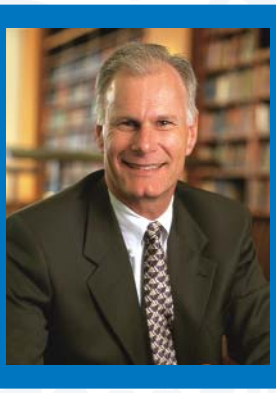
Annual Report 2005

collaboration *excellence* *innovation*

UCSF Medical Center

UCSF Children's Hospital

From the CEO



On many fronts, 2005 was a remarkable year for UCSF Medical Center and UCSF Children's Hospital.

We continued to benefit from strong financial performance, a steady growth in demand for our services, and an ability to recruit truly exceptional physicians and staff. Today, our facilities present the greatest challenge: more space is needed to treat our patients and to make room for the latest equipment and technology. In 2005, the University of California Board of Regents approved our plans to build a new home for UCSF Children's Hospital at Mission Bay, which will in turn create room for expansion of services at our Parnassus campus.

Another highlight of 2005 includes the certification of UCSF Medical Center by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) as a primary stroke center, the first hospital in San Francisco to receive this designation. Now we are working to help other Bay Area hospitals become certified, so that when every minute counts, stroke patients throughout the region will have access to quality care close to home.

Once again, *U.S.News & World Report* named UCSF Medical Center among the top 10 hospitals in the nation and ranked UCSF Children's Hospital one of the best pediatric programs in California.

As a self-supporting medical center, we must generate income to fund our ongoing operations and to invest in new facilities and technology. Because of the hard work of our doctors and employees, we had a stellar financial year, with net income exceeding $72 million.

And though the need to generate funds to re-invest in our operations occupied much of our efforts in 2005, our highest priority is—and always will be—to provide safe, high-quality care to our patients. To improve patient safety and quality of care, we began the rollout of our electronic medical records initiative. We also joined the Institute for Healthcare Improvement's national initiative—the 100,000 Lives Campaign—to implement six safety measures that could save 100,000 lives by June 2006.

To provide the best possible care for our patients is the reason we exist. In this annual report, we tell several stories about the personalized, compassionate care that is a hallmark of UCSF Medical Center.

Sincerely,

Mark R. Laret
Chief Executive Officer

Intensive Care Nursery

Once upon a time—back, say, in 1964—a wonderful place to care for the smallest, sickest, and most fragile babies was established in a city overlooking a bay. Today, more than 40 years later, fairy tales still do come true for many more babies and their families, thanks to the advanced treatments and expert care provided at The William H. Tooley Intensive Care Nursery (ICN) at UCSF Children's Hospital.

One of the country's first intensive care nurseries, the ICN at UCSF cares for more than 1,000 infants each year. Our doctors, nurses, and other staff are among the most experienced in caring for newborns needing surgery for heart, lung, gastrointestinal, and other life-threatening conditions.

Teddy bears dance around the walls of the 50-bed ICN, overlooking the Golden Gate Bridge. Organized into two specialized units, one for premature babies and the other for treating complex birth defects, each unit is staffed with an expertly trained team of dedicated doctors and nurses. The ICN is certified by the state of California as a CCS Regional Intensive Care Nursery, providing newborn intensive care for a network of 24 Northern California hospitals and acting as a referral center for more than 60 hospitals throughout the West.

"This nursery is a national resource," says director of neonatology Dr. Sam Hawgood. "Because we are rigorous about reporting our outcomes, our practices help to set the standard for quality and innovations in care for children's hospitals around the country."

Advancing the field of neonatology is a continuing mission for UCSF. It began with a pioneering study in the early 1960s, led by Drs. John Clements and William Tooley. While studying the effects of pulmonary surfactant—a soapy coating in the lungs—on babies with respiratory distress syndrome, Dr. Tooley came to the groundbreaking realization that the constant attention given to the babies in the study was, in itself, responsible for increasing survival rates, giving birth to the concept of modern neonatal intensive care.

