge all liability of The Regents with respect to the Bonds to be refunded as provided in the Indenture; or (3) to provide moneys needed to refund all or part of any other Indebtedness secured by Parity Debt by depositing with the Trustee funds in the necessary amount to pay or otherwise discharge all liability of The Regents with respect to such Indebtedness secured by Parity Debt in accordance with the terms thereof. Such Supplemental Indenture may, but is not required to, provide for the payment of expenses incidental to such purposes, including the Costs of Issuance of such Series of Bonds, payment of interest on such Series of Bonds for such time period as shall be specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds, and, in the case of Bonds issued to refund other Bonds or Indebtedness secured by Parity Debt, payment of expenses incident to calling, redeeming, paying or otherwise discharging the Bonds or Indebtedness secured by the Parity Debt to be refunded.

(b) The Regents shall be in full compliance with all covenants and undertakings set forth in the Indenture and with all covenants and undertakings in connection with any Bonds then Outstanding, including, without limitation, the requirements set forth in the Indenture which are described herein under the caption "The Indenture - Limitation on Indebtedness."

(c) Such additional Series of Bonds shall be equally and ratably secured with all other Bonds authorized under the Indenture, without preference or priority of any of the Bonds over any other Bonds, except as expressly provided in the Indenture.

(d) The aggregate principal amount of Bonds issued under the Indenture shall not exceed any limitation imposed by law or by any Supplemental Indenture.

Nothing contained in the provisions of the Indenture described under this caption or otherwise in the Indenture shall prevent or be construed to prevent the Supplemental Indenture establishing the terms and conditions of an additional Series of Bonds from pledging or otherwise providing, in addition to the security given or intended to be given by the Indenture, additional security for the benefit of such additional Series of Bonds or any portion thereof, including, without limitation, the establishment of a reserve fund for one or more Series of Bonds on such terms and conditions as The Regents may specify.

Application of Moneys

On or before any Interest Payment Date or principal payment date with respect to the Bonds, the Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Revenue Fund), the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

First: to the Interest Account, the aggregate amount of interest becoming due and payable on all Bonds then Outstanding in the manner and at the times specified in the Supplemental Indentures establishing the terms and provisions of all Bonds then Outstanding, less any amounts to be transferred to the Interest Account from any Capitalized Interest Account for the payment of such interest, until the balance in said account is equal to said aggregate amount of interest (taking into account transfers from any Capitalized Interest Account) then due and payable;

Second: to the Principal Account, the aggregate amount of principal becoming due and payable on the Outstanding Serial Bonds plus the aggregate amount of Mandatory Sinking Account Payments required to be paid into the respective Sinking Accounts for Outstanding Term Bonds in the manner and at the times specified in the Supplemental Indentures establishing the terms and provisions of all Serial Bonds and all Term Bonds then Outstanding, until the balance in said account is equal to said aggregate amount of such principal and Mandatory Sinking Account Payments then due and payable.

Subject to the provisions of the Indenture relating to the Rebate Fund, any moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred to The Regents; provided, however, that any amounts transferred to the Revenue Fund from a Project Account or a Costs of Issuance Account shall remain on deposit in the Revenue Fund to be applied to pay debt service on the Bonds until exhausted. While on deposit in the Revenue Fund, such amounts shall be invested by the Trustee in Investment Securities as directed by The Regents.

Funds and Accounts

Interest Account. All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

With respect to each Series of Bonds for which a portion of the proceeds of the sale thereof are required to be set aside to pay interest on such Bonds, the Trustee, if so instructed by the terms of the Supplemental Indenture authorizing the issuance of such Series of Bonds, shall establish and maintain a separate account within the Interest Account, designated as the "Series ____ Capitalized Interest Account," inserting therein the Series designation of such Bonds. Moneys in a Capitalized Interest Account shall be transferred by the Trustee and deposited in the Interest Account in the amounts and at the times specified in the Supplemental Indenture authorizing the issuance of such Series of Bonds.

Principal Account. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely for the purposes of paying the principal of the Bonds when due and payable, except that all amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided in the Indenture.

The Trustee shall establish and maintain within the Principal Account a separate subaccount for the Term Bonds, if any, of each Series and maturity, designated as the "Series ___ Account," inserting therein the Series and maturity designation of such Bonds. The Trustee shall transfer the amount deposited in the Principal Account pursuant to the provisions of the Indenture for the purpose of making a Mandatory Sinking Account Payment (if such deposit is required) from the Principal Account to the applicable Sinking Account on or before the date required for payment of principal of such Series of Bonds pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of such Series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds, provided that, at any time prior to giving such notice of such redemption, the Trustee may apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as may be directed by The Regents, except that the purchase price (excluding accrued interest) shall not exceed the par amount thereof. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, The Regents has deposited Term Bonds of such Series and maturity with the Trustee, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Bonds purchased or deposited pursuant to the Indenture shall be cancelled and delivered by the Trustee to or upon the Order of The Regents. Any amounts remaining in a Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Revenue Fund. All Term Bonds purchased from a Sinking Account or deposited by The Regents with the Trustee shall be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Bonds, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Bonds as The Regents may specify.

Redemption Fund. The Trustee shall establish and maintain within the Redemption Fund (which the Trustee shall establish, maintain and hold in trust) a separate Optional Redemption Account and a separate Special Redemption Account. All amounts deposited in the Optional Redemption Account and in the Special Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of any Series, in the manner and upon the terms and conditions specified in the Supplemental Indenture establishing the terms and provisions of the Series of Bonds, at the next succeeding date of redemption for which notice has not been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and the Special

Redemption Account, respectively; provided that, at any time prior to giving such notice of redemption, the Trustee may apply such amounts to the purchase of Bonds of the Series to be redeemed at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Trustee may be directed by The Regents, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds. The Trustee may establish and maintain subaccounts within the Optional Redemption Account or the Special Redemption Account for the redemption or purchase of Bonds of a particular Series from moneys allocable to such Series to the extent provided for in any Supplemental Indenture authorizing the issuance of such Series of Bonds. All Term Bonds purchased or redeemed from the Redemption Fund shall be allocated to such Mandatory Sinking Account Payments as may be specified in a Request of The Regents.

