



UC DAVIS
UNIVERSITY OF CALIFORNIA

2014-15 Financial Report



2014-15 Financial Report

A Message from the Chancellor

For a university to achieve and sustain a level of excellence in scholarship and research, it must be built on a solid foundation of financial stability and with an identified set of strategies for the future.

At UC Davis we've taken a number of important steps to strengthen our fiscal health after several years of hard economic times brought about by the Great Recession. As a result, the university's future looks bright.

We're proud of the progress we've made in recent years and are working hard to do even more with campus-wide efficiencies, philanthropy, research funding and other initiatives. This past fiscal year, for example, we received a UC Davis record \$786 million in sponsored research — the fourth consecutive year of research grants totaling more than \$700 million — and have plans we believe will get us to our goal of \$1 billion a year by 2020.

Our endowment reached the \$1 billion mark in June 2015 for the first time ever, putting us on an exclusive list of American universities with endowments that large and providing a healthy source of perpetual support for our core academic mission that we are working to grow. We completed our first comprehensive Campaign for UC Davis, topping our goal of raising \$1 billion from 100,000 donors more than a year early.

In the fiscal year that ended in June 2015, we experienced a record year of giving, with \$184 million in gifts. That was an 11 percent increase from the year before and the 9th year in a row that UC Davis fundraising topped \$100 million. We are now in the planning stages for the next campaign. On our Health System campus in Sacramento, we've experienced a growth in net revenues of 8.4 percent and campuswide, we are more than a quarter of the way toward our goal of generating \$250 million annually in new revenues to reinvest back into the university and its core mission.

The UC Davis Financial Report provides a thorough overview of our financial status for the fiscal year that ended June 30, 2015 and shares some of the highlights mentioned above and more. Inside, you'll see some of our more significant financial benchmarks and get an idea of how we plan to do even more in the future as we continue to move forward in establishing UC Davis as the University of the 21st Century.



Linda P.B. Katehi
Chancellor

A Message from the Chief Financial Officer

Phenomenal things happen at UC Davis every day of the year. We are incredibly proud of the contributions faculty, students, and staff have made around the world in Fiscal Year 2014-15.

This report sets forth the financial position of UC Davis for the fiscal years ended June 30, 2015 and 2014. UC Davis's strong financial performance allows us to continue providing stellar education, research and clinical services to California and the rest of the world.

UC Davis continues to lead the world in new directions through our teaching, research and public service. At a time when public funding continues to decline, we are ever mindful of our responsibility to be wise stewards of all resources, regularly explore alternative economic means of funding our mission, and enhance the ways we can provide the greatest returns to UC Davis stakeholders.

Fiscal Year 2015 was a year of growth for both the campus and medical center as operating revenues increased by 6 percent with a corresponding increase in operating expenses of 5 percent. Compared to 2014, there was much slower growth in 2015 investments due to the significant rebound of the stock market in 2014. UC Davis' net assets grew to a new level of over \$1.6 billion as of June 30, 2015.

Student demand continues to grow: Fall 2015 enrollment increased by almost 2 percent compared to 2014. UC Davis is proud to support its students by offering financial aid to make a quality education affordable. Financial aid to all students, on a combined basis, grew 8 percent to \$254 million in 2015. During the 2014-15 academic year, 75 percent of undergraduates received financial aid, averaging \$19,775 per award.

Our financial health depends on growing revenues, fully leveraging intellectual property, building on the impressive research funding base, and developing a reputation for strategic sourcing, debt management, fundraising, capital planning, delivery and maintenance.

In 2015, the Financial Sustainability Action Plan was unveiled, which provides a roadmap to generate new funds from four key resources – new revenues, cost efficiencies, research growth, and fundraising – to invest in faculty, research, academic programs and support. The goal is to generate \$250 million annually in reoccurring funds at maturity.

We are very excited about the continuing growth in demand from students within and outside California. We attract the best students in the world and for many, UC Davis is their top choice. We continue to invest across the institution to provide world-class academic programs and support.