Groundbreaking advances continue today. For example, as part of a recent NIH-funded study using advanced magnetic resonance imaging (MRI) of the brains of tiny babies, UCSF teamed with General Electric to design a special incubator in which the babies can remain, undisturbed, while safely undergoing the MRI procedure. And our pioneering fetal surgery program recently completed two boundary-pushing studies—in fetal surgery for congenital diaphragmatic hernia, and in twin-to-twin transfusion syndrome.

Looking ahead, Dr. Hawgood has recruited his replacement, noted neonatologist Dr. David Rowitch, who will take the reins of the ICN in July 2006. "Dr. Rowitch brings tremendous expertise in stem cell biology," says Dr. Hawgood. "He is interested in how we might use stem cells to treat babies with neonatal brain injuries, and is developing what he calls a 'neuro ICN of the future."

From pioneering the earliest efforts in neonatology to pursuing continual advancements of the field, UCSF Children's Hospital remains committed to providing family-centered care. Every day in the ICN, families are working closely with doctors, nurses, and staff to turn some very risky beginnings into endings where everyone can live happily ever after.

Gynecologic Oncology and Reproductive Preservation

Why me? a young woman asks after receiving the diagnosis of uterine cancer. It is probably the most common response to hearing that one has cancer, no matter what type. And while no one can answer that particular question yet, the team of clinicians and researchers focusing on gynecologic oncology at UCSF Medical Center—one of the nation's top biomedical research universities—is not only successfully treating the disease, but is also working to discover new treatments for cancer as well.

A division of the medical center's Department of Obstetrics and Gynecology and part of the UCSF Comprehensive Cancer Center, the Gynecologic Oncology Program focuses on basic biology, pathophysiology, diagnosis, treatment, epidemiology, and ultimately, prevention of neoplasms of the female reproductive tract.

The culture of collaboration at UCSF Medical Center is one key to the ongoing success of the Gynecologic Oncology Program. Currently, for example, research scientist Dr. Douglas Hanahan, translational scientist Dr. Karen McCune, and gynecologic-surgical oncologist Dr. C. Bethan Powell are teaming on a multidisciplinary pilot program. Funded by the UCSF Comprehensive Cancer Center, the team is studying the effects of zoledronic acid—a drug currently used to protect and repair women's bone density—as a potential treatment for cervical cancer.

"There are many important and exciting collaborations going on today throughout the medical center," says Dr. Powell. "Translational scientists, in particular, play such an important role in our ability to bridge the basic science of the lab with the clinical work happening at the bedside."

Continual innovation is also a significant factor contributing to UCSF Medical Center's success. Ongoing clinical trials, led by Dr. Lee-May Chen, have led to a number of advances in the treatment of ovarian, endometrial, and cervical cancers. New minimally invasive surgery techniques, such as laparoscopic staging for diagnosing and treating gynecologic cancers, continue to evolve and gain more widespread use. Responding to a recent NCI (National Cancer Institute) Cancer Bulletin recommendation to perform interperitoneal chemotherapy to treat ovarian cancer, the UCSF Gynecologic Oncology Program became one of the first to deliver this state-of-the-art procedure as a standardized service. "We have the high volume of patients that allows us to establish a cutting-edge program like this—complete with a fully trained, multidisciplinary team," explains Dr. Powell.

Innovative procedures for cancer patients are also occurring in the area of reproductive preservation. The UCSF Center for Reproductive Health led by Dr. Marcelle Cedars, provides an integrated approach to maintaining fertility while treating cancer. Using advanced techniques such as embryo freezing and radical trachelectomy, the center helps many at-risk pregnancies to be brought to term. Our full range of assisted reproductive technologies and strategies means that instead of asking "Why me?," many cancer patients who want to be parents are now asking "Why *not* me?"