Investment of Moneys in Funds and Accounts. Except as otherwise provided in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds, all moneys in any of the funds and accounts established pursuant to the Indenture and held by the Trustee shall be invested by the Trustee, in accordance with a Request of The Regents, solely in Investment Securities. If the Trustee follows such Request in good faith, it shall not be liable or otherwise responsible for the selection of the investments specified in such Request. Investment Securities may be purchased at such prices as may be directed by The Regents. All Investment Securities shall be acquired subject to (i) the limitations set forth in the Indenture relating to the Rebate Fund, (ii) compliance with the provisions of the Indenture described below under the caption "Rebate Fund – Tax Covenants," (iii) the limitations as to maturities as set forth in the Indenture, described in the following paragraph, and (iv) such additional limitations or requirements consistent with the foregoing as may be established by written request (or by a telephone request which is promptly confirmed in writing) of The Regents and which are not inconsistent with the duties of the Trustee.

Investment Securities acquired as an investment of moneys in any fund or account established under the Indenture shall be credited to such fund or account. For the purpose of determining the amount in any such fund or account, all Investment Securities credited to such fund or account shall be valued at the lesser of cost (which shall be (1) measured exclusive of accrued interest after the first payment of interest following purchase and (2) ratably increased over time by the amortization of any difference between the initial purchase price, excluding accrued interest, and the par value) or par value plus, prior to the first payment of interest following purchase, the amount of any accrued interest paid as part of the purchase price. The moneys on deposit in the Interest Account and the Principal Account shall be invested in Investment Securities such that the principal of such Investment Securities at maturity shall be sufficient to pay the interest on and principal of the Bonds, respectively, payable from the Interest Account and the Principal Account, respectively, on the next succeeding date or dates on which payments are to be made from such accounts.

Unless otherwise provided in the Supplemental Indenture establishing the terms and provisions of a Series of Bonds and subject to the provisions of the Indenture relating to the Rebate Fund, all interest, profits and other income received from the investment of moneys in a Project Account, a Costs of Issuance Account and a Capitalized Interest Account shall be deposited when received in such account. Unless otherwise provided in the Supplemental Indenture establishing the terms and provisions of a Series of Bonds and subject to the provisions of the Indenture relating to the Rebate Fund, all interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to the Indenture: (i) prior to the completion of a Project, shall be transferred when received by the Trustee to The Regents for deposit in the Project Account; and (ii) thereafter, shall be deposited when received by the Trustee in the Revenue Fund. Notwithstanding anything to the contrary contained in the provisions of the Indenture described in this paragraph and subject to the provisions of the Indenture relating to the Rebate Fund, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account from which such accrued interest was paid.

Except as otherwise provided in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds and except for any fund or account established to hold the proceeds of a Draw which shall be held by the Trustee uninvested pending application as provided in the Indenture, the Trustee may commingle any of the funds or accounts established pursuant to the Indenture into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee shall be accounted for separately as required by the Indenture. The Trustee may act as principal or agent in the making or disposing of any investment. The Trustee may sell at the best price obtainable, or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and the Trustee shall not be liable or responsible for any loss resulting from such investment. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

Covenants of The Regents

Accreditation and Licensing. The Regents covenants and agrees to use its best efforts (as long as it is in the best interests of The Regents): (i) to maintain the accreditation of the Medical Center by the Joint Commission on Accreditation of Healthcare Organizations, or any successor thereto; (ii) to maintain all permits, licenses and other governmental approvals necessary for the operation of the Medical Center as a health care institution; and (iii) to maintain qualification of the Medical Center for participation in and payment under private insurance programs having broad application and federal, state and local governmental programs providing for payment or reimbursement for services rendered.

Rates and Charges; Debt Coverage. The Regents covenants and agrees to fix, charge and collect, or cause to be fixed, charged and collected, such rates, fees and charges for the use of and for the services furnished or to be furnished by The Regents at the Medical Center which, together with all other receipts and revenues of The Regents relating to the Medical Center, are reasonably forecasted in each Fiscal Year so that the Long-Term Debt Service Coverage Ratio at the end of each such Fiscal Year is not less than 1.10:1.0.

Within one hundred eighty (180) days after the end of each Fiscal Year, The Regents shall compute, or cause to be computed, the Long-Term Debt Service Coverage Ratio for such Fiscal Year. The Regents further covenants and agrees that if in such Fiscal Year the Long-Term Debt Service Coverage Ratio shall have been less than 1.10:1.0, it will promptly employ an Independent Consultant to prepare a written report (the scope of which shall be approved in writing by each Credit Provider then providing a Credit Facility for each Series of Bonds Outstanding) and to make recommendations as to a revision of the rates, fees and charges at the Medical Center or the methods of operation of the Medical Center which will result in producing Income Available for Debt Service in the amount required by the provisions of the Indenture in the current Fiscal Year. Such report and recommendations shall be accompanied by an Opinion of Counsel to the effect that such counsel concurs with the conclusions of law, if any, described in such report and recommendations. Copies of the recommendations of the Independent Consultant shall be filed with the Trustee. The Regents shall, promptly upon its receipt of such recommendations (subject to applicable requirements or restrictions imposed by law and subject to a good faith determination by The Regents that such recommendations, in whole or in part, are not in the best interests of The Regents) revise its rates, fees and charges at the Medical Center and shall take such other action as shall be in conformity with such recommendations. If The Regents shall fail to comply with the recommendations of the Independent Consultant, subject to the applicable requirements or restrictions imposed by law or to the good faith determination by The Regents provided for in the immediately preceding sentence, the Trustee may, in addition to the rights and remedies elsewhere set forth in the Indenture, institute and prosecute an action or proceeding in any court or before any board or commission having jurisdiction to compel The Regents to comply with the recommendations and requirements of the Indenture. If The Regents complies in all material respects with the recommendations of the Independent Consultant in respect to said rates, fees, charges and methods of operation (or in good faith determines that such recommendations, in whole or in part, are not in the best interests of The Regents) and the Long-Term Debt Service Coverage Ratio is not less than 1.0:1.0 in any Fiscal Year, The Regents will be deemed to have complied with the covenants contained in the Indenture for such Fiscal Year notwithstanding that the Long-Term Debt Service Coverage Ratio shall be less than 1.10:1.0; provided, that this sentence shall not be construed as in any way excusing The Regents from taking any action or performing any duty required under the Indenture or be construed as constituting a waiver of any other Event of Default.

If a written report of an Independent Consultant is delivered to the Trustee stating that Industry Restrictions have made it impossible for the ratio described herein to be met, then such ratio shall be reduced to the highest practicable amount mentioned in such report, but to no less than 1.0:1.0.