Dave Lawlor
Vice Chancellor and
Chief Financial Officer

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Students



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Academics



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Financial Sustainability



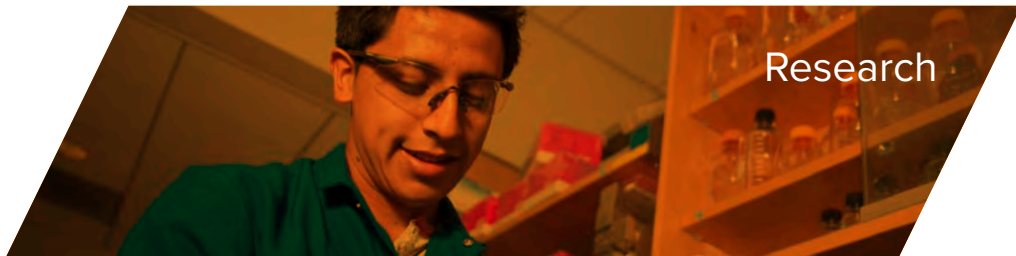
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Health System



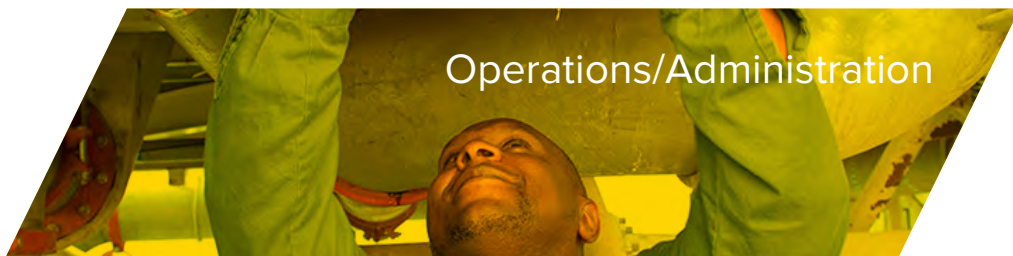
Research

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Operations/Administration

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Philanthropy

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Finances

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University Facts

Colleges and Schools

- College of Agricultural and Environmental Sciences
- College of Biological Sciences
- College of Engineering
- College of Letters and Science
- School of Education
- School of Law
- Graduate School of Management
- School of Medicine
- School of Veterinary Medicine
- Betty Irene Moore School of Nursing

Number of Students

- 36,104 Total Student Population
- 28,384 Undergraduate
- 4,416 Graduate
- 1,271 Professional
- 1,115 Health Sciences
- 918 Interns & Residents

Number of Alumni

- 238,167 living alumni with degrees

Number of Faculty and Academic Positions

- 4,132

Educational Opportunities

- 104 undergraduate majors
- 96 graduate programs

Degrees Awarded

- Bachelor's 7,120
- Master's 1,076
- Doctoral 553
- Professional 472

Health Care

- 50,000 small and large animals cared for at UC Davis Veterinary Medicine Teaching Hospital
- 6 million served by UC Davis Health System

Athletics

- 23 intercollegiate sports (14 for women, 9 for men)

