UC DAVIS
2014 FINANCIAL REPORT

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A MESSAGE TO
Chancellor Linda P.B. Katehi

This report sets forth the financial position and results of operations of the University of California, Davis for the fiscal year ended June 30, 2014.

Despite the challenging operating environment over the last few years, UC Davis continues to lead the world in new directions through our teaching, research and public service. Student demand is as strong as ever: Fall 2013 enrollment was up compared to 2012, increasing by almost 4 percent. We take great pride in having maintained our unmatched commitment to access and affordability despite the harsh financial realities of the past few years. Financial aid to all students, on a combined basis, grew to $236 million in 2014.

UC Davis is also moving forward with its '2020 Initiative', an ambitious plan to build on the institution's excellence, create a more diverse community of scholars, and achieve financial stability.

The financial strengths of the campus continue to include a diverse source of revenues, including those from student fees, the state of California, federally sponsored grants and contracts, the medical center, private support and self- supporting enterprises. Revenues for UC Davis' core activities were almost $3.8 billion in 2014 compared to almost $3.6 billion in 2013 while expenses supporting those activities remained stable at almost $3.8 billion in 2014 and in 2013. UC Davis' net assets are almost $1.5 billion as of June 30, 2014.

The campus changed its accounting policies for pensions which are designed to improve transparency regarding pension obligations by requiring recognition of a liability equal to the net pension liability for Davis' portion of the University of California's defined benefit plans. Recognition of more than $1.4 billion in pension obligations and the related deferred inflows and outflows of resources reduced overall net assets from $3.4 billion to $1.5 billion however these accounting policy changes do not impact the university's funding requirements for the pension plan.

The UC Davis Financial Statements are not individually audited, but rather are audited as part of the Consolidated Annual Financial Report of the University of California by the firm of KPMG, LLP, who has issued an unqualified opinion thereon dated November 5, 2014 that has been transmitted to the UC Board of Regents.

The accompanying Financial Statements and Management's Discussion and Analysis detail only local campus activity prepared from the official University of California records and accounts, which are maintained in accordance with the standards prescribed by the Governmental Accounting Standards Board (GASB).

In compliance with GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, the financial activity of the legally separate, tax-exempt UC Davis Foundation can be found discretely recorded on the campus' financial statements under a separate column titled "Foundation".

Dave Lawlor
Vice Chancellor and Chief Financial Officer

J. Michael Allred
Associate Vice Chancellor for Finance/Controller

MANAGEMENT'S DISCUSSION *and Analysis*

The objective of management's discussion and analysis (md&a) is to give readers an overview of the financial position and operating activities of the university of california, davis (uc davis) for the year ended june 30, 2014, with selected comparative information for the year ended june 30, 2013. This discussion should be read in conjunction with the financial statements and the notes to the financial statements.

Uc davis' financial report, while not separately audited, is prepared from the official university of california records and accounts which are maintained in accordance with the standards prescribed by the governmental accounting standards board. The three primary statements—the statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows—encompass the uc davis campus and its discretely presented component, the uc davis foundation. However, the md&a and the notes to the financial statements focus only on the campus. Information relating to the uc davis foundation can be found in their separately issued financial statements.

UNIVERSITY OF CALIFORNIA, DAVIS

UC Davis is one of 10 campuses of the University of California (the university), which, as one of the largest and most acclaimed institutions of higher learning in the world, is dedicated to excellence in teaching, research and public service. The university encompasses 10 campuses, five medical schools and medical centers, three law schools and a statewide Division of Agriculture and Natural Resources. The university is also involved in the operation and management of three national laboratories for the U.S. Department of Energy.

In 1905, the California Legislature approved the establishment of a state agriculture school. Three years later, in 1908, the University Farm School opened in Davis. Currently UC Davis offers a full range of undergraduate and graduate programs, along with six professional schools. The Davis campus has undergraduate colleges of Agricultural and Environmental Sciences, Biological Sciences, Engineering, and Letters and Science. Graduate Studies administers graduate study and research in all schools and colleges. Professional studies are offered in the schools of Education, Law, Management, Medicine, Nursing and Veterinary Medicine.

Located off campus are numerous laboratories, extension centers and facilities, including the UC Davis Medical Center in Sacramento, the Lake Tahoe Center for Environmental Research, the Veterinary Medicine Teaching and Research Center in Tulare, Bodega Marine Laboratory at Bodega Bay, the College of Engineering's applied science department at Livermore and the UC Davis Washington Center in Washington, D.C.

UC DAVIS NET FINANCIAL POSITION

The campus changed its accounting policies with the implementation of new accounting standards. Changes in accounting policies for pensions are designed to improve transparency regarding pension obligations by requiring recognition of a liability equal to the net pension liability for Davis' portion of the University of California's defined benefit plans. This standard requires recognition of pension expense using a systematic method, designed to match the cost of pension benefits with service periods for eligible employees. These accounting policy changes do not impact the university's funding requirements for the pension plan. The campus also adopted accounting changes for reporting deferred inflows and outflows, which required the write-off of unamortized bond issuance costs. Financial information for 2013 has been restated to retroactively apply these new accounting policies.

The statement of net position presents the financial position of UC Davis at the end of the year. It displays the assets and liabilities of the campus. It displays all of the campus' assets, deferred outflows, liabilities and deferred inflows. The difference between assets, deferred outflows, liabilities and deferred inflows is net position, representing a measure of the current fiscal condition of the campus.

At June 30, 2014, UC Davis' assets were almost $5.9 billion, deferred outflows of resources were $539 million, liabilities were almost $3.9 billion, and deferred inflows of resources were almost $1.1 billion increasing the campus' net position by $146 million in 2014 to almost $1.5 billion.

The major components of the statement of net assets, compared to the prior year are as follows (in millions of dollars):

	6/30/ 2014	RESTATED 6/30/ 2013	CHANGE
Cash & investments	$2,017	$1,799	$ 218
Accounts receivable, net	553	550	3
Capital assets, net	3,137	3,145	(8)
Other assets	183	183	-
TOTAL ASSETS	**5,890**	**5,677**	**213**
TOTAL DEFERRED OUTFLOW OF RESOURCES	**539**	**730**	**(191)**
Debt	1,538	1,542	(4)
Pension related obligations	1,445	2,018	(573)
Other liabilities	910	869	41
TOTAL LIABILITIES	**3,893**	**4,429**	**(536)**
TOTAL DEFERRED INFLOW OF RESOURCES	**1,055**	**643**	**412**
Investment in capital assets, net of related debt	1,677	1,652	25
Restricted: nonexpendable	119	114	5
Restricted: expendable	649	593	56
Unrestricted	(964)	(1,024)	60
TOTAL NET ASSETS	**$1,481**	**$1,335**	**$146**

UC DAVIS ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

UC Davis' total assets have grown by $213 million in 2014 to just under $5.9 billion. Capital assets have increased due to continued investment in facilities and investments increased due to financial market returns.

Campus investments, which are held at the university's Office of the President, are principally carried in three investment pools, the Short Term Investment Pool (STIP), the Total Return Investment Pool (TRIP) and the General Endowment Pool (GEP). Cash for operations and bond proceeds for construction expenditures are invested in STIP. The university uses STIP to meet operational liquidity needs. TRIP allows participating campuses the opportunity to maximize the return on long-term capital by taking advantage of the economies of scale of investing in a large pool across a broad range of asset classes. TRIP is managed to a total return objective and is intended to supplement STIP. As a result of continued low interest rates, the campus increased its use of TRIP to enhance investment returns, while still maintaining sufficient funds in STIP to meet operational liquidity needs. The GEP is a balanced portfolio and the primary investment vehicle for individual endowments and funds functioning as endowments.

The Regents of the University of California (the regents) utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. The GEP portfolio return was a positive return of 19.0 percent in 2014 and a positive return of 12.0 percent in 2013. TRIP had positive returns of 14.7 percent in 2014 and 8.3 percent in 2013. STIP had positive returns of 1.6 percent and 2.1 percent in 2014 and 2013, respectively.

Accounts receivable remained stable, increasing by $3 million from $550 million in 2013 to $553 million in 2014. Accounts receivable include those from the state and federal government, local and private grants and contracts, receivables associated with the Medical Center related to patient care and from others. Receivables are reported net of bad debt allowances.

Capital assets include land, infrastructure, buildings and improvements, equipment, libraries, collections and construction in progress. As has been the case in recent years, the required spending for capital assets continues to increase. The original cost of capital assets increased by $162 million in 2014, consisting of capital expenditures of $295 million offset by $133 million of capital assets disposed of during the year in the normal course of doing business. Capital expenditures in 2013 were $330 million and disposals were $153 million. During 2014, capitalized costs for completed projects were $168 million. Capitalized buildings and improvements included Tercero student housing for $82 million and various other buildings. Projects under construction, net of the cost of those projects completed and reclassified during 2013 to buildings and improvements or equipment, totaled $85 million.

Accumulated depreciation increased from $2.6 billion in 2013 to almost $2.8 billion in 2014. Depreciation expense for the year was $228 million and the accumulated depreciation on assets sold or disposed of during the year was $58 million. Generally, all of the disposals were for equipment that was fully depreciated or had reached the end of its useful life.

Other assets include deferred charges, pledges receivable, notes and mortgages receivable and inventories and totaled $183 million for 2014 and 2013, respectively.

Changes in the net pension liability and losses on debt refundings are reported as deferred outflows of resources. The decrease of $191 million in deferred outflows of resources in 2014 is primarily related to the recognition of changes in the net pension liability.

UC DAVIS LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

In 2014, UC Davis' total liabilities and deferred inflows of resources decreased by $124 million to under $5 billion in 2014. The decrease in 2014 was primarily related to the reduction in pension obligations.

Capital expenditures are financed from a variety of sources including equity contributions, federal and state support, revenue bonds and leases. UC Davis' debt to finance capital assets decreased by $4 million in 2014 to $1.5 billion, with a $93 million decrease in commercial paper offset by an increase in bonds of $89 million.

In August, 2013 the university issued Medical Center Pooled Revenue Bonds totaling $650.0 million to finance and refinance certain facilities and projects, of which $22 million, net of bond premium, was associated with UC Davis Medical Center projects.

In October, 2013 General Revenue Bonds totaling $2.5 billion were issued to restructure Lease Revenue Bonds issued by the State Public Works Board of the state of California, reported as lease-purchase agreements by the campus, including UC Davis' obligation of $336 million. General Revenues, as defined in the Indenture, have been amended to include certain state appropriations as to secure payment of the General Revenue Bonds.

In April 2014, General Revenue Bonds totaling $970.4 million were issued to finance and refinance certain facilities and projects of the university including UC Davis' obligation of $68 million.

In 2014, the university's General Revenue Bond ratings were changed by Moody's Investor Services from Aa1 to Aa2 and by Fitch Ratings from AA+ to AA. The university's Limited Project Revenue Bonds and Medical Center Pooled Revenue Bonds were changed by Moody's Investor Services from Aa2 to Aa3 and by Fitch Ratings from AA to AA-.

Commercial paper borrowings decreased $92.8 million in 2014 from $230.7 million in 2013 to $137.9 million in 2014. Commercial paper has been used as interim financing for construction projects and equipment financing.

The campus has a financial responsibility for pension benefits associated with its defined benefit plans. The campus' 2013 financial statements have been restated for new accounting standards, and for the proportional allocation of the obligations the university has in funding the UCRP and, accordingly, the campus' pension obligation was $1.4 billion and $2.0 billion in 2014 and 2013, respectively. The change in net pension liability has been primarily driven by the investment performance of the University of California's Retirement Plan's (UCRP) investment portfolio. UCRP's total investment rate of return was 17.4 percent in 2014 and 11.7 percent in 2013. The discount rate used to estimate the net pension liability for both June 30, 2014 and 2013 was 7.5 percent.

Other liabilities, including accounts payable, accrued salaries and benefits, deferred revenue, pollution remediation and federal refundable loans increased from $869 million in 2013 to $910 million in 2014.

Deferred inflows of resources are related to the campus' service concession arrangements, gains on debt refundings and changes in the net pension liability. Deferred inflows of resources in 2014 increased by $412 million due to higher than expected earnings on pension investments.