Notwithstanding the foregoing, The Regents may permit the rendering of service at, or the use of, the Medical Center without charge or at reduced charges, at the discretion of The Regents, to the extent necessary for maintaining its tax exempt status and its eligibility for grants, loans, subsidies or payments from the United States of America, any instrumentality thereof, or the State or any political subdivision or instrumentality thereof.

Limitation on Encumbrances. The Regents covenants and agrees that it will not create, assume or suffer to exist any Lien upon the Medical Center or the Revenues (other than Liens which constitute Permitted Encumbrances), unless the obligations of The Regents under the Indenture shall be secured senior to such Lien; and The Regents further agrees that if such a Lien is created or assumed by The Regents, it will make or cause to be made effective a provision whereby the obligations of The Regents under the Indenture and any Parity Debt will be secured senior to such Lien; provided, however, that notwithstanding the foregoing provision, The Regents may create, assume or suffer to exist Liens, provided that the aggregate Book Value of the portion of the Medical Center encumbered by Liens (other than Liens which constitute Permitted Encumbrances) shall not exceed 15% of the Book Value of the Medical Center as shown on the Financial Statements available for the most recent Fiscal Year immediately prior to the creation of such Lien.

Limitation on Indebtedness. The Regents covenants and agrees that it will not incur any additional Indebtedness except as permitted pursuant to any of the provisions of the Indenture described herein (Indebtedness incurred pursuant to one subsection or clause of the Indenture described herein may be reclassified to another subsection or clause of the Indenture described herein, provided that The Regents delivers to the Trustee the certificates, reports or other documentation required to show compliance with the provisions of such subsection or clause calculated as if such Indebtedness were incurred on the date of such reclassification):

(a) Long-Term Indebtedness, provided that:

(i) on the date such Long-Term Indebtedness is incurred the Capitalization Ratio does not exceed 60% (and provided further that to the extent Long-Term Indebtedness initially incurred pursuant to this clause (a)(i) subsequently complies with any other incurrence requirement, such Long-Term Indebtedness shall not be deemed to be incurred pursuant to this clause); or

(ii) there is delivered to the Trustee a Certificate of The Regents certifying the Long-Term Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, for the most recent Fiscal Year for which Financial Statements are available, and such Long-Term Debt Service Coverage Ratio is not less than 1.25:1.0; or

(iii) there is delivered to the Trustee:

(A) a Certificate of The Regents certifying the Long-Term Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness but not the Long-Term Indebtedness proposed to be incurred, for each of the two (2) most recent Fiscal Years for which Financial Statements are available, and such Long-Term Debt Service Coverage Ratio is not less than 1.20:1.0; and

(B) the written report of an Independent Consultant stating the forecasted Long-Term Debt Service Coverage Ratio, taking into account the Long-Term Indebtedness proposed to be incurred, for (x) in the case of Long-Term Indebtedness to finance capital improvements, each of the two (2) complete Fiscal Years succeeding the date on which such capital improvements are expected to be in operation or (y) in the case of Long-Term Indebtedness not issued to finance capital improvements, each of the two (2) complete Fiscal Years succeeding the date on which the proposed Long-Term Indebtedness is to be incurred, and the Long-Term Debt Service Coverage Ratio for each such Fiscal Year is not less than 1.50:1.0, as shown by forecasted statements of revenues and expenses for each such Fiscal Year, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based; or

(iv) there is delivered to the Trustee the written report of an Independent Consultant stating that Industry Restrictions have or will make it impossible for the ratios set forth in the Indenture and described in clause (a)(iii) above to be met, and that such ratios are not less than the highest practicable amount mentioned in such report, but in no event less than 1.0:1.0, provided that such written report shall be accompanied by an Opinion of Counsel to the effect that such counsel concurs with the conclusions of law, if any, described in such written report.

(b) Completion Indebtedness without limitation.

(c) Long-Term Indebtedness incurred for the purpose of refunding any Outstanding Long-Term Indebtedness so as to render it no longer Outstanding, provided that Maximum Annual Debt Service on such refunding Indebtedness does not exceed Maximum Annual Debt Service on the refunded Indebtedness by more than 10%, and prior to incurrence thereof:

(i) The Regents shall determine that such refunding is in the best interests of The Regents and evidence of such determination shall be delivered to the Trustee, which evidence shall state the reasons for such determination; and

(ii) an Opinion of Counsel shall be delivered to the Trustee to the effect that, upon the incurrence of such Long-Term Indebtedness and application of the proceeds thereof, the Long-Term Indebtedness to be refunded will no longer be Outstanding.

(d) Short-Term Indebtedness provided that such Short-Term Indebtedness could be incurred pursuant to the provisions of the Indenture described in clause (a)(ii) or clause (a)(iii) above (treating such Short-Term Indebtedness as if it were Long-Term Indebtedness).

(e) Short-Term Indebtedness provided that on the date such Short-Term Indebtedness is incurred the Capitalization Ratio does not exceed 60%.

(f) Balloon Indebtedness provided that the conditions set forth in the Indenture and described in clause (a) above are satisfied with respect to the incurrence of such Balloon Indebtedness utilizing the assumptions specified in clause (c) of the definition of "Maximum Annual Debt Service" set forth above.

(g) Liabilities (other than for borrowed money and other than rents payable under lease agreements) incurred in the regular course of operations of The Regents.

(h) Reimbursement and other obligations arising under reimbursement agreements relating to letters of credit or similar credit facilities or liquidity facilities used to secure or provide liquidity for Indebtedness.