History

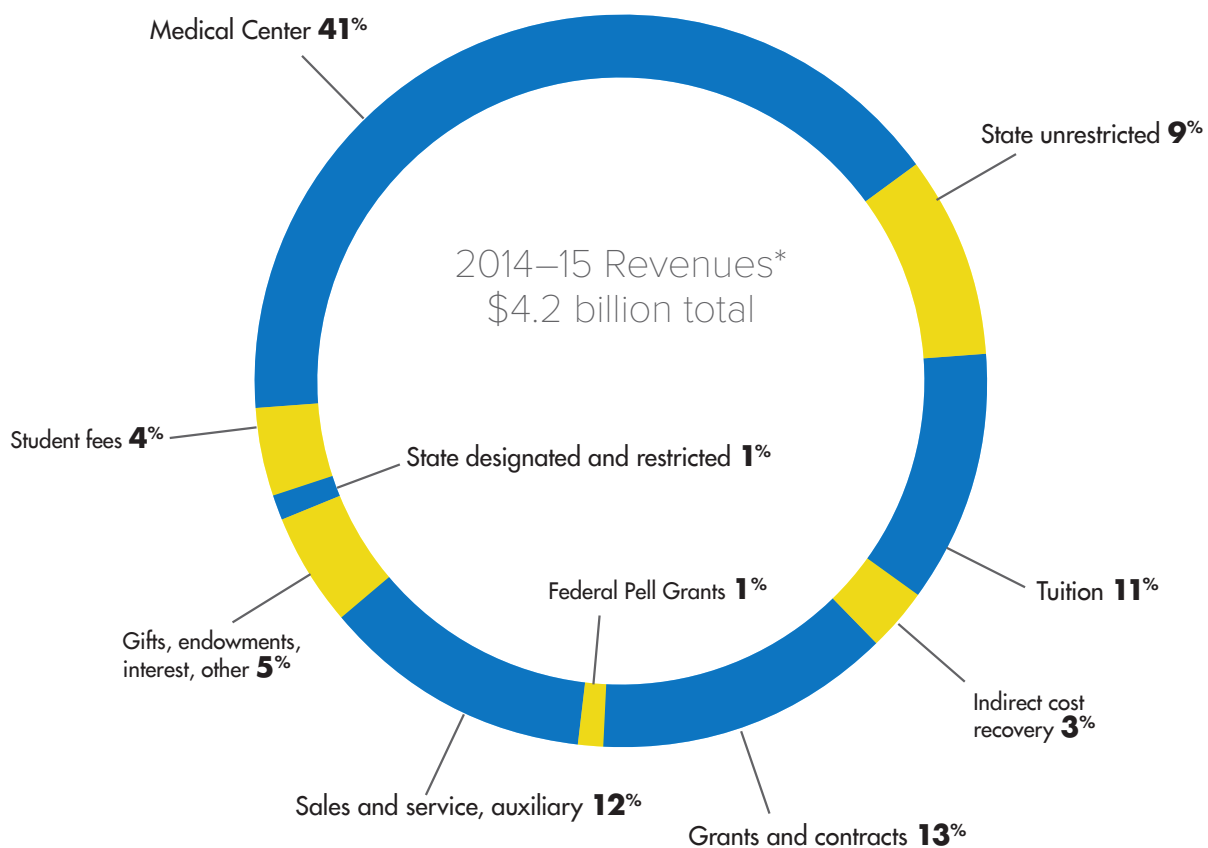
- Founded as a land grant institution in 1905
- Admitted the first students in 1908