UC DAVIS NET POSITION

Net position represents the residual interest in UC Davis' assets and deferred outflows after all liabilities and deferred inflows are deducted. UC Davis' net position at the end of 2014 was just under $1.5 billion, with an increase of $146 million from 2013. Net position is reported in following categories: invested in capital assets, net of related debt; restricted, nonexpendable; restricted, expendable; and unrestricted.

The portion of net assets invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of these capital assets increased by $25 million from $1,652 million in 2013 to $1,677 million in 2014.

Restricted nonexpendable net assets include the corpus of UC Davis' permanent endowments and the estimated value of charitable remainder trusts. At June 30, 2014 the total market value of UC Davis' endowments and other restricted nonexpendable net assets was $119 million.

Restricted expendable net assets of $649 million, at June 30, 2014, are subject to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include endowment income and gains, subject to UC Davis' spending policy; support received from gifts, appropriations, grants or contracts for specific programs or capital projects; trustee held investments; or other third party receipts. The increases or decreases in restricted, expendable funds are principally due to unrealized appreciation or depreciation respectively in the fair value of investment related to restricted gifts and funds functioning as endowments.

Under generally accepted accounting principles, net position that is not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, substantially all of these net assets are designated for academic and research initiatives or programs, or for capital purposes. As of June 2014, unrestricted net position is in a deficit position. The decrease in the deficit from 2013 to 2014 is due to changes in the net pension obligation related to strong financial market performance.

UC DAVIS RESULTS OF OPERATIONS

Changes in total net position as presented on the statement of net position is based on the activity presented in the statement of revenues, expenses, and changes in net position. The purpose of the statement is to present UC Davis' operating results for the year and the increase or decrease in the financial condition of the campus.

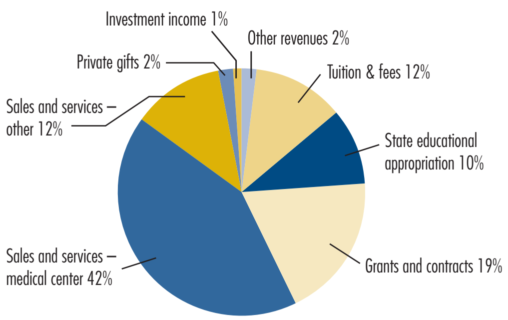
Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. In accordance with Governmental Accounting Standards Board (GASB) requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the university are mandated to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income. A summarized comparison of the operating results for 2014 and 2013, arranged in an informative format that matches the revenues supporting the core activities of UC Davis with the expenses associated with core activities is as follows:

OPERATING RESULTS FOR 2014 AND 2013 (DOLLARS IN MILLIONS)

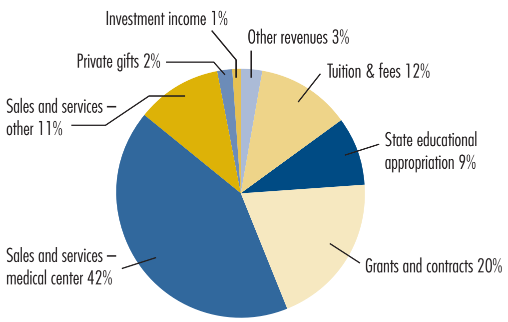
	YEAR ENDED JUNE 30, 2014			YEAR ENDED JUNE 30, 2013 *(RESTATED)*			
	OPERATING	NON-OPERATING	TOTAL	OPERATING	NON-OPERATING	TOTAL	CHANGE
REVENUES							
Student tuition and fees, net	$441		$441	$434		$434	$7
State educational appropriations		$372	372		$314	314	58
Grants and contracts	673	51	724	649	49	698	26
Sales and services:							
Medical center	1,586		1,586	1,476		1,476	110
Other	443		443	398		398	45
Private gifts		71	71		71	71	
Investment income		48	48		51	51	(3)
Other revenues	75	9	84	75	42	117	(33)
REVENUES SUPPORTING CORE ACTIVITIES	**3,218**	**551**	**3,769**	**3,032**	**527**	**3,559**	**210**
EXPENSES							
Salaries and benefits	2,527		2,527	2,548		2,548	(21)
Scholarships and fellowships	45		45	58		58	(13)
Utilities	40		40	38		38	2
Supplies and materials	388		388	388		388	
Depreciation	228		228	229		229	1
Interest expense		59	59		52	52	7
Other expenses	499		499	473		473	26
EXPENSES ASSOCIATED WITH CORE ACTIVITIES	**3,727**	**59**	**3,786**	**3,734**	**52**	**3,786**	
INCOME (LOSS) FROM CORE ACTIVITES	**$(509)**	**$ 492**	**(17)**	**$(702)**	**$475**	**(227)**	**210**
OTHER NONOPERATING ACTIVITIES							
Net appreciation (depreciation) in fair value of investments			147			56	91
INCOME BEFORE OTHER CHANGES IN NET POSITION			**130**			**(171)**	**301**
OTHER CHANGES IN NET POSITION							
State capital appropriations			2			6	(4)
Capital gifts and grants			5			17	(12)
Permanent endowments			4			4	
Pension loan payable to UCOP			7			(3)	10
INCREASE (DECREASE) IN NET POSITION			**148**			**(147)**	**295**
NET POSITION							
Beginning of year, as previously stated			1,335			3,163	(1,828)
Cumulative effect of accounting changes			(2)			(1,681)	1,679
BEGINNING OF YEAR, AS RESTATED			**1,333**			**1,482**	**(149)**
NET POSITION END OF YEAR			**$1,481**			**$1,335**	**$146**

REVENUES SUPPORTING CORE ACTIVITIES

The following chart provides a breakdown of revenues supporting core activities for the fiscal year ended June 30, 2014.



The following chart provides a breakdown of revenues supporting core activities for the fiscal year ended June 30, 2013.



Revenues to support UC Davis' core activities of almost $3.8 billion, including those classified as nonoperating revenues, increased by $210 million from 2013 to 2014. UC Davis has very diversified sources of revenue. State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of the university. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country. Gifts to UC Davis allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Sales and service revenue includes the medical center, educational activities and auxiliary enterprises such as student housing, the bookstore, food service operations and parking.

Student tuition and fees revenue grew from $434 million in 2013 to $441 million in 2013, an increase of $7 million. These fees are net of scholarship allowances of $151.5 million in 2014 and $133.2 million in 2013. The new fee revenue over the past several years has generally been necessitated by growth in the demand for resources that has outpaced state educational appropriations. Consistent with past practices, one-third of the revenue generated from these fee increases is used for financial aid to mitigate the impact on students with financial need.

In 2014, undergraduate, graduate and professional student enrollment increased almost 4 percent. Mandatory tuition and fees for resident undergraduates were not changed in 2014. Certain nonresident undergraduates and resident and nonresident graduate students also experienced increases in mandatory tuition and fees. Professional degree supplemental tuition varies by discipline and some programs increased supplemental tuition levels in 2014.

State of California educational appropriations to UC Davis were $372 million in 2014 and $314 million in 2013. State education appropriations increased as a result of tax initiatives approved by the voters of California in November 2012. The university did not raise tuition in 2013 in connection with the passage of these tax initiatives. Additionally the state of California agreed to increase state educational appropriations in exchange for the reductions in state financing appropriations, which decreased with the refinancing of the Lease Revenue Bonds issued by the State Public Works Board.

Revenue from federal, state, private and local grants and contracts increased by $26 million to $724 million in 2014 from $698 million in 2013. Federal grant and contract revenue, including facilities and administration cost recovery of $86 million and direct expenditures of $350 million, increased by almost $6 million to $436 million. Expiring federal grants and contracts funded from the federal economic stimulus funds made available by the American Recovery and Reinvestment Act (ARRA) and federal budget cuts have slowed the campus' growth in federal contracts and grants. This revenue represents support from a variety of agencies including the Department of Health and Human Services, $201 million; the Department of Education, $61 million; the National Science Foundation,

$52 million; and the Department of Agriculture, $37 million. State grants (including special research appropriations) and contracts increased less than 2 percent due to increases in award levels in various state agencies. Private and local contracts and grants increased by $1 million reflecting an increase in the number of private grants and contracts.

Revenue from the UC Davis Medical Center, educational activities and auxiliary enterprises of over $2 billion increased by $155 million, or 8.3% percent, from 2013. UC Davis Medical Center revenue increased by $110 million over the prior year to over $1.5 billion in 2014. The revenue growth is primarily due to renegotiated contracts, rate adjustments and an increase in patient activity. Sales from educational activities, primarily physicians' professional fees and auxiliary enterprises increased by $45 million or 11 percent reflecting an expanded patient base and higher rates from third-party payers.

Gifts may be made directly to UC Davis or through the UC Davis Foundation. UC Davis' private gifts for operating purposes remained at $71 million in 2014 and in 2013. UC Davis continues to be diligent in developing private revenue sources, and when gifts to the UC Davis Foundation are included with those given directly to UC Davis, gifts have generally increased over the past several years.

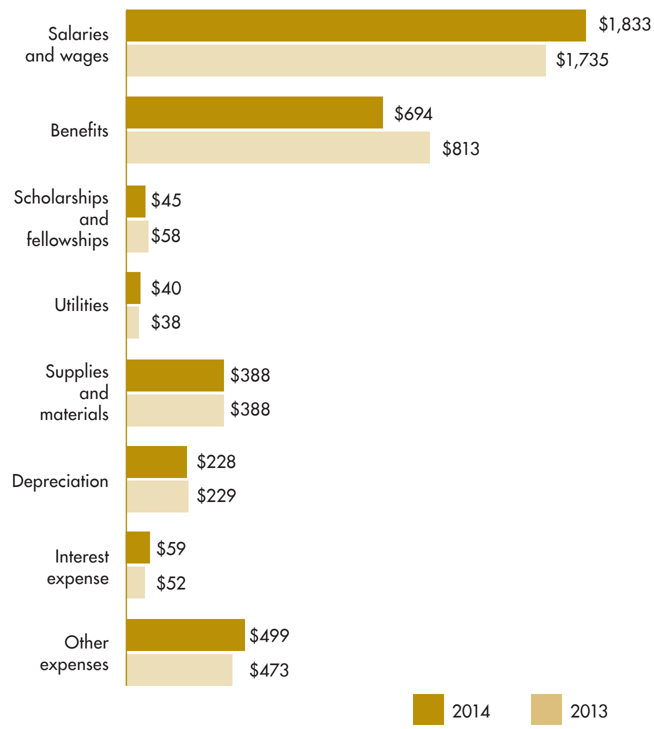
Investment income for the year of $48 million consisted of $7 million from the University of California's Short Term Investment Pool (STIP), $17 million from the University of California's Total Return Investment Pool (TRIP), and $24 million from endowments. Investment income in 2013 totaled $51 million consisting of $13 million from STIP, $15 from TRIP and $23 million from endowments.

Other revenues for 2014 of $84 million included $3 million in federal interest subsidies and $7 million of other revenues that are reported as non-operating revenue and $74 million of other revenue reported as operating revenue.

EXPENSES ASSOCIATED WITH CORE ACTIVITIES

The following chart provides a breakdown of expenses associated with core activities for the fiscal years ended June 30, 2014 and 2013.

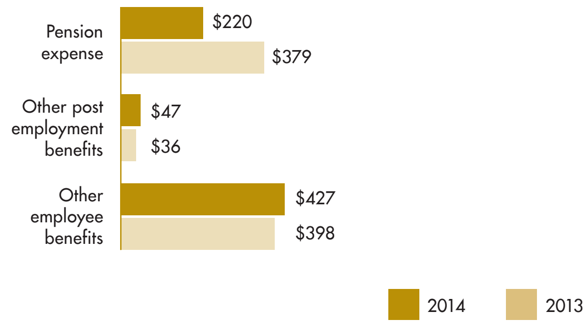
EXPENSES ASSOCIATED WITH CORE ACTIVITIES (DOLLARS IN MILLIONS)



UC Davis' expenses associated with core activities for 2014, including those classified as non-operating expenses were almost $3.8 billion in both 2014 and 2013. More than half of UC Davis' expenses are related to salaries and benefits for over 22,000 full time equivalent employees of UC Davis.