Limitation on Disposition of Property, Plant and Equipment. The Regents covenants and agrees that it will not sell, lease or otherwise dispose of any part of its Property, Plant and Equipment (other than in a sale and leaseback or similar transaction) which constitutes part of the Medical Center unless:

(a) Such disposition is in the ordinary course of business of the Medical Center; or

(b) Such assets have become inadequate, obsolete, worn out, unsuitable, undesirable, unprofitable or unnecessary, and the sale, lease, removal or other disposition will not impair the structural soundness, efficiency or revenue generating capacity of the Medical Center; or

(c) The Trustee receives a Certificate of The Regents to the effect that the Book Value of the portions of the Medical Center so disposed of by The Regents in the then-current Fiscal Year pursuant to the provisions of the Indenture described in this clause (c) shall not exceed 5% of the Book Value of the Medical Center (as shown on the most recent Financial Statements); or

(d) Such sale or other disposition is for the fair market value of the Property so disposed of and, subject to the provisions of the Indenture described herein under the caption "Disposition of Liquid Assets," the proceeds derived from such sale or other disposition are used for Medical Center purposes or deposited to the Redemption Fund in order to redeem Bonds; or

(e) The Trustee receives:

(i) a Certificate of The Regents to the effect that the Long-Term Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available next preceding such disposition would not be reduced or, if reduced, would not be reduced below 2.0:1.0 (such calculation to be made assuming such disposition had occurred at the beginning of such Fiscal Year); or

(ii) a Certificate of The Regents to the effect that the Long-Term Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available next preceding such disposition would not be reduced or, if reduced, would not be reduced below 1.50:1.0 and in no event by more than 20% (such calculation to be made assuming such disposition had occurred at the beginning of such Fiscal Year); or

(iii) the report of an Independent Consultant to the effect that the average Long-Term Debt Service Coverage Ratio, as forecasted for the two Fiscal Years immediately following the transfer, after giving effect to the transfer, is forecasted to be: (1) not less than 1.50:1.0 and in no event is forecasted to be reduced by more than 20% of from what such ratio would have been in the absence of such transfer; or (2) higher than would otherwise occur.

Disposition of Liquid Assets. The Regents covenants and agrees that it will not dispose of any cash or cash equivalents derived from the Medical Center to any Person or Unit (including repayment of the principal of any advances made by The Regents) unless:

(a) Such disposition is in the ordinary course of business of the Medical Center; or

(b) The Trustee receives a Certificate of The Regents to the effect that such disposition and all other dispositions by The Regents of cash or cash equivalents derived from the Medical Center (including repayment of any advances made by or indebtedness to The Regents) in the then-current Fiscal Year pursuant to the provisions of the Indenture described in this clause (b) do not exceed 6% of the Total Revenues for the most recent Fiscal Year for which Financial Statements are available; or

(c) The Trustee receives either:

(i) a Certificate of The Regents to the effect that the Long-Term Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available next preceding such disposition would not be reduced or, if reduced, would not be reduced below 2.0:1.0 (such calculation to be made assuming such disposition had occurred at the beginning of such Fiscal Year); or

(ii) a Certificate of The Regents to the effect that the Long-Term Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available next preceding such disposition would not be reduced or, if reduced, would not be reduced below 1.50:1.0 and in no event by more than 20% (such calculation to be made assuming such disposition had occurred at the beginning of such Fiscal Year); or

(iii) the report of an Independent Consultant to the effect that the average Long-Term Debt Service Coverage Ratio for the two Fiscal Years immediately following such disposition, after giving effect to the disposition, is forecasted to be not less than 1.50:1.0 and in no event is forecasted to be reduced by more than 20% from what such ratio would have been in the absence of such disposition.

Acquisition of Property, Plant and Equipment. The Regents covenants and agrees that it will not acquire additional Property, Plant and Equipment from any Person or Unit (other than with the proceeds of Indebtedness or borrowed money) unless:

(a) Such acquisition is in the ordinary course of business of the Medical Center;

(b) Such acquisition is pursuant to the provisions of the Indenture permitting a Person to become a co-obligor with The Regents;

(c) Such Property, Plant and Equipment consists of personal property; or

(d) The Trustee receives either:

(i) a Certificate of The Regents to the effect that the Long-Term Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available next preceding such acquisition would not be reduced or, if reduced, would not be reduced below 2.0:1.0 (such calculation to be made assuming that such acquisition had occurred at the beginning of such Fiscal Year);

(ii) a Certificate of The Regents to the effect that the Long-Term Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available next preceding such acquisition would not have been reduced or, if reduced, would not be reduced below 1.50:1.0 and in no event by more than 20% (such calculation to be made assuming such acquisition had occurred at the beginning of such Fiscal Year); or

(iii) the report of an Independent Consultant to the effect that the average Long-Term Debt Service Coverage Ratio for the two (2) Fiscal Years immediately following such acquisition, after giving effect to such acquisition, is forecasted to be not less than 1.50:1.0 and in no event is forecasted to be reduced by more than 20% from what such ratio would have been in the absence of such acquisition.

Transfer of Services. The Regents covenants and agrees that it will not transfer any service to any Unit or Person, or terminate any service and contract for the provision of such service by any Unit or Person, if the transfer of such service, or termination and contracting for such service, would reduce Total Revenues for the most recent Fiscal Year for which Financial Statements are available by more than 6% or increase operating expenses of the Medical Center by more than 6%, unless the Trustee receives either:

(i) a Certificate of The Regents to the effect that the Long-Term Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available next preceding such transfer or termination would not be reduced or, if reduced, would not be reduced below 2.0:1.0 (such calculation to be made assuming that such transfer or termination had occurred at the beginning of such Fiscal Year); or

(ii) a Certificate of The Regents to the effect that the Long-Term Debt Service Coverage Ratio for the most recent Fiscal Year for which Financial Statements are available next preceding such transfer or termination would not have been reduced or, if reduced, would not be reduced below 1.50:1.0 and in no event by more than 20% (such calculation to be made assuming such transfer or termination had occurred at the beginning of such Fiscal Year); or

(iii) the report of an Independent Consultant to the effect that the average Long-Term Debt Service Coverage Ratio for the two Fiscal Years immediately following such transfer or termination, after giving effect to such transfer or termination, is forecasted to be not less than 1.50:1.0 and in no event is forecasted to be: (1) reduced by more than 20% from what such ratio would have been in the absence of such transfer or termination; or (2) higher than otherwise would occur.

Continuing Disclosure. Upon the issuance of any Series of Bonds requiring an undertaking regarding continuing disclosure under Rule 15c2-12, The Regents and the Trustee covenant and agree that The Regents will comply with and carry out all of the provisions of the Continuing Disclosure Agreement executed and delivered in connection with such Series of Bonds and applicable to such Series of Bonds. Notwithstanding any other provision of the Indenture, failure of the Regents or the Trustee to comply with the provisions of any Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee at the written request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of any Series of Bonds then Outstanding, shall, but only to the extent it has been indemnified to its satisfaction from any loss, liability, cost, claim or expense whatsoever, including, without limitation, fees and expenses of its attorneys, or any Holder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause The Regents or the Trustee, as the case may be, to comply with its obligations under the Indenture.