Beating cancer to become a mom

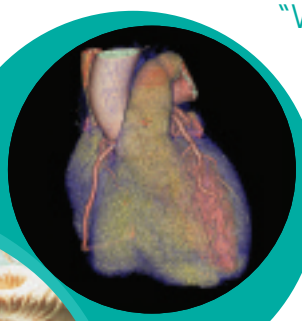
collaboration

Even a cancer diagnosis didn't keep these women from fulfilling their dreams of becoming moms. Working with the team of experts at UCSF Medical Center, Ottilie, Tori and Karen received treatments that enabled them to make their dreams of having a child come true. Tori and Karen were so grateful of Dr. C. Bethan Powell, sons Isaiah and Jackson, respectively, each sport the middle name "Powell" in honor of their moms' favorite doctor.

Heart and Lung Transplant Program

No one wants to be seen as a number—particularly when dealing with a serious medical condition. At UCSF, patients are evaluated for heart and lung transplantation individually, based on criteria that fit their personal circumstances.

One of the most recognized organ transplant centers in the country, the UCSF Heart and Lung Transplant Program is a designated center of excellence in transplant surgery for most major insurance providers. The program is notable for working with patients who often are not even considered to be candidates for transplantation at other facilities.



"We evaluate people who might not meet rigid guidelines, but who might be good candidates nonetheless because of other factors," says Dr. Charles Hoopes, surgical director of heart and lung transplantation at UCSF. "That flexibility is part of our strength and has helped save many lives."

Dr. Jeffrey Golden, who began the UCSF Lung Transplant Program in 1991, credits the recruitment of Dr. Hoopes three and a half years ago with tripling the size of the program. Dr. Hoopes recently completed his 100th transplant. "There are many factors that contribute to our success, but a large part of it is that we have a fantastic surgeon who has made a major commitment to heart and lung transplantation," says Dr. Golden.

Both Hoopes and Golden credit a remarkable organ procurement organization—the California Transplant Donor Network (CTDN) in Oakland, Calif.—as one of the keys to the success of the program. Approximately 50 percent of the lungs donated through the CTDN can be transplanted, compared to just 17 percent elsewhere in the country. Owing to the resources of the CTDN as well as to the strength of our own research program and surgical and medical staff, UCSF is home to one of the largest lung transplant programs in California and is among the busiest 10 percent in the world.

Another key to the success of the UCSF program is being able to not only receive the heart and lungs donations on time, but doing so when the patient is physically ready to accept them. "A distinguishing feature of our program is that we create opportunities for transplantation rather than limit them," says Dr. Teresa De Marco, medical director of heart failure and heart transplantation at UCSF. "We take a chance at life."

The team uses various therapies to strengthen a patient's health in preparation for surgery. For example, cardiac resynchronization therapy (CRT) increases the efficiency of the beating heart via an implantable defibrillator, while mechanical or passive ventricular assist devices increase the heart's power. Patients may even spend time on an extracorporeal membrane oxygenation (ECMO) machine, which takes over the function of both the heart and the lungs for the short term.

And while no patient wants to be seen as a number, people do want the assurance that their medical team has extensive experience. The UCSF Heart and Lung Transplant team can certainly offer that type of assurance, with the number of heart and lung transplants performed at UCSF continuing to grow. But even as the numbers increase, patients in the UCSF Heart and Lung Transplant Program know that they will always be treated as individuals, receiving the best possible personalized care.

excellence

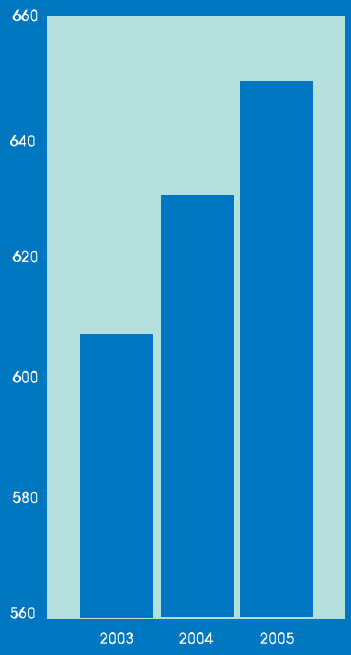
Financials

University of California, San Francisco Medical Center

Fiscal Years ended June 30, 2004 and 2005 (Dollars in thousands)