In 2014, salaries and benefits decreased $21 million due to lower pension expense. In 2014 salaries increased 5.6 percent from 2013, 1.8 percent due to an increase in the number of employees and 3.8 percent due to an increase in the average salary per FTE. Employee benefits, excluding pension and post-employment benefits, increased by 7 percent in 2014 due to higher health insurance costs. Pension expense is lower due to investment gains on plan assets in excess of expected returns.

BENEFITS COMPONENTS
(DOLLARS IN MILLIONS)



The campus places a high priority on student financial aid as part of its commitment to affordability. Scholarships and fellowships representing payments of financial aid made directly to students and reported as operating expenses were $45 million in 2014, a decrease of $13 million, or 22 percent, from 2013. Scholarship allowances, representing financial aid and fee waivers awarded by UC Davis are also forms of financial aid that increased from $175 million in 2013 to $191 million in 2014, an increase of $16 million. On a combined basis, financial aid to students in all forms grew from $233 million in 2013 to $236 million in 2014, an increase of $3 million or 1.3 percent.

Utility costs remained relatively stable in 2014, increasing $2 million from 2013 to $40 million. During 2014, supplies and materials costs also remained stable at $388 million. While there continues to be inflationary pressure on the cost of medical supplies and laboratory instruments and higher costs for the general supplies necessary to support expanded research activity, increased medical patient volumes and student enrollment, the campus continues to find opportunities to manage the costs of supplies and materials. Other operating expenses increased by $26 million, from $473 million in 2013 to $499 million in 2014.

In accordance with GASB's reporting standards, operating losses were $509 million in 2014 and $702 million in 2013. However, these operating losses were offset by $492 million and $475 million of net revenues in 2014 and 2013, respectively, classified as non-operating by GASB, but clearly supporting the operating activities of UC Davis. Therefore, expenses to support core activities exceeded the associated revenues by $17 million in 2014 and $227 million in 2013.

OTHER NONOPERATING ACTIVITIES

UC Davis' nonoperating activities consisting of net appreciation or depreciation in the fair value of investments are noncash transactions and, therefore, are not available to support operating expenses.

In 2014, UC Davis recognized net appreciation in the fair value of investments of $147 million compared to net appreciation of $56 million during 2013. The campus' portfolio showed positive performance due in 2014 due to strong returns in both the equity and bond markets.

OTHER CHANGES IN NET ASSETS

Other changes in net assets are generally not available to be used to support UC Davis' operating expenses in the current year. State capital appropriations and capital gifts and grants may be used only for the purchase or construction of the specified capital asset.

State capital appropriations decreased by $4 million in 2014 to $2 million. Capital appropriations are from bond measures approved by California voters.

UC DAVIS STATEMENT OF CASH FLOWS

The final statement presented by the University of California, Davis, is the statement of cash flows. The statement of cash flows presents detailed information about the cash activity of the institution during the year. The statement is divided into four parts. The first part deals with operating cash flows and shows the net cash used by the operating activities. The second section reflects cash flows from noncapital financing activities. This section includes the cash received and spent for state educational appropriations, gifts received for noncapital purposes, intercampus transfers and for activities other than those for operating, investing and capital financing purposes. The third section reflects the cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities.

A summary comparison of cash flows for 2014 and 2013 is as follows (in millions of dollars):

	6/30/ 2014	RESTATED 6/30/ 2013	CHANGE
CASH PROVIDED (USED) BY:			
Operating activities	$(199)	$(157)	$(42)
Noncapital financing activities	504	444	60
Capital and related financing activities	(301)	(200)	(101)
Investing activities	(232)	22	(254)
Net increase (decrease) in cash	(228)	109	(337)
Cash, beginning of the year	806	697	109
CASH, END OF THE YEAR	**$578**	**$806**	**$(228)**

UC Davis' cash decreased by $228 million from 2013 to $578 million in 2014. Substantially all of UC Davis' cash is invested in the Short Term Investment Pool (STIP) managed by the treasurer of the regents and considered as demand deposits.

Cash of $199 million was used for operating activities, offset by $504 million in cash provided by noncapital financing activities. Noncapital financing activities, as defined by GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operating activities.

Cash used by capital and related financing activities totaled $301 million in 2014, primarily the result of capital assets acquired during the year and principal and interest paid on debt and capital leases, partially offset by state capital and financing appropriations and gifts for capital purposes. Cash used by investing activities totaled $232 million in 2014 primarily due to increasing the campus' investment in TRIP.

LOOKING FORWARD

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

The campus' variety of funding sources has become increasingly important over the past several years given the effects of the state financial crisis. In June 2013, the Legislature approved the governor's 2014 budget recommendation for a multi-year funding plan that will provide an annual base budget increase beginning with 5 percent in 2014, another 5 percent in 2015, 4 percent in 2016 and another 4 percent in 2017. This multi-year funding plan is intended to provide the University of California with fiscal stability after five years of severe reductions in state educational appropriations. In exchange for this long-term stability, the university commits to focus its resources to address long-term accountability goals for accessibility, student fees, financial aid and performance outcome measures.

The UC Davis campus remains highly competitive in attracting federal grants and contracts revenue, with fluctuations in the awards received closely paralleling trends in the budgets of federal research granting agencies. Over two-thirds of the campus' federal research revenue comes from two agencies, the Department of Health and Human Services, primarily through the National Institutes of Health, and the National Science Foundation. Other agencies that figure prominently in the University's awards are the Department of Education, Department of Defense, the National Aeronautics and Space Administration and the Department of Energy. While the federal government works through its own financial constraints, there is a bipartisan effort underway to focus on innovation and competitiveness for the nation. The campus is a unique national resource for helping the nation address competitiveness and economic initiatives.

Currently, the university does not pre-fund retiree health benefits and provides for benefits on a pay-as-you-go basis. The unfunded liability for the university campuses and medical centers as of the July 1, 2013 actuarial valuation was $13.2 billion. UC Davis' proportion of the unfunded liability for the campus and medical center was $1.3 billion in 2014, an increase of $120 million from 2013. The regents approved a new eligibility formula for the Retiree Health Plan for all employees hired on or after July 1, 2013, and non-grandfathered members, that is based on a graduated formula using both a member's age and years of Retirement Plan service credit upon retirement, subject to collective bargaining for represented members.

UCRP costs are funded by a combination of investment earnings, employee member and employer contributions. The unfunded liability for the campuses and medical centers as of July 1, 2014 actuarial valuation was $7.6 billion or 80 percent funded. For UC Davis, the unfunded liability for the campus and medical center was $1.1 billion. The total university funding policy contributions in the July 1, 2014 actuarial valuations represent 29 percent of covered compensation in July 2013. Member contributions for employees in the new benefit tier are 7.0 percent, and the employer rate is uniform across all members. On July 1, 2014 employer contributions increased to 14.0 percent and employee contributions to 8.0 percent. The regents authorized additional contributions of $700 million to UCRP, representing the difference between the contribution rate and the funding requirements, to improve the plan's funded status. The additional $700 million contribution to UCRP is projected to result in 95% funded status by July 1, 2042.

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

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

Additional UC Davis budget information can be found at http://budgetnews.ucdavis.edu/. Additional University of California budget information can be found at http://universityofcalifornia.edu/news/budget/welcome.html. Additional information concerning state budget matters and the state's financial condition may be found on the State of California Department of Finance website: http://www.dof.ca.gov.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information provided by UC Davis, 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 that address activities, events or developments that UC Davis 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.

UC Davis 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, DAVIS
STATEMENT OF NET POSITION
AT JUNE 30, 2014 AND 2013 (IN THOUSANDS OF DOLLARS)

	UC DAVIS		UC DAVIS FOUNDATION	
	2014	*RESTATED* 2013	2014	2013
ASSETS				
Cash	$578,009	$806,602	$18,496	$24,181
Short term investments	51,113	58,798		
Investments held by trustees	1,662	1,662		
Accounts receivable, net	552,501	549,672	6	127
Pledges receivable	3,832	6,030	6,977	4,596
Current portion of notes & mortgages receivable, net	10,117	9,858		
Inventories	32,431	29,276		
Other current assets	45,140	37,899	15	14
TOTAL CURRENT ASSETS	**1,274,805**	**1,499,797**	**25,494**	**28,918**
Investments	1,385,035	930,016	319,432	260,833
Investments held by trustees	2,665	2,302		
Pledges receivable, net	2,216	2,898	10,243	13,242
Notes and mortgages receivable, net	67,971	70,036		
Land, buildings, equipment, libraries and collections, net	3,136,897	3,144,503		
Other noncurrent assets	20,638	27,513		
TOTAL NONCURRENT ASSETS	**4,615,422**	**4,177,268**	**329,675**	**274,075**
TOTAL ASSETS	**5,890,227**	**5,677,065**	**355,169**	**302,993**
DEFERRED OUTFLOW OF RESOURCES	**539,178**	**730,179**		
LIABILITIES				
Accounts payable	131,161	116,162		13
Accrued salaries and benefits	195,140	179,648		
Deferred revenue	138,479	127,336		
Commercial paper	137,959	230,677		
Current portion of long-term debt	61,742	73,076		
Funds held for others			797	1,503
Other current liabilities	260,821	272,172		
TOTAL CURRENT LIABILITIES	**925,302**	**999,071**	**797**	**1,516**
Refundable federal loans	53,722	53,846		
Obligations under life income agreements			4,564	7,405
Long term debt	1,338,054	1,238,354		
Obligations to UCRP	1,129,152	1,695,508		
Payable to UCOP for Pension	315,793	322,755		
Other noncurrent liabilities	130,878	119,961	733	5,740
TOTAL NONCURRENT LIABILITIES	**2,967,599**	**3,430,424**	**5,297**	**13,145**
TOTAL LIABILITIES	**3,892,901**	**4,429,495**	**6,094**	**14,661**
DEFERRED INFLOW OF RESOURCES	**1,054,949**	**642,814**		
NET POSITION				
Invested in capital assets, net of related debt	1,677,250	1,651,724		
Restricted:				
Nonexpendable:				
Endowments and gifts	118,550	113,694	193,907	166,168
Expendable:				
Endowments and gifts	620,123	533,433	153,101	120,245
Other, inluding loans, capital projects, endowment income, debt service and appropriations	29,538	60,483		
Unrestricted	(963,906)	(1,024,399)	2,067	1,919
TOTAL NET POSITION	**$1,481,555**	**$1,334,935**	**$349,075**	**$288,332**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA, DAVIS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

IN YEARS ENDED JUNE 30, 2014 AND 2013 (IN THOUSANDS OF DOLLARS)