Rebate Fund; Tax Covenants. The Trustee shall establish and maintain a fund separate from any other fund established and maintained designated as the "Rebate Fund." The Regents shall cause to be deposited in the Rebate Fund the Rebate Requirement (as such term is defined in each Tax Certificate) as provided in each Tax Certificate. Subject to the provisions of the Indenture, moneys held in the Rebate Fund are pledged to secure payments to the United States government, and neither The Regents nor any Holder shall have any rights in or claim to such money.

The Regents will not make any use of the proceeds of the Bonds or any other funds of The Regents or of any Project which will cause any Bond to be an "arbitrage bond" subject to federal income taxation by reason of Section 148 of the Code, or a "federally-guaranteed obligation" under Section 149(b) of the Code, or a "private activity bond" as described in Section 141 of the Code. To that end, The Regents, with respect to such proceeds and such other funds and any Project, will comply with all requirements of such sections of the Code and all regulations of the United States Department of the Treasury issued to the extent that such requirements are, at the time, applicable and in effect. The Regents further covenants that it will not use or permit the use of any Project by any person for a "private business use" within the meaning of Section 141(b) of the Code, in such manner or to such extent as would result in the inclusion of interest received on the Bonds in gross income for federal income tax purposes under Section 103 of the Code. In furtherance of the covenants of The Regents set forth above, The Regents will comply with the Tax Certificate relating to each Series of Bonds and will cause the Trustee to comply with the Tax Certificate relating to each Series of Bonds.

Maintenance and Operation of the Medical Center. The Regents covenants and agrees that it will operate and maintain the Medical Center in accordance with all governmental laws, ordinances, approvals, rules, regulations and requirements including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon The Regents. The Regents further covenants and agrees that it will maintain and operate the Medical Center as a health care institution and will maintain and operate the same, and all engines, boilers, pumps, machinery, apparatus, fixtures, fittings and equipment of any kind in or that shall be placed in any building or structure now or hereafter at any time constituting part of the Medical Center, in good repair, working order and condition, and that it will from time to time make or cause to be made all necessary and proper replacements, repairs, renewals and improvements; in each case to the extent necessary so that the efficiency and value of the Medical Center shall not be impaired.

Taxes, Assessments, Other Governmental Charges and Utility Charges. The Regents covenants and agrees that it will pay and discharge all taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges which may be or have been assessed or which may have become liens upon the Medical Center, the Revenues or the interests therein of the Trustee or of the Holders of the Bonds, and will make such payments or cause such payments to be made, respectively, in due time to prevent any delinquency thereon or any forfeiture or sale of the Medical Center or any part thereof; provided, however, that The Regents may, at its expense and in its own name and behalf or in the name and behalf of the Trustee, if the Trustee is a necessary party thereto, sue for a refund of any such taxes, assessments and other charges previously paid as herein described, or in good faith contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges contested to remain unpaid during the period of such contest and any appeal therefrom unless or until the Trustee notifies The Regents that, or unless or until The Regents knows that, by nonpayment of any such items the title to or operation of the Medical Center or the lien of the Indenture as to Revenues will be materially endangered or the Medical Center, or any material part thereof, will be subject to imminent loss or forfeiture, in which case such taxes, assessments or charges shall be paid promptly.

Insurance Required

The Regents covenants and agrees that, it will keep the Medical Center and the operation of the Medical Center adequately insured at all times and carry and maintain such insurance in amounts which are customarily carried (including professional liability insurance with a minimum coverage of $3,000,000 per occurrence and

$5,000,000 in the aggregate), subject to customary deductibles, and against such risks as are customarily insured against by other corporations in connection with the ownership and operation of facilities of similar character and size.

In lieu of maintaining insurance coverage relating to the Medical Center, The Regents shall have the right to adopt alternative risk management programs which The Regents determines to be reasonable, including, without limitation, to self-insure in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs. All such insurance coverages shall be approved as reasonable and appropriate risk management by the Insurance Consultant in a written report filed with the Trustee once every two (2) years, a copy of which shall be provided to each Credit Provider providing a Credit Facility for each Series of Bonds Outstanding.

Disposition of Insurance and Condemnation Proceeds

In the event The Regents elects to repair or replace the property damaged, destroyed or taken, the proceeds of insurance maintained by The Regents with respect to the Medical Center against loss or damage by fire, lightning, vandalism, malicious mischief and all other risks covered by the extended coverage insurance endorsement then in use in the State or against loss or damage by risks covered by builders' risk insurance, and the proceeds of any condemnation awards with respect to the Medical Center, shall be deposited by The Regents in a special fund to be known as the "Insurance and Condemnation Proceeds Fund," which The Regents shall establish maintain and hold in trust. Subject to the provisions of the Indenture relating to the Rebate Fund, moneys deposited in the Insurance and Condemnation Proceeds Fund shall be invested by The Regents in Investment Securities. Moneys in the Insurance and Condemnation Proceeds Fund shall be applied by The Regents for the purpose of repairing or replacing the property damaged, destroyed or taken in the manner and subject to the terms and conditions set forth in the Indenture with respect to disbursements from the Project Fund to the extent the provisions of said Section may reasonably be made applicable.

In the event The Regents shall not elect to repair or replace the property damaged, destroyed or taken, as provided pursuant to the provisions of the of the Indenture described herein, The Regents shall transfer all amounts received on account of such damage, destruction or condemnation to the Trustee for deposit in the Special Redemption Account, such amounts to be applied by the Trustee to redeem Bonds; provided that if any Parity Debt is then outstanding, any such transfer from The Regents shall be deposited in part in the Special Redemption Account and in part in such other fund or account as may be appropriate (and used for the retirement of such Parity Debt) in the same proportion which the aggregate principal amount of Outstanding Bonds then bears to the aggregate unpaid principal amount of such Parity Debt.