Physical Size

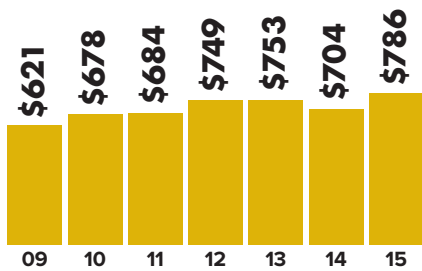
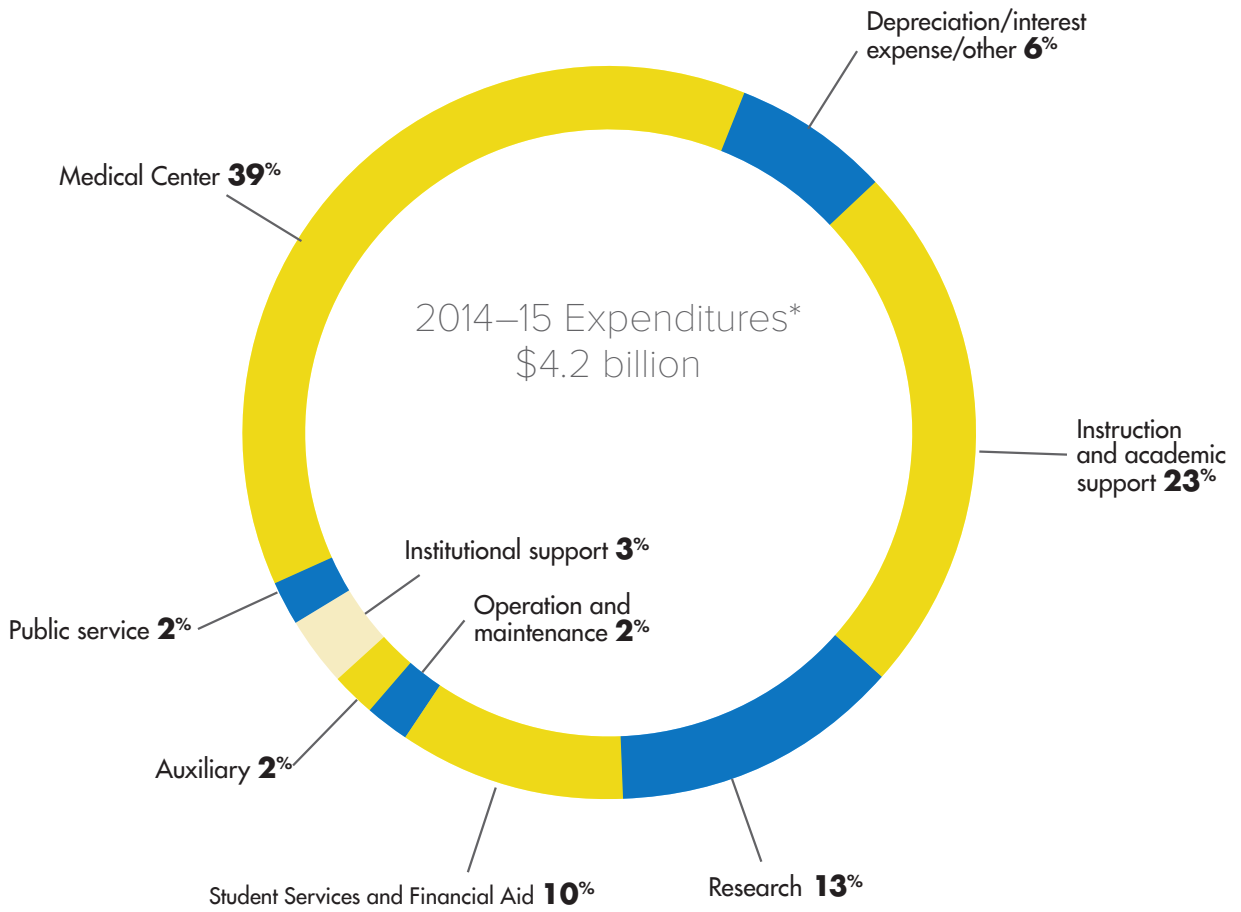
- 5,300 acres, the largest of any UC Campus