	UC DAVIS		UC DAVIS FOUNDATION	
	2014	RESTATED 2013	2014	2013
OPERATING REVENUES				
Student tuition and fees, net	$441,020	$434,317		
Grants and contracts:				
Federal	385,116	381,344		
State	134,052	114,128		
Private	142,558	144,465		
Local	11,422	8,268		
Sales and services:				
Medical center	1,585,653	1,476,447		
Educational activities	350,980	308,515		
Auxiliary enterprises, net	91,907	89,676		
Campus foundation private gifts			$17,612	$23,519
Other operating revenues, net	74,887	75,466	67	359
TOTAL OPERATING REVENUES	**3,217,595**	**3,032,626**	**17,679**	**23,878**
OPERATING EXPENSES				
Salaries and wages	1,832,844	1,734,929		
Benefits	693,915	813,506		
Scholarships and fellowships	45,151	57,541		
Utilities	40,171	38,285		
Supplies and materials	388,001	387,998		
Depreciation	228,453	229,020		
Campus foundation grants			33,392	22,679
Other operating expenses	498,142	472,891	309	338
TOTAL OPERATING EXPENSES	**3,726,677**	**3,734,170**	**33,701**	**23,017**
OPERATING INCOME (LOSS)	**(509,082)**	**(701,544)**	**(16,022)**	**861**
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	371,509	314,365		
State financing appropriations	130	31,756		
Build America Bonds federal interest subsidies	2,738	1,954		
Federal Pell grants	50,954	48,979		
Private gifts	71,313	70,808		
Investment income	47,574	50,841	2,597	1,900
Net appreciation (depreciation) in fair value of investments	153,406	66,207	47,377	23,795
Interest expense	(58,994)	(51,865)		
Loss on disposal of capital assets, net of proceeds	(5,909)	(10,313)		
Other nonoperating revenues (expenses)	6,567	8,213		
NET NONOPERATING REVENUES (EXPENSES)	**639,288**	**530,945**	**49,974**	**25,695**
INCOME (LOSS) BEFORE OTHER CHANGES IN NET POSITION	**130,206**	**(170,599)**	**33,952**	**26,556**
OTHER CHANGES IN NET POSITION				
State capital appropriations	1,920	5,868		
Capital gifts and grants	5,435	16,825		
Permanent endowments	4,325	3,568	26,791	10,581
Pension loan payable to UCOP	6,962	(3,042)		
OTHER CHANGES IN NET POSITION	**18,642**	**23,219**	**26,791**	**10,581**
INCREASE (DECREASE) IN NET POSITION	**148,848**	**(147,380)**	**60,743**	**37,137**
NET POSITION				
Beginning of year, as previously reported	1,334,935	3,163,693	288,332	263,738
Cumulative effect of accounting changes	(2,228)	(1,681,378)		(12,543)
Beginning of year, as restated	1,332,707	1,482,315	288,332	251,195
NET POSITION, END OF YEAR	**$1,481,555**	**$1,334,935**	**$349,075**	**$288,332**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA, DAVIS
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013 (IN THOUSANDS OF DOLLARS)

	UC DAVIS		UC DAVIS FOUNDATION	
	2014	*RESTATED* 2013	2014	2013
CASH FLOWS FROM OPERATIONAL ACTIVITIES				
Student tuition and fees	$440,728	$423,783		
Grants and contracts	666,245	656,499		
Medical centers	1,592,544	1,396,534		
Educational activities	351,429	306,826		
Auxiliary enterprises	92,516	89,583		
Collections of loans to students and employees	12,203	12,325		
Private gifts			$11,675	$14,569
Payments to employees	(1,811,041)	(1,660,784)		
Payments to suppliers and utilities	(896,145)	(761,829)		
Payments for benefits	(651,654)	(218,550)		
Payments for scholarships and fellowships	(45,151)	(57,541)		
Loans issued to students and employees	(11,175)	(13,204)		
Payments to campus and beneficiaries			(33,392)	(24,225)
Other receipts	60,259	(330,680)	(260)	609
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**(199,242)**	**(157,038)**	**(21,977)**	**(9,047)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	371,510	314,365		
Federal Pell grants	50,904	48,972		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes	11,251	16,351	13,656	9,666
Other private gifts	67,094	58,204		
Other receipts (payments)	3,230	6,212		
NET CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**503,989**	**444,104**	**13,656**	**9,666**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Commercial paper financing	(92,718)	69,360		
State capital appropriations	1,107	7,607		
State financing appropriations	3,100	27,099		
Build America Bonds federal interest subsidies	1,742	1,954		
Capital gifts and grants	(19)	56,800		
Proceeds from debt issuance	480,345	217,926		
Proceeds from the sale of capital assets	(94)	362		
Purchases of capital assets	(289,968)	(227,858)		
Refinancing/prepayment outstanding debt	(292,406)	(226,374)		
Principal paid on debt and capital leases	(60,096)	(75,514)		
Interest paid on debt and capital leases	(52,072)	(51,251)		
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(301,079)**	**(199,889)**		
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale and maturities of investments	101,118	23,039	37,613	17,990
Purchases of investments	(380,953)	(51,501)	(37,128)	(19,615)
Investment income, net of investment expense	47,574	50,841	2,151	1,901
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**(232,261)**	**22,379**	**2,636**	**276**
NET INCREASE (DECREASE) IN CASH	**(228,593)**	**109,556**	**(5,685)**	**895**
Cash - beginning of year	806,602	697,046	24,181	23,286
CASH - END OF YEAR	**$578,009**	**$806,602**	**$18,496**	**$24,181**

UNIVERSITY OF CALIFORNIA, DAVIS

STATEMENT OF CASH FLOWS CONTINUED

YEARS ENDED JUNE 30, 2014 AND 2013 (IN THOUSANDS OF DOLLARS)

	UC DAVIS		UC DAVIS FOUNDATION	
	2014	RESTATED 2013	2014	2013
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating income (loss)	$(509,082)	$(701,544)	$(16,022)	$861
Cumulative effect on change in accounting principle	(2,228)	(385,807)		
Depreciation and amortization expense	228,453	229,020		
Loss on impairment of capital assets	634	600		
Noncash gifts			(6,555)	(1,457)
Allowance for doubtful accounts	5,688	5,490	(379)	(549)
Change in assets and liabilities:				
Investments				(948)
Receivables, net	(4,853)	(95,468)	993	(6,946)
Investments held by trustees		(900)		
Inventories	(3,155)	(1,186)		
Deferred charges	(7,529)	(702)		
Other assets	4,936	132		(14)
Accounts payable	22,512	8,546	(14)	6
Accrued salaries and benefits	15,492	80,712		
Deferred revenue	11,143	8,364		
Pension obligations	35,477	587,252		
Other liabilities	3,270	108,453		
NET CASH USED BY OPERATING ACTIVITIES	**$(199,242)**	**$(157,038)**	**$(21,977)**	**$(9,047)**

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

ORGANIZATION

The University of California (the university) was founded in 1868 as a public, state-supported institution. The California state constitution provides that the university shall be a public trust administered by the corporation, "The Regents of the University of California," which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26-member independent governing board (the regents) are appointed by the governor and approved by the state senate. Various university programs and capital outlay projects are funded through appropriations from the state's annual Budget Act. The university's financial statements are discretely presented in the state's general purpose financial statements as a component unit. UC Davis is one of the 10 campuses and three national laboratories that constitute the University of California. Founded in 1908 as the University Farm, UC Davis has emerged as an acknowledged international leader in agriculture, veterinary medicine, biological, biotechnological and environmental sciences and is gaining similar recognition for excellence in the arts, humanities, social sciences, engineering, health sciences, education, law and management.

FINANCIAL REPORTING ENTITY

The University of California, Davis' financial statements include the accounts of the campus and the medical center. The operations of the associated students' organization are included in the reporting entity because the regents have certain fiduciary responsibilities for this organization. Organizations that are not significant or financially accountable to UC Davis, such as the alumni organization are not included in the reporting entity.

The University of California Davis Foundation is a nonprofit, public-benefit corporation organized for the purpose of accepting and administering the full range of private contributions for the campus. The financial activities of the separately incorporated foundation are not reflected within the campus' records until such time as gifts are transferred from the foundation to the campus. However, in accordance with the statements of the Governmental Accounting Standards Board (GASB), foundation activity is noted on the campus' financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of UC Davis have been prepared in accordance with generally accepted accounting principles, using the economic resources measurement focus and the accrual basis of accounting.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities,* effective for UC Davis' fiscal year beginning July 1, 2013. This Statement reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as expenses, certain items that were previously reported as assets and liabilities.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62,* effective for the campus' fiscal year beginning July 1, 2013. This Statement resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans,* effective for the university's fiscal year beginning July 1, 2013. This Statement revises existing standards for financial reporting for pension plans by changing the approach to measuring the net pension liability. The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. Statement No. 67 affects the information presented in the footnotes to the financial statements and required supplementary information for UCRP.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions,* effective for the campus' fiscal year beginning July 1, 2014. The campus has elected to early implement this Statement, effective July 1, 2013. This Statement revises existing standards for employer financial statements relating to measuring and reporting pension liabilities for pension plans provided by the University to its employees. This Statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* effective for the University's fiscal year beginning July 1, 2014. This Statement establishes standards for accounting and financial reporting of government combinations and disposals of government operations. Government combinations include mergers, acquisitions and transfers of operations of government or nongovernment entities to a continuing government. The Statement includes guidance for measuring the assets and liabilities that are acquired in a combination, either with or without consideration. The provisions of this Statement are applicable on a prospective basis to combinations that occur after the effective date.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* effective for the campus' fiscal year beginning July 1, 2013. This Statement establishes standards for recording a liability when a government extends a nonexchange financial guarantee for the obligations of another government, a not-for-profit organization, a private entity or an individual without receiving equal or nearly equal value in exchange. As part of the nonexchange financial guarantee, the government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. This standard requires the government that extends a nonexchange financial guarantee to record a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date,* effective for the campus concurrently with the implementation of GASB Statement No. 68. This Statement addresses an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to the implementation of that Statement by employers and nonemployer contributing entities.

Implementation of Statements Nos. 66, 67, 69, 70 and 71 had no effect on UC Davis' beginning net position. To implement Statement No. 65, the University reclassified losses on debt refundings to deferred outflows of resources and wrote-off unamortized bond issuance costs as of July 1, 2013. To implement Statement No. 68, the University recorded the net pension liabilities for its defined benefit plans.

The impact on UC Davis' net position as of June 30, 2013 of adopting Statements Nos. 65 and 68 was as follows:

	YEAR ENDED JUNE 30, 2013			
(in thousands of dollars)	AS PREVIOUSLY REPORTED	EFFECT OF ADOPTION OF STATEMENT NO. 65	EFFECT OF ADOPTION OF STATEMENT NO. 68	AS RESTATED
STATEMENT OF NET POSITION				
Deferred outflows of resources		17,519	712,660	730,179
Current portion of long term debt	70,899	2,177		73,076
Current liabilities	996,894	2,177		999,071
Oligations to UCRP			1,695,508	1,695,508
Payable to UCOP for pension			322,755	322,755
Long term debt	1,223,012	15,342		1,238,354
Total noncurrent liabilities	1,396,819	15,342	2,018,263	3,430,424
Total liabilities	2,393,713	17,519	2,018,263	4,429,495
Deferred inflows of resources	30,839		611,975	642,814
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION				
Benefit expense	580,348		233,158	813,506
Total operating expenses	3,515,201	(14,189)	233,158	3,734,170
Operating income (loss)	(482,575)	14,189	(233,158)	(701,544)

OTHER ACCOUNTING POLICIES

CASH. UC Davis considers all balances in demand deposit accounts to be cash. All other highly liquid cash equivalents are considered to be short-term investments.

INVESTMENTS. Investments are stated at fair value. Generally, securities are valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted market price of a dealer who regularly trades in the security being valued. Interests in venture capital partnerships are valued based upon the latest available valuations determined by the general partners of the respective partnerships. Investments in registered investment companies are valued based upon the net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value.

FUNDS HELD BY TRUSTEES. The campus and its foundation have been named the irrevocable beneficiary for several charitable remainder trusts for which the campus and foundation are not the trustee. Upon maturity of each trust, the remainder of the trust corpus will be transferred to the campus or foundation. These funds cannot be sold, disbursed or consumed until a specified number of years have passed or a specific event has occurred. The campus and foundation are also an income beneficiary of certain trusts where the assets are invested and administered by outside trustees. Consistent with the campus' and foundation's recognition policy for pledges of endowment, receivables and contribution revenue associated with these trusts are not reflected in the accompanying financial statements. The campus and foundation recognize contribution revenue when all eligibility requirements have been met.

ACCOUNTS RECEIVABLE. Accounts receivable include reimbursements due from state and federal sponsors of externally funded research, patient billings, accrued income on investments, and other receivables. Other receivables include local government and private grants and contracts, educational activities, and amounts due from students, employees, and faculty for services.

PLEDGES. Unconditional pledges of private gifts to UC Davis in the future are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Conditional pledges, including pledges of endowments to be received in future periods and intentions to pledge, are recognized as receivables and revenues when the specified conditions are met or when the promise is made.

NOTES AND MORTGAGES RECEIVABLE. Loans to students are provided from federal student loan programs and from other university sources. Home mortgage loans, primarily to faculty, are provided from other university sources.