Events of Default

The following events shall be Events of Default:

(a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or default in the redemption from any Sinking Account of any Term Bonds in the amounts and at the times provided therefor;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) if any representation or warranty made by The Regents in the Indenture or in any document, instrument or certificate furnished to the Trustee or to the initial purchaser(s) of the Bonds in connection with the execution and delivery of the Bonds shall at any time prove to have been incorrect in any material respect as of the time made;

(d) if The Regents shall fail to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to in subsection (a), (b) or (c) above, or shall breach any warranty by The Regents contained in the Indenture, for a period of sixty (60) days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to The Regents by the Trustee; except that, if such failure or breach can be remedied but not within such sixty (60) day period and if The Regents has taken all action reasonably possible to remedy such failure or breach within such sixty (60) day period, such failure or breach shall not become an Event of Default for so long as The Regents shall diligently proceed to remedy same in accordance with and subject to any directions or limitations of time established by the Trustee;

(e) if any default shall exist under any agreement governing any Parity Debt and such default shall continue beyond the grace period, if any, provided for with respect to such default and such default is not being contested in good faith;

(f) if The Regents files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Medical Center;

(g) if a court of competent jurisdiction shall enter an order, judgment or decree declaring The Regents an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of The Regents or of the whole or any substantial part of the Medical Center, or approving a petition filed against The Regents seeking reorganization of The Regents under any applicable law or statute of the United States of America or any state, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof; or

(h) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of The Regents or of the whole or any substantial part of the Medical Center, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control.

Acceleration of Maturities. If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and, at the written direction of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, upon notice in writing to The Regents, shall declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding; provided, however, that acceleration of any Series of Bonds for which a Credit Facility has been provided shall be solely at the written direction of the Credit Provider providing the Credit Facility for such Series of Bonds.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, The Regents shall deposit with the Trustee a sum sufficient to pay all the principal or Redemption Price of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable fees, charges and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to The Regents and the Trustee, or the Trustee if such declaration was made by the Trustee, may, on behalf of the Holders of all of the Bonds, rescind and annul such declaration and its consequences and waive such default; provided, however, that if such acceleration was directed by a Credit Provider, the Trustee may only rescind and annul such declaration and its consequences and waive such default at the written direction of such Credit Provider; and provided further that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Amendments

The Indenture and the rights and obligations of The Regents, the Holders of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which The Regents and the Trustee may enter into when the written consent each Credit Provider then providing a Credit Facility for each Series of Bonds Outstanding and the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee; provided that the written consent of the Credit Provider providing a Credit Facility for a Series of Bonds shall be deemed to be the consent of all Holders of such Series of Bonds and the written consent of the Holders of a Series of Bonds for which a Credit Facility has been provided and remains in full force and effect shall not be required; and provided further that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular Series or maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Indenture. No such modification or amendment shall: (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided in the Indenture for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected; or (2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Holders of all of the Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by The Regents and the Trustee of any Supplemental Indenture, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture to the Holders of the Bonds at the addresses shown on the registration books of the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

The Indenture and the rights and obligations of The Regents, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which The Regents and the Trustee may enter into without the consent of any Bondholders but only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of The Regents contained in the Indenture other covenants and agreements to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon The Regents, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as The Regents may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(4) to provide for the issuance of an additional Series of Bonds in accordance with the provisions of the Indenture;

(5) to modify, amend or supplement the Auction Procedures for any Series of Auction Bonds in such manner as may be provided in the Supplemental Indenture establishing the terms and provisions of a Series of Auction Bonds;

(6) to permit, provide for or accommodate the delivery of a Credit Facility or Alternate Credit Facility or Liquidity Facility or Alternate Liquidity Facility for any Series of Bonds;

(7) so long as the right of any Beneficial Owner or Holder of any Series of Variable Rate Bonds to tender such Variable Rate Bonds in accordance with any provision of the Indenture and to receive the full Purchase Price therefor on the Purchase Date is not adversely affected, to make any change in the procedures for effecting any such tenders and purchases, including, without limitation, any change necessary to accommodate changes in the book-entry procedures of the Custodian, if such changes are considered desirable by the Trustee, the Liquidity Provider or the Remarketing Agent for such Series of Bonds;

(8) to make any changes required by a Rating Agency in order to obtain or maintain a rating for any Series of Bonds; and

(9) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Holders.

The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

Defeasance

The Bonds may be paid by The Regents in any of the following ways; provided that The Regents also pays or causes to be paid any other sums payable by The Regents (including the fees and expenses of the Trustee):

(a) by paying or causing to be paid the principal or Redemption Price of and interest on Bonds Outstanding, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem Bonds Outstanding; or

(c) by delivering to the Trustee, for cancellation by it, Bonds Outstanding.

If The Regents shall also pay or cause to be paid all other sums payable by The Regents, then and in that case, at the election of The Regents (evidenced by a Certificate of The Regents, filed with the Trustee, signifying the intention of The Regents to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of The Regents under the Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of The Regents, the Trustee shall cause an accounting for such period or periods as may be requested by The Regents to be prepared and filed with The Regents and shall execute and deliver to The Regents all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver to The Regents all moneys or securities or other property held by it pursuant to the Indenture (other than amounts on deposit in the Rebate Fund, which shall be applied in accordance with a Request of The Regents filed with the Trustee together with an Opinion of Bond Counsel to the effect that such application in accordance with such Request shall not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes) which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

THE CONTINUING DISCLOSURE AGREEMENT

The Continuing Disclosure Agreement sets forth the covenants of The Regents to provide certain financial information and operating data relating to the Medical Center. **This Summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Continuing Disclosure Agreement.**

The Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") is being executed and delivered by The Regents of the University of California ("The Regents") and BNY Western Trust Company, as trustee (the "Trustee") and as dissemination agent (the "Dissemination Agent"), in connection with the issuance of $256,165,000 aggregate principal amount of The Regents of the University of California Hospital Revenue Bonds (UCLA Medical Center), Series 2004 A and Series 2004 B (hereinafter collectively referred to as the "Bonds"), which are being issued for the benefit of UCLA Medical Center (the "Medical Center"). The Bonds are being issued pursuant to an Indenture, dated as of March 1, 1990 (the "Original Indenture"), by and between The Regents and First Interstate Bank of California, predecessor trustee to the Trustee, as amended and restated by a Third Supplemental Indenture thereto, dated as of May 1, 2004 (the "Third Supplemental Indenture"), by and between The Regents and the Trustee. Pursuant to the provisions of the Original Indenture, as amended and restated pursuant to the Third Supplemental Indenture (the Original Indenture, as amended and restated pursuant to the Third Supplemental Indenture being hereinafter collectively referred to as the "Indenture"), The Regents, the Trustee and the Dissemination Agent covenant and agree as follows:

SECTION 1. **Purpose of the Continuing Disclosure Agreement.** The Continuing Disclosure Agreement is being executed and delivered by The Regents and the Trustee for the benefit of the Holders and Beneficial Holders (as such terms are defined in the Indenture) of the Bonds and in order to assist the Participating Underwriter (as hereinafter defined) in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 2. **Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in the Continuing Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

Annual Report shall mean any Annual Report provided by The Regents pursuant to, and as described in, Sections 3 and 4 of the Continuing Disclosure Agreement.