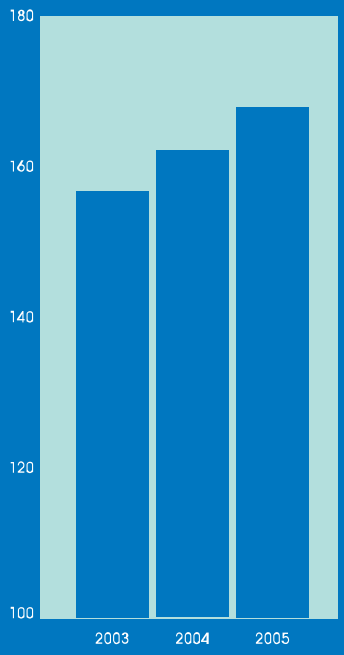
BALANCE SHEET	2004	2005
Assets		
Total current assets	$329,564	**$381,971**
Capital assets, net	385,900	**415,640**
Other assets	11,048	**11,295**
Total assets	726,512	**808,906**
Liabilities and Net Assets		
Total current liabilities	103,374	**119,212**
Long-term debt and capital leases, net of current portion	117,776	**121,812**
Other liabilities	59,650	**77,354**
Total liabilities	280,800	**318,378**
Net assets	445,712	**490,528**
Total liabilities and net assets	$726,512	**$808,906**
INCOME STATEMENT		
Operating revenue		
Net patient service revenue	$1,041,496	**$1,127,008**
Other operating revenue	26,060	**24,059**
Total operating revenue	1,067,556	**1,151,067**
Operating expenses:		
Salaries and employee benefits	433,865	**475,620**
Supplies and purchased services	398,851	**436,730**
Depreciation and amortization	49,336	**51,434**
Provision for doubtful accounts	60,026	**45,380**
Other	64,017	**66,683**
Total operating expenses	1,006,095	**1,075,847**
Income from operations	61,461	**75,220**
Non-operating expenses	(5,984)	**(2,702)**
Net income	$55,477	**$72,518**

Outpatient activity



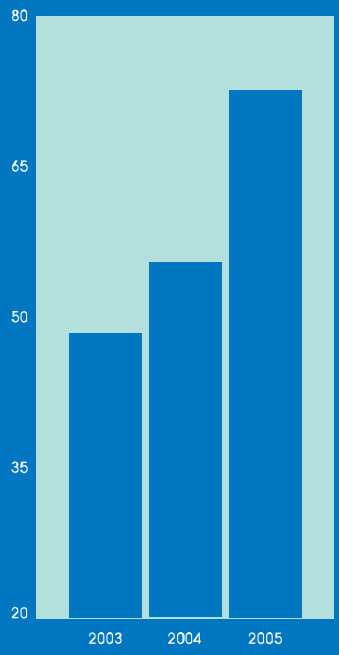
Patient visits in thousands

Inpatient activity



Patient days in thousands

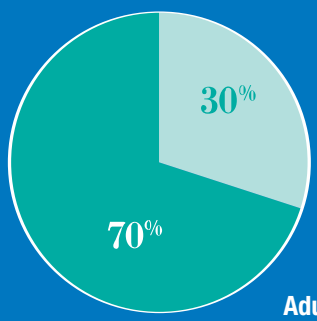
Net income



Dollars in millions

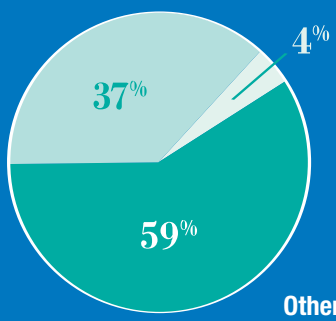
UCSF Medical Center's financial condition continued to improve, with net income rising from $55.4 million in fiscal 2004 to $72.5 million in fiscal 2005 enabling cash reserves to increase from $115.5 million in 2004 to $144.2 million in 2005.

Patient mix*



Adult: 70%
Pediatric: 30%

Patient origin*



Other California Residents: 59%
San Francisco Residents: 37%
Outside of CA: 4%

* Based on patient days.

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