INVENTORIES. Inventories are valued at cost, typically determined under the first-in-first-out (FIFO) or weighted average method, which is not in excess of net realizable value.

LAND, INFRASTRUCTURE, BUILDINGS AND IMPROVEMENTS, EQUIPMENT, LIBRARIES AND COLLECTIONS. Land, infrastructure, buildings and improvements, equipment, libraries and collections and special collections are stated at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results. Capital leases are stated at the lower of the fair market value of the asset or the present value of future minimum lease payments. Equipment with a cost in excess of $5,000 and a useful life of more than one year is capitalized. Significant additions, replacements, major repairs, and renovations to infrastructure and buildings are generally capitalized if the cost exceeds $35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations. All costs of land, library collections, and special collections are capitalized.

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

Estimated economic lives are generally as follows:

Infrastructure	25 years
Buildings and improvements	15–33 years
Equipment	2–20 years
Computer software	3-7 years
Library books and material	15 years

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

Inexhaustible capital assets, such as land and special collections, including art, museum, scientific and rare book collections, are not depreciated.

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

SERVICE CONCESSION ARRANGEMENTS. UC Davis has entered into service concession arrangements with third parties for student housing and certain other faculty and student services. Under these arrangements, the campus enters into ground leases with third parties at a minimal or no cost, and gives the third party the right to construct, operate and maintain a facility, primarily for the benefit of students and faculty at competitive rates. Rate increases for use of the facilities are subject to certain constraints and ownership of the facilities reverts to the campus upon expiration of the ground lease. The facilities are reported as capital assets by the campus when placed in service, and a corresponding deferred inflow of resources is reported. The campus has not provided guarantees on financing obtained by the third parties under these arrangements.

UNEARNED REVENUE. Unearned revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue billed in advance of the event, such as student tuition and fees and fees for housing and dining services.

FEDERAL REFUNDABLE LOANS. Certain loans to students are administered by UC Davis with funding primarily supported by the federal government. UC Davis' statement of net assets includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

POLLUTION REMEDIATION OBLIGATIONS. Upon an obligating event, UC Davis estimates the components of any expected pollution remediation costs and recoveries from third parties. The costs, estimated using the expected cash flow technique, are accrued as a liability. Pollution remediation liabilities generally involve groundwater, soil and sediment contamination at certain sites where state and other regulatory agencies have indicated that the campus is among the responsible parties. The liabilities are revalued annually and may increase or decrease the cost of recovery from third parties, if any, as a result of additional information that refines the estimates, or from payments made from revenue sources that support the activity. There were no expected recoveries at June 30, 2014 and 2013 reducing the pollution remediation liability.

DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES. UC Davis classifies gains on retirement of debt as deferred inflows of resources and losses as deferred outflows of resources and amortizes such amounts as a component of interest expense over the remaining life of the old debt, or the new debt, whichever is shorter.

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

Payments received or to be received by the University from service concession arrangements are reported as deferred inflows of resources.

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

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

Restricted. UC Davis 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 UC Davis are classified as nonexpendable net assets. Such assets include UC Davis' permanent endowment funds that are held by the University of California and are not included in the UC Davis financial statements.

Expendable. Net assets whose use by UC Davis is subject to externally imposed restrictions that can be fulfilled by actions of UC Davis pursuant to those restrictions or that expire by the passage of time are classified as expendable net assets.

Unrestricted. Net assets that are neither restricted nor invested in capital assets, net of related debt, are classified as unrestricted net assets. Unrestricted net assets may be designated for specific purposes by management or the regents.

REVENUES AND EXPENSES. Operating revenue includes receipts from student tuition and fees, grants and contracts for specific operating activities, and sales and services from the medical center, educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of UC Davis are presented in the financial statements as operating activities.

Certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the university are mandated by the GASB to be recorded as nonoperating revenues, including state educational appropriations, private gifts for other than capital purposes, and investment income, because the GASB does not consider them to be related to the principal operating activities of UC Davis.

Additional nonoperating revenue and expense include state financing appropriations, net unrealized appreciation or depreciation in the fair value of investments, interest expense, and gain or loss on the disposal of capital assets.

State capital appropriations, capital gifts and grants and gifts for endowment purposes are classified as other changes in net assets.

STUDENT TUITION AND FEES. Substantially all of the student tuition and fees provide for current operations of UC Davis. A portion of the student fees is required for debt service associated with the buildings approved in student referendum. Certain waivers of student tuition and fees considered to be scholarship allowances are recorded as an offset to revenue.

STATE APPROPRIATIONS. The state of California provides appropriations to UC Davis on an annual basis. State educational appropriations are recognized as nonoperating revenue because the related expenses are incurred to support either educational operations or specific purposes. State financing appropriations provide for principal and interest payments associated with lease-purchase agreements with the State Public Works Board and are also reported as nonoperating revenue. State appropriations for capital projects are recorded as revenue when the related expenditures are incurred. Special state appropriations for AIDS, tobacco, and breast cancer research are reported as grant revenue.

GRANT AND CONTRACT REVENUE. UC Davis receives grant and contract revenue from governmental and private sources. Revenue associated with the direct costs of sponsored programs is recognized as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs is at cost reimbursement rates negotiated with UC Davis' federal cognizant agency, the Department of Health and Human Services. For the fiscal year ended June 30, 2014, the facilities and administrative cost recovery totaled $124 million; $88 million from federally sponsored programs and $36 million from other sponsors. For the fiscal year ended June 30, 2013, the facilities and administrative cost recovery totaled $122 million; $88 million from federally sponsored programs and $34 million from other sponsors.

MEDICAL CENTER REVENUE. Medical center revenue is reported at the estimated net realizable amounts from patients, third-party payors including Medicare and Medi-Cal, and others for services rendered, as well as estimated retroactive adjustments under reimbursement agreements with third-party payors. Laws and regulations governing Medicare and Medi-Cal are complex and subject to interpretation. 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. It is reasonably possible that estimated amounts accrued could change significantly based upon settlement or as additional information becomes available.

SCHOLARSHIP ALLOWANCES. UC Davis recognizes certain scholarship allowances, including both financial aid and fee waivers, as the difference between the stated charge for tuition and fees, housing and dining charges, recreational center fees, etc., and the amount that is paid by the student, as well as third parties making payments on behalf of the student. Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

Scholarship allowances are recorded as an offset to revenues in the following amounts (in thousands of dollars):

	2014	2013
Student tuition and fees	151,513	133,167
Auxiliary enterprises	22,157	27,390
Other operating revenues	16,995	14,542
SCHOLARSHIP ALLOWANCES	**$190,665**	**$175,099**

COMPENSATED ABSENCES. UC Davis 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.

RETIREE HEALTH BENEFTITS EXPENSE. The university established the University of California Retiree Health Benefit Trust (UCRHBT) to allow certain university locations and affiliates, including UC Davis, to share the risks, rewards and costs of providing for retiree health benefits and to accumulate funds on a tax-exempt basis under an arrangement segregated from university assets. The Regents serve as Trustee of UCRHBT and has the authority to amend or terminate the Trust.

The UCRHBT provides retiree health benefits to retired employees of the campus. Contributions from the campus to the UCRHBT are effectively made to a cost-sharing single-employer health plan administered by the university. The campus is required to contribute at a rate assessed each year by the UCRHBT. As a result, the campus' required contributions are recognized as an expense in the statement of revenues, expenses and changes in net assets.

UCRP BENEFITS EXPENSE. The University of California Retirement Plan (UCRP) provides retirement benefits to retired employees of UC Davis. Contributions from the campus to the UCRP are effectively made to a cost-sharing single-employer defined benefit pension plan administered by the university. The campus is required to contribute at a rate assessed each year by the UCRP. As a result, the campus' required contributions, if any, are recognized as an expense in the statement of revenues, expenses and changes in net assets.

ENDOWMENT SPENDING. Under provisions of California law, the regents have adopted the Uniform Management of Institutional Funds Act (UMIFA). Investment income, as well as a portion of realized and unrealized gains may be expended for the operational requirements of UC Davis programs.

TAX EXEMPTION. UC Davis is qualified as a tax-exempt organization under the provisions of Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income.

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

1. CASH AND CASH EQUIVALENTS

All university operating entities invest surplus cash balances in the Short Term Investment Pool (STIP) managed by the treasurer of the regents. The regents are responsible for managing the university's investments and establishing investment policy, which is carried out by the treasurer of the regents.

STIP allows participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities and is managed to maximize current earned income. Cash to provide for payroll, construction expenditures and other operating expenses for campuses and medical centers is invested in STIP. The available cash in endowment investment pools awaiting investment, or cash for administrative expenses, is also invested in STIP.

UC Davis' deposits into 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 carrying value of UC Davis' demand deposits was $578 million in 2014 and $807 million in 2013.

2. INVESTMENTS

The regents, as the governing Board, are responsible for the oversight of UC Davis' investments and establish investment policy, which is carried out by the Chief Investment Officer. These investments are associated with the Short Term Investment Pool (STIP), Total Return Investment Pool (TRIP), General Endowment Pool (GEP), and other investment pools managed by the Chief Investment Officer, or are separately invested. Pursuant to the regents' policies on campus foundations, the Board of Trustees for each campus foundation may determine that all or a portion of their investments will be managed by the Chief Investment Officer. Asset allocation guidelines are provided to the campus foundations by the Investment Committee of The Regents.

Investments authorized by the regents for STIP include fixed income securities with a maximum maturity of five and one-half years. In addition, TRIP allows the campus the opportunity to maximize the return on our long-term working capital by taking advantage of the economies of scale of investing in a large pool across a broad range of asset classes. TRIP is managed to a total return objective and is intended to supplement STIP. Investments authorized by the regents for TRIP include a diversified portfolio of equity and fixed income securities.

GEP is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. GEP is a balanced portfolio and the primary investment vehicle for endowed gift funds. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

Other investment pools primarily facilitate annuity and life income arrangements. Separate investments are those that cannot be pooled due to investment restrictions or income requirements, or represent the university's estimated interest in externally held irrevocable trusts.

Investments authorized by the regents for GEP, other investment pools and separate investments include equity securities, fixed income securities and certain other asset classes. The equity portion of the investment portfolios include both domestic and foreign common and preferred stocks which may be included in actively or passively managed strategies, along with a modest exposure to private equities. The university's investment portfolios may include foreign currency denominated equity securities. The fixed income portion of the investment portfolios may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. Fixed income investment guidelines permit the use of futures and options on fixed income instruments in the ongoing management of the portfolios. Real estate investments are authorized for GEP. Absolute return strategies which may incorporate short sales plus derivative positions to implement or hedge an investment position are also authorized for the GEP. More detail about the University of California's investments can be found in the audited Annual Report.

3. INVESTMENTS HELD BY TRUSTEES

UC Davis has entered into agreements with trustees to maintain trusts for UC Davis' long-term debt, capital projects and landfill closure requirements. All investments held by trustees are insured, registered or held by the University of California's trustee or custodial bank, as fiduciary for the bondholder or as agent for the university.

The trust agreements permit trustees to invest in U.S. and state government or agency obligations, commercial paper or other corporate obligations meeting certain credit rating requirements.

Investments held by trustees for future landfill closure expenditures are in accordance with requirements of the California Integrated Waste Management Board. The fair value of these investments was $1.66 million at June 30, 2014.

UC Davis' deposits into the trusts, or receipts from the trusts, are classified as a capital and related financing activity in the statement of cash flows if related to long-term debt requirements or capital projects. Investment transactions initiated by trustees in conjunction with the management of the trust assets and payments from the trust to third parties are not included in UC Davis' statement of cash flows.

4. ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for uncollectable amounts are as follows (in thousands of dollars):

AT JUNE 30, 2014	STATE AND FEDERAL GOVERNMENT	MEDICAL CENTERS	OTHER	TOTAL
Accounts receivable	$113,174	$1,445,604	$117,894	$1,676,672
Allowance for uncollectible amounts	(197)	(1,099,849)	(24,125)	(1,124,171)
ACCOUNTS RECEIVABLE, NET	**$112,977**	**$345,755**	**$93,769**	**$552,501**
AT JUNE 30, 2013	**STATE AND FEDERAL GOVERNMENT**	**MEDICAL CENTERS**	**OTHER**	**TOTAL**
Accounts receivable	$95,646	$1,466,908	$122,607	$1,685,161
Allowance for uncollectible amounts	(145)	(1,111,760)	(23,584)	(1,135,489)
ACCOUNTS RECEIVABLE, NET	**$95,501**	**$355,148**	**$99,023**	**$549,672**

Other accounts receivable are primarily related to private grants and contracts, physicians' professional fees, tuition and fees and auxiliary enterprises.

5. PLEDGES RECEIVABLE

The composition of pledges receivable is summarized as follows (in thousands of dollars):

	2014	2013
Total pledges receivable outstanding	$9,298	$9,265
Less: Unamortized discount to present value	(60)	(103)
Allowance for uncollectible pledges	(3,190)	(234)
TOTAL PLEDGES RECEIVABLE, NET	**6,048**	**8,928**
Less: Current portion of pledges receivable	(3,832)	(6,030)
NONCURRENT PORTION OF PLEDGES RECEIVABLE	**$2,216**	**$2,898**

Payments of pledges receivable for each of the five fiscal years subsequent to June 30, 2015 and thereafter are as follows (in thousands of dollars):

YEAR ENDING JUNE 30, 2014	
2015	7,021
2016	1,643
2017	378
2018	212
2019	44
TOTAL PAYMENTS ON PLEDGES RECEIVABLE	**$9,298**

6. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable, along with estimated uncollectible amounts, are as follows (in thousands of dollars):

AT JUNE 30, 2014	CURRENT PORTION	NONCURRENT PORTION		TOTAL
		NOTES	MORTGAGES	
Notes and mortgages receivable	$10,977	$76,260	$63	$87,300
Allowance for uncollectible amounts	(860)	(8,352)	$0	($9,212)
NOTES AND MORTGAGES RECEIVABLE, NET	**$10,117**	**$67,908**	**$63**	**$78,088**

AT JUNE 30, 2014	CURRENT PORTION	NONCURRENT PORTION		TOTAL
		NOTES	MORTGAGES	
Notes and mortgages receivable	$10,504	$76,976	$20	$87,500
Allowance for uncollectible amounts	(646)	(6,960)	$0	(7,606)
NOTES AND MORTGAGES RECEIVABLE, NET	**$9,858**	**$70,016**	**$20**	**$79,894**

7. LAND, INFRASTRUCTURE, BUILDINGS, EQUIPMENT, LIBRARIES AND COLLECTIONS

UC Davis' capital asset activity for the years ended June 30, 2014, and June 30, 2013, is as follows (in thousands of dollars):

ORIGINAL COST	2012	ADDITIONS	DISPOSALS	2013	ADDITIONS	DISPOSALS	2014
Land	$61,064		($170)	$60,894			$60,894
Infrastructure	180,460	4,267		184,727	$11,289		196,016
Buildings & improvements	3,637,646	232,341	(10,701)	3,859,286	156,374	$(1,326)	4,014,334
Equipment	948,321	68,376	(44,019)	972,678	70,656	(54,591)	988,743
Intangible assets	71,799	7,105	(11,387)	67,517	39,573	(8,762)	98,328
Libraries & collections	401,982	16,061	(2,098)	415,945	15,845	(919)	430,871
Special collections	41,885	1,910	(42)	43,753	1,821	(26)	45,548
Construction in progress	237,098		(84,359)	152,739		(67,467)	85,272
CAPITAL ASSETS, AT ORIGINAL COST	**$5,580,255**	**$330,060**	**($152,776)**	**$5,757,539**	**$295,558**	**($133,091)**	**$5,920,006**

ACCUMULATED DEPRECIATION	2012	DEPRECIATION & AMORTIZATION	DISPOSALS	2013	DEPRECIATION & AMORTIZATION	DISPOSALS	2014
Infrastructure	$76,461	$6,276		$82,737	$6,691		$89,428
Buildings & improvements	1,398,446	123,273	$(8,083)	1,513,636	127,056	$(974)	1,639,718
Equipment	625,818	73,855	(37,793)	661,880	70,309	(47,191)	684,998
Intangible assets	54,666	11,971	(10,666)	55,971	10,348	(8,116)	58,203
Libraries & collections	285,603	13,645	(436)	298,812	14,049	(2,099)	310,762
ACCUMULATED DEPRECIATION	**$2,440,994**	**$229,020**	**($56,978)**	**$2,613,036**	**$228,453**	**($58,380)**	**$2,783,109**
CAPITAL ASSETS, NET	**$3,139,261**	**$101,040**	**($95,798)**	**$3,144,503**	**$67,105**	**($74,711)**	**$3,136,897**

8. DEBT

The Regents of the University of California may finance the construction, renovation and acquisition of certain facilities and equipment for UC Davis and other UC campuses through the issuance of debt obligations. Long-term financing includes revenue bonds, certificates of participation, mortgages, capital lease obligations and other borrowings.

UC Davis' portion of the University of California's outstanding debt at June 30, 2014 and 2013 is as follows (in thousands of dollars):

	INTEREST RATES	MATURITY YEARS	2014	2013
The Regents of the University of California:				
General Revenue Bonds	1.6-6.3%	2014-2112	$938,432	$505,316
Medical Center Pooled Revenue Bonds	3.0-6.6%	2014-2047	325,038	320,800
Limited Project Revenue Bond	3.0-5.0%	2014-2042	101,701	103,157
REVENUE BONDS			**1,365,171**	**929,273**
Capital leases	1.1-7.8%		3,185	333,576
Mortgages and other borrowings	Various		31,440	48,581
TOTAL OUTSTANDING DEBT			**1,399,796**	**1,311,430**
CURRENT PORTION OF LONG TERM DEBT			**(61,742)**	**(73,076)**
TOTAL LONG-TERM DEBT			**$1,338,054**	**$1,238,354**

Total interest expense during the years ended June 30, 2014, and 2013 was $59 million and $52 million, respectively.

OUTSTANDING DEBT ACTIVITY

Activity with respect to UC Davis' outstanding debt for the years ended June 30, 2014 and 2013 is as follows (in thousands of dollars):

	REVENUE BONDS	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASE OBLIGATIONS	TOTAL
Year ended June 30, 2014				
Current portion at June 30, 2013	$35,851	$17,131	$20,094	$73,076
Reclassification from noncurrent	45,523	14,010	330,461	389,994
Principal payments	(39,957)	(17,140)	(2,751)	(59,848)
Refinancing or prepayment of debt	4,949	-	(345,584)	(340,635)
Amortization of deferred premium	(845)	-	-	(845)
CURRENT PORTION AT JUNE 30, 2014	**45,521**	**14,001**	**2,220**	**61,742**
Noncurrent portion at June 30, 2013	893,422	31,450	313,482	1,238,354
New obligations (-1-)	471,750		601	472,351
Reclassification to current	(45,522)	(14,011)	(313,118)	(372,651)
NONCURRENT PORTION AT JUNE 30, 2014	**$1,319,650**	**$17,439**	**$965**	**$1,338,054**
Year ended June 30, 2013				
Current portion at June 30, 2012	$36,467	$20,890	$19,120	$76,477
Reclassification from noncurrent	263,213	17,721	20,175	301,109
Principal payments	(36,638)	(21,480)	(19,201)	(77,319)
Refinancing or prepayment of debt	(226,374)	-	-	(226,374)
Amortization of deferred premium	(817)	-	-	(817)
CURRENT PORTION AT JUNE 30, 2013	**35,851**	**17,131**	**20,094**	**73,076**
Noncurrent portion at June 30, 2012	959,434	43,121	333,246	1,335,801
New obligations	197,204	6,050	411	203,665
Reclassification to current	(263,216)	(17,721)	(20,175)	(301,112)
NONCURRENT PORTION AT JUNE 30, 2013	**$893,422**	**$31,450**	**$313,482**	**$1,238,354**

COMMERCIAL PAPER

The university has available a commercial paper program which may be issued for interim/permanent financing for capital projects, interim financing of equipment, financing of working capital for the medical centers and other working capital needs, standby or interim financing for gift financed projects.

The program's liquidity is supported by available investments in STIP and TRIP. Commercial paper is collateralized by a pledge of the revenues derived from the ownership or operation of the projects financed and constitutes limited obligations of the university. There is no encumbrance, mortgage or other pledge of property securing commercial paper and the paper does not constitute general obligations of the university.

UC Davis' commercial paper outstanding at June 30, 2014 and 2013 was $138 million and $231 million, respectively.

REVENUE BONDS

Revenue bonds have financed various auxiliary, administrative, academic and research facilities of UC Davis. They have annual principal and semiannual interest payments, serial and term maturities, contain sinking fund requirements and may have optional redemption provisions.

General Revenue Bonds are collateralized solely by general revenues defined in the indenture as certain operating and nonoperating revenues consisting of gross student tuition and fees, facilities and administrative cost recovery from contracts and grants, revenues from educational, auxiliary, and other activities and other revenues, including unrestricted investment income. The General Revenue Bond indenture requires the university to set rates, charges, and fees each year sufficient for general revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. UC Davis general revenues for the years ended June 30, 2014, and 2013 were $1.3 billion and $1.2 billion, respectively.

Limited Project Revenue Bonds are issued to finance auxiliary enterprises and are collateralized by a pledge consisting of the sum of the gross revenues of the specific projects. The bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues, and do not constitute general obligations of the regents. The indenture requires the university to achieve the sum of gross project revenues equal to 1.1 times debt service and maintain certain other financial covenants.

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

Medical Center Revenue Bonds are collateralized by a pledge of the specific gross revenue associated with the UC Davis medical center. The Hospital Revenue Bonds require the medical center to achieve debt service coverage of 1.1 times to 1.2 times (depending on the indenture), set limitations on encumbrances, indebtedness, disposition of assets and transfer services and maintain certain other financial covenants.

Generally, in accordance with the terms of the indentures, the pledge of general revenues under General Revenue Bonds is subordinate to the pledge of UC Davis' share of facilities and administrative cost recoveries received on federal research grants and contracts under Research Facilities Revenue Bonds. The pledge of revenues under Limited Project Revenue Bonds is subordinate to the pledge of revenues associated with projects financed with General Revenue Bonds, but senior to pledges under Multiple Purpose Projects Revenue Bonds or bank loans. The pledge of net revenues associated with projects financed with Multiple Purpose Projects Revenue Bonds is subordinate to General Revenue Bonds and Limited Project Revenue Bonds, but senior to bank loans.

Medical center gross revenues are not pledged for any purpose other than under the indentures for the Medical Center Pooled Revenue Bonds, interest rate swap agreements and specific Medical Center Revenue Bonds. The pledge of medical center revenues under Medical Center Pooled Revenue Bonds is subordinate to the specific Medical Center Bonds. The pledge of medical center revenues for interest rate swap agreements may be at parity with or subordinate to specific Medical Center Revenue Bonds and Medical Center Pooled Revenue Bonds.

All indentures permit the university to issue additional bonds as long as certain conditions are met.

2014 ACTIVITY

In August 2013, tax-exempt Medical Center Pooled Revenue Bonds totaling $650 million, including $618.6 million of fixed-rate bonds and $31.3 million variable-rate demand bonds, were issued to finance and refinance certain facilities and projects of the Medical Centers. Proceeds, including a bond premium of $6.3 million, were used to pay for project construction, issuance costs and refund $28.3 million of outstanding Medical Center Revenue Bonds. The fixed-rate bonds mature at various dates through 2048 and the variable-rate bonds mature in 2047. The interest rates on the variable-rate demand bonds reset weekly and an interest rate swap, previously classified as an investment derivative, is being used to limit exposure to changes in market interest rates. In the event of a failed remarketing the variable-rate demand bonds can be put back to the Regents for tender. The tax-exempt bonds have a stated weighted average interest rate of 5.0

percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In October 2013, General Revenue Bonds totaling $2.4 billion, including $1.1 billion tax-exempt bonds, $712.3 million taxable bonds, and $600.0 million tax-exempt variable-rate demand bonds, were used to refinance debt issued by the State of California or for such other purposes as authorized by The Regents. Proceeds, including a bond premium of $124.9 million, were used to pay $2.4 billion in Lease Revenue Bonds issued by the State Public Works Board of the state of California, reported as lease-purchase agreements by the University and bond issuance costs. The fixed-rate bonds mature at various dates through 2048 and the variable-rate demand bonds mature at 2048. The tax-exempt bonds have a stated weighted average interest rate of 3.5 percent. The taxable bonds have a stated weighted average interest rate of 4.3 percent. The interest rates on the variable-rate demand bonds reset weekly, and in the event of a failed remarketing, can be put back to The Regents for tender and interest rate swap agreements were executed to limit exposure to changes in market interest rates. General Revenues, as defined in the Indenture, have been amended to include certain state appropriations to secure payment of the General Revenue Bonds.