Disclosure Representative shall mean the Treasurer or an Assistant Treasurer of The Regents or the Treasurer's designee, or such other officer or employee as The Regents shall designate in writing to the Trustee and the Dissemination Agent from time to time.

Dissemination Agent shall mean the Trustee, acting in its capacity as Dissemination Agent under the Continuing Disclosure Agreement, or any successor Dissemination Agent designated in writing by The Regents and which has filed with the Trustee a written acceptance of such designation.

Insurer means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company and its successors and assigns.

Listed Events shall mean any of the events listed in Section 5(A) of the Continuing Disclosure Agreement.

National Repository shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth at www.sec.gov/consumer/nrmsir.htm.

Participating Underwriter shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

Repository shall mean each National Repository and the State Repository.

Rule shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

State shall mean the State of California.

State Repository shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of the Continuing Disclosure Agreement, there is no State Repository.

SECTION 3. **Provision of Annual Reports.** (A) The Regents shall, or shall upon written direction cause the Dissemination Agent to, not later than seven (7) months after the end of the Fiscal Year of The Regents and the Medical Center (presently June 30), commencing with the Annual Report for the Fiscal Year ending June 30, 2004, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of the Continuing Disclosure Agreement, a copy of which shall also be provided to the Insurer. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of the Continuing Disclosure Agreement; provided that the audited financial statements of the Medical Center may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if such audited financial statements are not available by that date. If the Fiscal Year of The Regents and the Medical Center changes, The Regents shall give notice of such change in the same manner as for a Listed Event under Section 5(F).

(B) Not later than fifteen (15) Business Days prior to the date specified in subsection (A) for providing the Annual Report to the Repositories, The Regents shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact The Regents and the Dissemination Agent to determine if The Regents is in compliance with the first sentence of this subsection (B).

(C) If the Dissemination Agent is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (A), the Dissemination Agent shall send a notice to each Repository in substantially the form attached as Exhibit A to the Continuing Disclosure Agreement.

(D) Unless The Regents shall have informed the Dissemination Agent in writing that The Regents has provided the Annual Report directly to each Repository and the Insurer, the Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) file a report with The Regents and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided to the Repositories and to the Insurer pursuant to the Continuing Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. **Content of Annual Reports.** The Annual Report shall contain or include by reference the following:

(A) The audited financial statements of the Medical Center for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Governmental Accounting Standards Board. If the Medical Center's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(A), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, dated April 20, 2004, relating to the Bonds (the "Official Statement"), and the audited financial statements shall be filed in the same manner as the Annual Report when such financial statements become available.

(B) An update (as of the most recently ended Fiscal Year of the Medical Center) for each of the following tables set forth in Appendix A of the Official Statement: (i) the table set forth under the caption "Sources of Revenue - Patient Sponsor Mix - Net Patient Service Revenues;" and (ii) the table set forth under the caption "Selected Operational Information."

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of The Regents, which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Regents shall clearly identify each such other document so included by reference.

SECTION 5. **Reporting of Significant Events.**

(A) Pursuant to the provisions of this Section 5, The Regents shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults;

3. Modifications to rights of Holders;

4. Optional, contingent or unscheduled Bond calls;

5. Defeasances;

6. Rating changes;

7. Adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;

8. Unscheduled draws on debt service reserves reflecting financial difficulties;

9. Unscheduled draws on credit enhancements reflecting financial difficulties;

10. Substitution of credit or liquidity providers or failure by such credit or liquidity providers to perform; and

11. Release, substitution or sale of property securing repayment of the Bonds.

(B) The Trustee shall, within one (1) Business Day, or as soon thereafter as practicable, of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that The Regents promptly notify the Trustee in writing whether or not to report the event pursuant to subsection (F). For purposes of the Continuing Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge at the Principal Corporate Trust Office of the Trustee. The Trustee shall not have any duty to determine if any Listed Event is material.

(C) Whenever The Regents obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (B) or otherwise, The Regents shall as soon as possible determine if such event would be material under applicable federal securities laws.

(D) If The Regents has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, The Regents shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (F).

(E) If in response to a request under subsection (B), The Regents determines that the Listed Event would not be material under applicable federal securities laws, The Regents shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (F).

(F) If the Dissemination Agent has been instructed by The Regents to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repositories and the Insurer, with a copy to The Regents. Notwithstanding the foregoing, notice of Listed Events described in subsections (A)(4) and (A)(5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

SECTION 6. **Termination of Reporting Obligation.** The Regents' obligations under the Continuing Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, The Regents shall give notice of such termination in the same manner as for a Listed Event under Section 5(F).

SECTION 7. **Dissemination Agent.** The Regents may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Continuing Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days written notice to The Regents and the Trustee. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by The Regents pursuant to the Continuing Disclosure Agreement. Neither the Dissemination Agent nor the Trustee shall have any duty or obligation to review any information or report provided to the Dissemination Agent or Trustee under the Continuing Disclosure Agreement and shall not be deemed to be acting in any fiduciary capacity under the Continuing Disclosure Agreement for The Regents or the Holders or any other party.

SECTION 8. **Amendment; Waiver.** Notwithstanding any other provision of the Continuing Disclosure Agreement, The Regents, the Trustee and the Dissemination Agent may amend the Continuing Disclosure Agreement (and the Trustee and the Dissemination Agent shall agree to any amendment so requested by The Regents, provided neither the Trustee nor the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations under the Continuing Disclosure Agreement), and any provision of the Continuing Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(A) If the amendment or waiver relates to the provisions of Sections 3(A), 4, or 5(A), such amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(B) The Continuing Disclosure Agreement, as amended or taking into account the waiver proposed, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(C) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Holders of the Bonds.