In April 2014, General Revenue Bonds totaling $970.4 million, including $559.2 million tax-exempt bonds and $411.2 taxable bonds were issued to finance and refinance certain facilities and projects of the university including UC Davis' obligation of $68 million. The bonds mature at various dates through 2049. The tax-exempt bonds have a stated weighted average interest rate of 4.9 percent. The taxable bonds have a stated weighted average interest rate of 3.9 percent.

2013 ACTIVITY

In July 2012, Limited Project Revenue Bonds totaling $999.7 million, including $899.3 million in tax-exempt and $100.4 million in taxable bonds, were issued. Proceeds, including a bond premium of $152.7 million, were used to finance certain facilities and projects of the university and refund $853.9 million of outstanding Limited Project Revenue Bonds and outstanding General Revenue Bonds. The bonds mature at various dates through 2042. The tax-exempt bonds have a stated weighted average interest rate of 4.9 percent. The taxable bonds have a stated weighted average interest rate of 4.1 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In October 2012, General Revenue Bonds totaling $2.4 million, consisting of Taxable-Clean Renewable Energy Bonds, were issued to pay for project construction and issuance costs. The bonds mature in 2022 and have a stated interest rate of 3.0 percent. The expected cash subsidy payment from the United States Treasury is equal to 100.0 percent of the posted tax credit rate.

In March 2013, General Revenue Bonds totaling $1.31 billion, including $805.9 million in tax-exempt and $501.2 million in taxable bonds, were issued. Proceeds, including a bond premium of $137.0 million, were used to refund $1.43 billion of outstanding General Revenue Bonds. The bonds mature at various dates through 2039. The tax-exempt bonds have a stated weighted average interest rate of 4.7 percent. The taxable bonds have a stated weighted average interest rate of 3.5 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In March 2013, General Revenue Bonds totaling $286.5 million in taxable fixed-rate notes were issued. Proceeds were used to refund $286.5 million of outstanding General Revenue Bonds. The taxable fixed-rate notes have a stated interest rate of 1.8 percent, maturing in 2019.

CAPITAL LEASES

UC Davis has entered into lease-purchase agreements with the state of California, recorded as capital leases. The state sells lease revenue bonds to finance construction and equipping of certain state-owned buildings to be used by UC Davis. At the conclusion of the lease term, ownership transfers to UC Davis.

In October 2013, the University of California refinanced all the lease revenue bonds issues by the state of California with University General Revenue Bonds and ownership of all the properties transferred to the University.

The state of California financing appropriation to UC Davis under the terms of the lease-purchase agreements, recorded as nonoperating revenue in the statement of revenue, expenses and changes in net position, for the year ended June 30, 2014 was $130 thousand, and $32 million in 2013. The principal and interest, including accrued interest, reported in UC Davis' financial statements for the years ended June 30, 2014, and 2013 contain amounts related to these lease-purchase agreements with the state of California as follows (in thousands of dollars):

	2014	2013
Capital lease principal	630	17,140
Capital lease interest	5,594	18,785
	$6,224	$35,925

Capital leases entered into with other lessors, typically for equipment, totaled $601 thousand for the year ended June 30, 2014.

FUTURE DEBT SERVICE

Future debt service payments for each of the five fiscal years subsequent to June 30, 2014, and thereafter are as follows (in thousands of dollars):

	REVENUE BONDS	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASES STATE	CAPITAL LEASES OTHER	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year Ended June 30							
FY 2015	$106,370	$14,377		$2,279	$123,026	$60,935	$62,091
FY 2016	105,772	10,522		763	117,057	57,232	59,825
FY 2017	104,167	6,523		145	110,835	53,061	57,774
FY 2018	103,993	623		79	104,695	49,015	55,680
FY 2019	103,553				103,553	50,050	53,503
FY 2020 - FY2024	489,937				489,937	267,048	222,889
FY 2025 - FY2029	395,519				395,519	234,352	161,167
FY 2030 - FY2034	294,737				294,737	181,354	113,383
FY 2035 - FY2039	258,239				258,239	188,628	69,611
FY 2040 - FY2044	161,093				161,093	124,596	36,497
FY 2045 - FY2049	101,656				101,656	83,525	18,131
FY 2050 - FY2054	12,145				12,145		12,145
FY 2055 - FY2059	12,145				12,145		12,145
FY 2060 - FY2064	12,145				12,145		12,145
FY 2065 - FY2069	12,145				12,145		12,145
FY 2070 - FY2074	12,145				12,145		12,145
FY 2075 - FY2079	12,145				12,145		12,145
FY 2080 - FY2084	12,145				12,145		12,145
FY 2085 - FY2089	12,145				12,145		12,145
FY 2090 - FY2094	12,145				12,145		12,145
FY 2095 - FY2099	12,145				12,145		12,145
FY 2100 - FY2104	12,145				12,145		12,145
FY 2105 - FY2109	12,145				12,145		12,145
FY 2110 - FY2112	57,287				57,287	50,000	7,287
TOTAL FUTURE DEBT SERVICE:	**2,428,063**	**32,045**		**3,266**	**$2,463,374**	**$1,399,796**	**$1,063,578**
LESS: INTEREST COMPONENT OF FUTURE PAYMENTS	**1,062,892**	**605**		**81**			
PRINCIPAL PORTION OF FUTURE PAYMENTS	**$1,365,171**	**$31,440**		**$3,185**			

9. OTHER NONCURRENT LIABILITIES

UC Davis' other liabilities, primarily employee leave and other compensated absences with similar characteristics, the medical center third party payor settlement liability, the estimated closure liability for the McClellan nuclear reactor and the UC Davis landfill and accrued interest are as follows (in thousands of dollars):

	2014		2013	
	CURRENT	NONCURRENT	CURRENT	NONCURRENT
Compensated absences	$83,959	$53,105	$84,968	$41,142
3rd party payer settlement liability	156,324		168,021	
Accrued interest	6,566		10,705	
McClellan closure		17,593		17,593
Pollution Remediation		56,366		57,336
Landfill closure		3,814		3,890
Other liabilities	13,972		8,478	
TOTAL OTHER LIABILITIES	**$260,821**	**$130,878**	**$272,172**	**$119,961**

POLLUTION REMEDIATION LIABILITIES

Pollution remediation liabilities generally involve groundwater, soil and sediment contamination at certain sites where state and other regulatory agencies have indicated UC Davis is among the responsible parties. The liabilities are revalued annually and may increase or decrease the cost or recovery from third parties, if any, as a result of additional information that refines the estimates, or from payments made from revenue sources that support the activity. There were no expected recoveries at June 30, 2014 reducing the pollution remediation liability.

MCCLELLAN CLOSURE LIABILITY

In September 1999, the Regents of the University of California authorized UC Davis to acquire the McClellan Nuclear Radiation Center (MNRC) from the Department of Defense. The Nuclear Regulatory Commission license for this reactor requires that the majority (51%) of the workload be for the purposes of education and research. Legislation authorized the allocation of $17.6 million to UC Davis to cover the cost of the eventual decommissioning of the MNRC in approximately 27 years. A fund functioning as an endowment has been established for these funds and the approximate decommission costs recorded as a liability.

LANDFILL CLOSURE

UC Davis has two landfill units. Unit I had a total capacity of close to 252 thousand cubic yards and was closed in June 2001. Unit II is made up of 8 cells with a combined capacity of 703 thousand cubic yards and was closed as of August 2011 before reaching its full capacity.

State laws and regulations require UC Davis to perform certain maintenance and monitoring functions at each landfill site for 30 years after closure. In 2012, with the formal closing of the landfill, the full present value of the closure and post closure costs was reported for a total liability of $4 million.

UC Davis is required by state laws and regulations to make contributions to a trust to finance closure care. At June 30, 2014, investments of $1.6 million were held for these purposes.

10. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The composition of deferred outflows and inflows of resources as of June 30, 2014 and 2013, respectively, is summarized as follows:

	2014		2013	
	DEFERRED OUTFLOWS	DEFERRED INFLOWS	DEFERRED OUTFLOWS	DEFERRED INFLOWS
Service concession arrangements		$29,965		$30,839
Net pension liability	$523,836	1,024,984	$712,660	611,975
Loss in debt refunding	15,342		17,519	
TOTAL DEFERRED OUTFLOW AND INFLOW OF RESOURCES	**$539,178**	**$1,054,949**	**$730,179**	**$642,814**

11. RETIREE HEALTH PLANS

The university administers single-employer health plans to provide health and welfare benefits, primarily medical, dental and vision benefits, to eligible retirees of the University of California and its affiliates. The regents have the authority to establish and amend the benefit plans.

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

Effective July 2013, retirees who are employed by the university after July 1, 2013, and retire at the age of 56 or older, become eligible for a percentage of the university's contribution based on age and years of service. Retirees are eligible for the maximum university contribution at age 65 with 20 or more years of service.

Active employees do not make any contributions toward the retiree health benefit plans. Retirees pay the excess, if any, of the premium over the applicable portion of the University's contribution.

In addition to the explicit university contribution provided to retirees, there is an "implicit subsidy." The gross premiums for members that are not currently eligible for Medicare benefits are the same for active employees and retirees, based on a blend of their health costs. Retirees, on average, are expected to have higher health care costs than active employees. This is primarily due to the older average age of retirees. Since the same gross premiums apply to both groups, the premiums paid for active employees by the university are subsidizing the premiums for retirees. This effect is called the implicit subsidy. The implicit subsidy associated with retiree health costs paid during the past year is also considered to be a contribution from the university.

Participating university locations, such as the campus, are required to contribute at a rate assessed each year by the University of California Retiree Health Benefit Trust (UCRHBT). The contribution requirements are based upon projected pay-as-you-go financing requirements. The assessment rate per $100 of UCRP covered payroll for 2014 was $3.40 and for 2013 started at $1.80 but then rose to $3.72 in January. This resulted in campus contributions of $47 million and $36 million for years ended June 30, 2014 and 2013, respectively.

The actuarial value of UCRHBT assets and the actuarial accrued liability associated with the university's campuses and medical centers using the entry age normal cost method as of July 1, 2013, the date of the latest actuarial valuation, were $44 million and $13.2 billion, respectively. The net assets held in trust for pension benefits on the UCRHBT's Statement of Plan Fiduciary Net assets were $65.2 million at June 30, 2014. For the years ended June 30, 2014 and 2013, combined contributions from the university's campuses and medical centers were $380 million and $311.2 million, respectively, including an implicit subsidy of $85 million and $86 million, respectively. The university's annual retiree health benefit expense for its campuses and medical centers was $1.2 billion and $1.4 billion for the years ended June 30, 2014 and 2013, respectively. As a result of contributions that were less than the retiree health benefit expense, the university's obligation for retiree health benefits attributable to its campuses and medical centers totaling $8.18 billion at June 30, 2013 increased by $836 million and $1.10 billion for the years ended June 30, 2014 and 2013, respectively.

Information related to plan assets and liabilities as they relate to individual campuses and medical centers is not readily available. Additional information on the retiree health plans can be obtained from the 2013-2014 annual reports of the University of California and the University of California Health and Welfare Program.

12. RETIREMENT PLANS

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

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

Annual cost-of-living adjustments (COLAs) are made to monthly benefits according to a specified formula based on the Consumer Price Index. Ad hoc COLAs may be granted subject to funding availability. Contributions to the UCRP may be made by the campus and the employees. The rates for contributions as a percentage of payroll are determined annually pursuant to the regents' funding policy and based upon recommendations of the consulting actuary. The regents determine the portion of the total contribution to be made by the campus and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements.

CONTRIBUTIONS. Contributions to the UCRP may be made by UC Davis and the employees. The rates for contributions as a percentage of payroll are determined annually pursuant to the regents' funding policy and based upon recommendations of the consulting actuary. The regents determine the portion of the total contribution to be made by the campuses and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements. Effective July 1, 2013, employee member and employer contributions were 6.5 percent and 12 percent, respectively. The member contribution rate for employees in the new benefit tier applicable to employees hired on or after July 1, 2013 is 7.0%, and the employer rate is uniform across all members. Effective July 1, 2014, employee member and employer contributions were 8.0 percent and 14.0 percent, respectively.

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

Contributions were as follows during the year ended June 30, 2014:

(in thousands of dollars)	EMPLOYER	EMPLOYEE	TOTAL
Campus	$102,663	$51,103	$153,766
Medical Center	72,105	39,081	111,186
TOTAL	**$174,768**	**$90,184**	**$264,952**

NET PENSION LIABILITY. The UC Davis campus' and Medical Center's proportionate share of the net pension liability for UCRP as of June 30, 2014 is as follows:

(in thousands of dollars)	PROPORTION OF THE NET PENSION LIABILITY	PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Campus	9.2%	660,342
Medical Center	6.6%	468,810
TOTAL		**$1,129,152**

UC Davis' net pension liability was measured as of June 30, 2014 and was based upon rolling forward the results of the actuarial valuations as of July 1, 2013. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future. UC Davis' net pension liability was calculated using the following methods and assumptions:

Inflation	3.5 percent
Investment rate of return	7.5 percent
Projected salary increases	4.3 – 6.8 percent
Cost-of-living adjustments	2.0 percent

For active members, inactive members and healthy retirees, the RP-2000 Combined Healthy Mortality Table, projected with scale AA to 2025, with ages set back two years is used. For disabled members, rates are based on the RP-2000 Disabled Retiree Mortality Table, projected with Scale AA to 2025, with ages set back two years for males.

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the July 1, 2013 valuation were based upon the results of an experience study conducted for the period July 1, 2006 through June 30, 2010.

The long-term expected investment rate of return assumption for UCRP was determined based on a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation adopted by the regents and by adding expected inflation. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption for each major asset class are as follows:

ASSET CLASS	TARGET ALLOCATION	LONG-TERM EXPECTED REAL RATE OF RETURN
U.S. Equity	23.0%	6.8%
Developed International Equity	24.0%	6.9%
Emerging Market Equity	5.0%	9.3%
Core Fixed Income	12.0%	1.5%
High Yield Bonds	2.5%	3.7%
Emerging Market Debt	2.5%	4.0%
TIPS	8.0%	1.3%
Real Estate	7.0%	5.4%
Private Equity	6.0%	10.4%
Absolute Return/Hedge Funds/ Real Assets	10.0%	4.1%
TOTAL	**100.0%**	

DISCOUNT RATE. The discount rate used to estimate the net pension liability as of June 30, 2014 was 7.5 percent. To calculate the discount rate, cash flows into and out of UCRP were projected in order to determine whether UCRP has sufficient cash in future periods for projected benefit payments for current members. For this purpose, campus and Medical Center contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected campus and Medical Center contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are not included. UCRP was projected to have assets sufficient to make projected benefit payments for current members for all future years as of June 30, 2014.

Sensitivity of the Net Pension Liability to the Discounted Rate Assumption. The following presents the current-period net pension liability of the campus and the Medical Center calculated using the current-period discount rate assumption of 7.5 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	1% DECREASE (6.5%)	CURRENT DISCOUNT (7.5%)	1% INCREASE (8.55%)
Campus	$1,268,316	$660,342	$149,876
Medical Center	900,440	468,810	106,404
TOTAL	**$2,168,756**	**$1,129,152**	**$256,280**

DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES. Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources as of June 30, 2014:

(in thousands of dollars)		
DEFERRED OUTFLOWS OF RESOURCES	**CAMPUS**	**MEDICAL CENTER**
Changes in proportion and differences between contributions and proportionate share of contributions	$676	$32,257
Changes of assumptions or other inputs	193,961	137,704
Net difference between projected and actual earnings on pension plan investments	93,125	66,113
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**$287,762**	**$236,074**
DEFERRED INFLOWS OF RESOURCES		
Changes in proportion and differences between contributions and proportionate share of contributions	$20,208	$1,630
Changes of assumptions or other inputs	175,388	124,517
Net difference between projected and actual earnings on pension plan investments	373,116	264,893
Difference between expected and actual experience	38,149	27,083
TOTAL DEFERRED INFLOWS OF RESOURCES	**$606,861**	**$418,123**

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

(in thousands of dollars)			
YEAR ENDED JUNE 30:	**CAMPUS**	**MEDICAL CENTER**	**TOTAL**
2015	$(49,741)	$(23,144)	$(72,885)
2016	(49,740)	(23,145)	(72,885)
2017	(98,124)	(57,635)	(155,759)
2018	(117,680)	(77,157)	(194,837)
2019	(3,814)	(968)	(4,782)

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

Additional information on the retirement plans can be obtained from the 2013-2014 annual reports of the University of California Retirement Plan, the University of California Retirement Savings Plan and the University of California PERS–VERIP.

13. ENDOWMENT FUNDS

The value of endowment and restricted gifts at June 30, 2014 and 2013 is as follows (in thousands):

	RESTRICTED NON-EXPENDABLE	RESTRICTED EXPENDABLE	TOTAL
Year ended June 30, 2014			
Endowments	$115,885	$161,391	$277,276
Funds functioning as endowments		362,168	362,168
Annuity and life income	2,665		2,665
Gifts		96,564	96,564
ENDOWMENTS AND GIFTS	**$118,550**	**$620,123**	**$738,673**
Year ended June 30, 2013			
Endowments	$111,559	$127,250	$238,809
Funds functioning as endowments		308,725	308,725
Annuity and life income	2,135		2,135
Gifts		97,458	97,458
ENDOWMENTS AND GIFTS	**$113,694**	**$533,433**	**$647,127**

The portion of investment returns earned on endowments held by the regents and distributed each year to support current operations is based upon a rate (stated in dollars per share) that is approved by the regents. The total distribution from endowments held by the regents to UC Davis was $24 million for the year ended June 30, 2014.

14. OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the years ended June 30, 2014, and June 30, 2013 are as follows (in thousands of dollars):

	2014	2013
Instruction	$699,875	$708,660
Research	520,917	589,835
Public service	96,988	87,240
Academic support	189,799	234,997
Student services	124,105	120,798
Institutional support	122,431	119,206
Operations and maintenance of plant	99,612	146,540
Student financial aid	56,136	68,747
Medical center	1,484,220	1,310,883
Auxiliary enterprises	97,189	108,886
Depreciation	228,453	229,020
Impairment of capital assets	634	600
Other	6,318	8,758
TOTAL OPERATING EXPENSES	**$3,726,677**	**$3,734,170**

15. SEGMENT INFORMATION

UC Davis' significant identifiable activities for which revenue bonds are outstanding are related to the University of California, Davis Medical Center. The medical center operating revenue and expenses consist primarily of revenues associated with patient care and the related costs of providing that care.

Condensed financial statement information related to the UC Davis Medical Center for the years ended June 30, 2014, and 2013, follows (in thousands of dollars):

Additional Information on the UC Davis Medical Center can be obtained from the UC Medical Centers June 30, 2014, audited financial statements.

	2014	2013
Bonds outstanding	$318,059	$314,344
Related debt service payments	$33,198	$31,546
Bonds due serially through	2047	2047
CONDENSED STATEMENT OF NET POSITION		
Current assets	$609,403	$556,367
Capital assets, net	1,044,562	1,077,727
Other assets	20,638	25,413
TOTAL ASSETS	**1,674,603**	**1,659,507**
TOTAL DEFERRED OUTFLOWS OF RESOURCES	**251,415**	**325,097**
Current liabilities	259,435	262,044
Long-term debt	323,879	335,485
Other noncurrent liabilities	600,375	822,524
TOTAL LIABILITIES	**1,183,689**	**1,420,053**
TOTAL DEFERRED INFLOWS OF RESOURCES	**418,123**	**244,912**
Invested in capital assets, net of debt	697,588	696,397
Restricted		
Unrestricted	(373,382)	(376,758)
TOTAL NET POSITION	**$324,206**	**$319,639**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		
Operating revenues	$1,585,658	$1,476,447
Operating expenses	(1,442,984)	(1,401,815)
Depreciation expense	(85,928)	(88,238)
OPERATING INCOME	**56,746**	**(13,606)**
Nonoperating revenues (expenses), net	(9,761)	(10,988)
INCOME BEFORE CHANGES IN OTHER ASSETS	**46,985**	**(24,594)**
Health systems support	(38,256)	(24,230)
Transfers to the University of California	(5,077)	8,201
Changes in allocation of pension payable to University	(29)	(3,770)
Other, including donated assets	944	86
INCREASE IN NET ASSETS	**4,567**	**(44,307)**
Net position–beginning of year		
Beginning of year, as previously reported	1,081,724	1,022,346
Cumulative effect of accounting change	(762,085)	658,400
Beginning of year, as restated	319,639	363,946
NET POSITION – ENDING BALANCE	**$324,206**	**$319,639**
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	$181,224	$177,777
Noncapital financing activities	(50,406)	(10,785)
Capital and related financing activities	(101,334)	(75,409)
Investing activities	13,912	4,823
NET INCREASE IN CASH	**43,396**	**96,406**
Cash and cash equivalents–beginning balance	254,609	158,203
CASH AND CASH EQUIVALENTS–ENDING BALANCE	**$298,005**	**$254,609**

16. UC DAVIS FOUNDATION

Under university policies approved by the regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the mission of the campus. Although independent boards govern the UC Davis Foundation, their assets are dedicated for the benefit of the campus. During the years ended June 30, 2014 and 2013, gifts of $33.4 million and $22.7 million, respectively were transferred to UC Davis from the UC Davis Foundation. At June 30, 2014 and 2013, UC Davis Foundation's net assets were $349 million and $288 million, respectively.

17. COMMITMENTS AND CONTINGENCIES

UC Davis leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenditures for the years ended June 30, 2014 and 2013, were $34 million and $32 million, respectively. The terms of operating leases extend through the year ending 2034. Future minimum payments on operating leases with an initial or remaining non-cancelable term in excess of one year are as follows (in thousands of dollars):

Year Ending June 30, 2014	MINIMUM ANNUAL LEASE PAYMENTS
2015	31,461
2016	24,911
2017	16,975
2018	13,039
2019	10,572
2020-2024	26,373
2025-2029	180
2030-2034	20
TOTAL	**$123,531**

Substantial amounts are received and expended by UC Davis under other federal and state grants and contracts and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, medical center operations and other programs. UC Davis management believes that any liabilities arising from such audits will not have a material effect on UC Davis' financial statements.

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

REQUIRED SUPPLEMENTARY INFORMATION

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

in thousands	PROPORTION OF THE NET PENSION LIABILITY	PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	COVERED EMPLOYEE PAYROLL	PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS A PERCENTAGE OF ITS COVERED-EMPLOYEE PAYROLL	PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY
DAVIS CAMPUS					
2014	9.2%	$660,342	$850,488	77.6%	86.3%
2013	9.5%	1,004,519	819,467	122.6%	78.3%
2012	9.5%	1,329,316	789,556	168.4%	71.3%
2011	9.7%	690,003	766,205	90.1%	83.0%
DAVIS MEDICAL CENTER					
2014	6.6%	468,810	603,824	77.6%	86.3%
2013	6.5%	609,989	563,695	122.6%	78.3%
2012	6.3%	880,516	522,988	168.4%	71.3%
2011	6.0%	426,833	473,978	90.1%	83.0%

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