In the event of any amendment or waiver of a provision of the Continuing Disclosure Agreement, The Regents shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by The Regents. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(F), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. **Additional Information.** Nothing in the Continuing Disclosure Agreement shall be deemed to prevent The Regents from disseminating any other information, using the means of dissemination set forth in the Continuing Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by the Continuing Disclosure Agreement. If The Regents chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by the Continuing Disclosure Agreement, The Regents shall have no obligation under the Continuing Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. **Default.** In the event of a failure of The Regents or the Trustee or the Dissemination Agent to comply with any provision of the Continuing Disclosure Agreement, the Trustee, at the written request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys), or any Holder or Beneficial Holder of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause The Regents or Trustee or the Dissemination Agent, as the case may be, to comply with its obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of The Regents or the Trustee or the Dissemination Agent to comply with the Continuing Disclosure Agreement shall be an action to compel performance.

SECTION 11. **Duties, Immunities and Liabilities of Trustee and Dissemination Agent.** Article X of the Indenture is made applicable to the Continuing Disclosure Agreement as if the Continuing Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Trustee and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded to the Trustee thereunder. The Trustee and the Dissemination Agent shall have only such duties as are specifically set forth in the Continuing Disclosure Agreement, and The Regents agrees to indemnify and save the Trustee and the Dissemination Agent, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their respective powers and duties under the Continuing Disclosure Agreement, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Trustee's or the Dissemination Agent's negligence or willful misconduct. The obligations of The Regents under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. **Beneficiaries.** The Continuing Disclosure Agreement shall inure solely to the benefit of The Regents, the Trustee, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity. No person shall have any right to commence any action against the Trustee or the Dissemination Agent seeking any remedy other than to compel specific performance of the Continuing Disclosure Agreement.

SECTION 13. **Notices.** All notices or communications to or among any of the parties to the Continuing Disclosure Agreement shall be given as provided in the Continuing Disclosure Agreement. Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) or fax number(s) to which subsequent notices or communications should be sent.

APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

The Regents of the University of California
Oakland, California

The Regents of the University of California
Hospital Revenue Bonds (UCLA Medical Center),
Series 2004 A and Series 2004 B
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by The Regents of the University of California ("The Regents") of $256,165,000 aggregate principal amount of The Regents of the University of California Refunding Hospital Revenue Bonds (UCLA Medical Center), Series 2004 A and Series 2004 B (hereinafter collectively referred to as the "Bonds") issued by The Regents pursuant to its powers under Article IX, Section 9 of the Constitution of the State of California and an Indenture, dated as of March 1, 1990, as amended and restated by a Third Supplemental Indenture thereto, dated as of May 1, 2004 (hereinafter collectively referred to as the "Indenture"), by and between The Regents and BNY Western Trust Company, successor trustee to First Interstate Bank of California as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate, dated the date hereof (the "Tax Certificate"), certificates of The Regents, the Trustee and others, the opinion of counsel to The Regents, the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than The Regents. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public corporations in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated April 20, 2004, or other offering material related to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of The Regents.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, The Regents. To the extent set forth in the Indenture, the Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund and any Purchase Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Bonds are not a lien or charge upon the funds or property of The Regents except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

Per

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

Introduction. The information set forth in this Appendix F under the subheading "General" has been provided by The Depository Trust Company ("DTC"). Neither The Regents of the University of California ("The Regents") nor the underwriters of the Series 2004 Bonds make any representation as to its accuracy or completeness. Capitalized terms used herein which are not otherwise defined herein shall have the meaning set forth in the front portion of this Official Statement or in Appendix D under the heading "Summary of Certain Provisions of the Indenture and the Continuing Disclosure Agreement - Definitions of Certain Terms."

Beneficial Owners should confirm the following information with DTC.

THE REGENTS AND THE TRUSTEE SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR ANY BENEFICIAL OWNER, WITH RESPECT TO: (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT; (ii) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL AND INTEREST DUE ON THE SERIES 2004 BONDS; (iii) THE DELIVERY OF ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE HOLDERS OF THE SERIES 2004 BONDS UNDER THE INDENTURE; (iv) THE SELECTION BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2004 BONDS; (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER OF THE SERIES 2004 BONDS; OR (VI) ANY OTHER MATTER.

THE TRUSTEE, AS LONG AS THE BOOK-ENTRY ONLY SYSTEM IS USED FOR THE SERIES 2004 BONDS, WILL SEND ANY NOTICE OF REDEMPTION AND ANY OTHER NOTICES ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF SERIES 2004 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

So long as Cede & Co. is the registered holder of the Series 2004 Bonds, as nominee of DTC, references in this Official Statement, including the Appendices hereto, to the Holders of the Series 2004 Bonds (other than as set forth under "Tax Matters") shall mean Cede & Co. and shall not mean the Beneficial Owners of the Series 2004 Bonds.

General. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for The Regents of the University of California Hospital Revenue Bonds (UCLA Medical Center), Series 2004 A and Series 2004 B (each, a "Series of Series 2004 Bonds," and, hereinafter collectively referred to as the "Series 2004 Bonds"). Each Series of Series 2004 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for each Series of Series 2004 Bonds, in the aggregate principal amount of such Series of Series 2004 Bonds, and will be deposited with DTC. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the front portion of this Official Statement or in Appendix D - "Summary of Certain Provisions of the Indenture and the Continuing Disclosure Agreement."

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participant's accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, also subsidiaries of DTCC, as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2004 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2004 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2004 Bond (each a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2004 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2004 Bonds, except in the event that use of the book-entry system for the Series 2004 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2004 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2004 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2004 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2004 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2004 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2004 Bonds, such as defaults and proposed amendments to the bond documents. For example, Beneficial Owners of Series 2004 Bonds may wish to ascertain that the nominee holding Series 2004 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all Bonds of a Series of Series 2004 Bonds are being redeemed, DTC's practice is to determine the amount of the interest of each Direct Participant in such Series of Series 2004 Bonds to be redeemed by lot.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2004 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy (the "Omnibus Proxy") to the issuer of the Series 2004 Bonds as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants (identified in a listing attached to the Omnibus Proxy) to whose accounts the Series 2004 Bonds are credited on the record date.

Principal and interest payments, including payments upon redemption, will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or The Regents, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest, including payments upon redemption, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2004 Bonds at any time by giving reasonable notice to The Regents or the Trustee. Under such circumstances in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered in accordance with the provisions set forth in the Indenture.

The Regents may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered in accordance with the provisions of the Indenture.

Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

Ambac

Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

Robert J. Genader

Anne G. Gill

President

Ambac Assurance Corporation Corporate SEAL Wisconsin

Secretary

Authorized Representative

Form No.: 2B-0004 (7/97)

LET THERE BE LIGHT