2014-15 Revenues and Expenditures

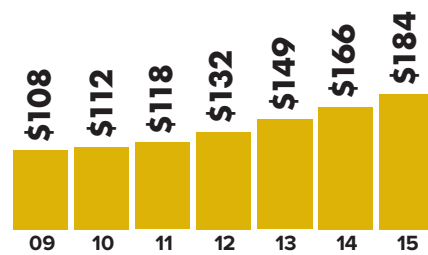
UC Davis revenues come from many sources, but 80 percent are designated or restricted. For example, revenues from the UC Davis Medical Center, campus auxiliaries, such as housing, and federal, state and private sources to fund research support only these operations. The primary source for the campus's teaching mission comes from unrestricted state funds and student tuition.



**Amounts shown are increased by scholarship allowance.*



Extramural Research Funding
FY 2009-15 (millions)



Philanthropy
FY 2009-15 (millions)



Students

UC Davis is proud to support its students by providing institutional financial aid, including scholarship and fellowship assistance, of \$230 million in 2014-15.

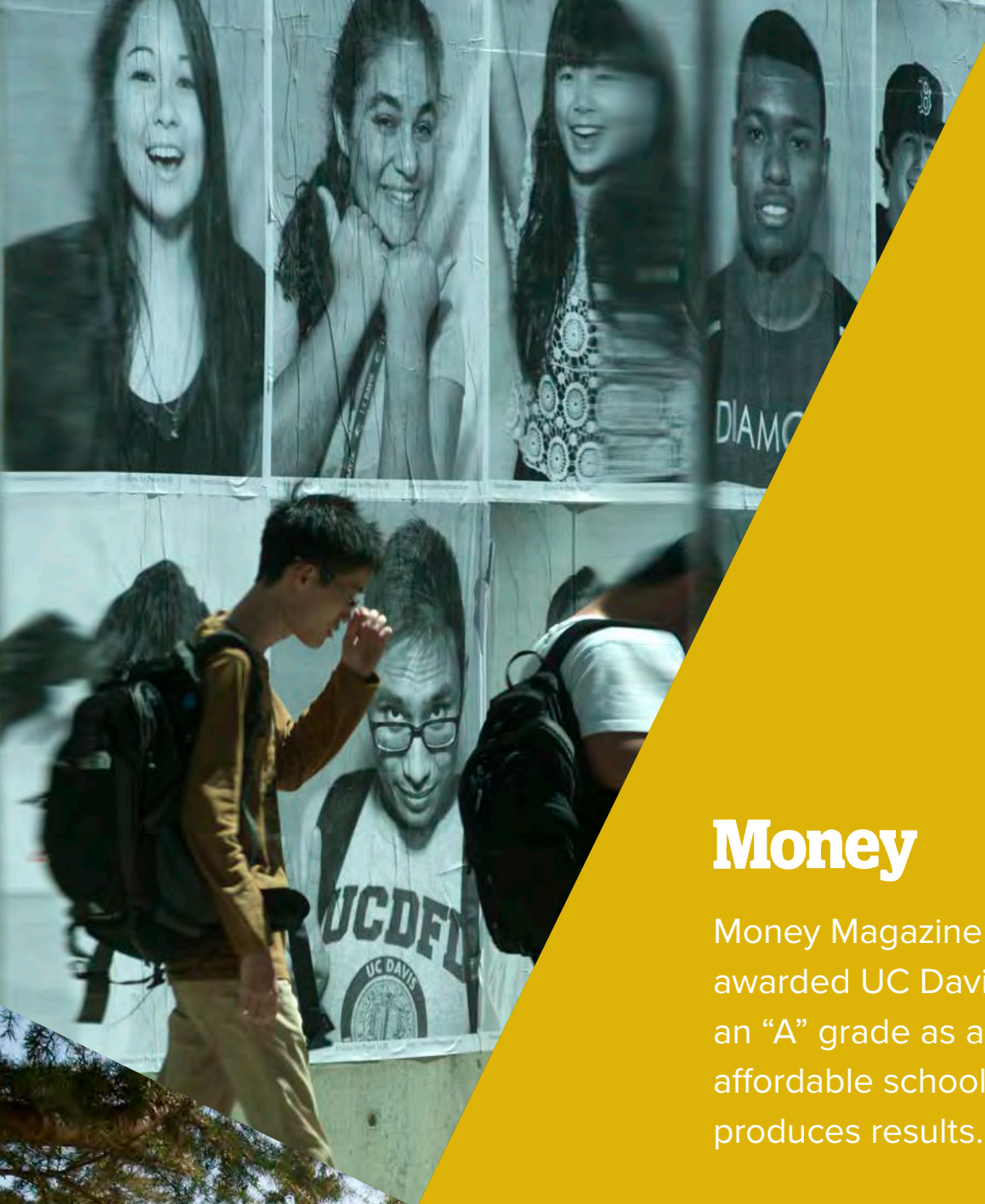


Attracting the Highest Quality Students

For fall 2015, UC Davis had more than 64,000 freshman applicants and more than 15,000 transfer applicants with an average GPA over 4.0 – up from 3.88 in 2011. Serving California residents in a significant way, UC Davis enrolled almost 25,000 undergraduate California residents as of fall 2014. From fall 2008 to fall 2014, Davis increased its enrollment of California residents by more than 1,500 students (or 7 percent). In fact, one in every 250 Californians is a UC Davis alum. And our alumni earn a mean annual salary of \$93,100 — twice the California average.

With an eye toward the financial future of our students, UC Davis implemented programs to help students minimize debt – decreasing average loan indebtedness at graduation. In the 2013-14 academic year, for example, 44 percent of undergraduates accrued no debt while at UC Davis. For those who graduated with debt, the average was \$19,705, while the national average was \$28,950.

UC Davis is proud to support its students by offering financial aid to make a quality education affordable. During the 2014-15 academic year, 75 percent of undergraduate students received financial aid, averaging \$19,775 per award. In fact, UC Davis enrolls more Pell Grant recipients than the entire Ivy League combined, dispersing grants to 41 percent of undergraduates in 2014-15.



Money

Money Magazine awarded UC Davis an “A” grade as an affordable school that produces results.



To help provide financial support to students during their studies at UC Davis, the university provides choice job opportunities in a variety of different roles across campus. As of October 2014, UC Davis employed more than 9,500 students. The number of student employees has increased by 8 percent since 2009. In 2014-15, teaching assistants and graduate student researchers received almost \$93 million in earnings, health insurance and fee remission. On average, this equates to almost \$7,300 per student per academic quarter.



Naftali Moed '16 has a passion for protecting open space and ensuring they're accessible and valuable to the public. As a champion for clean energy, Naftali serves as the UC Davis student engagement fellow for the UC Carbon Neutrality initiative and led a campaign to encourage leaders to install more renewable energy on campus. Naftali, an Environmental Policy and Planning student, holds a coveted spot in the UC Davis Arboretum and Public Garden's Learning by Leading program, where students are offered opportunities to use the university's physical spaces to gain real world environmental leadership skills.



Academics

UC Davis education graduate students Mary Stewart and Jenae Cohn describe how students interact with online classes during a Hybrid Learning Showcase and Workshop.

Advancing Teaching and Learning Through Technology

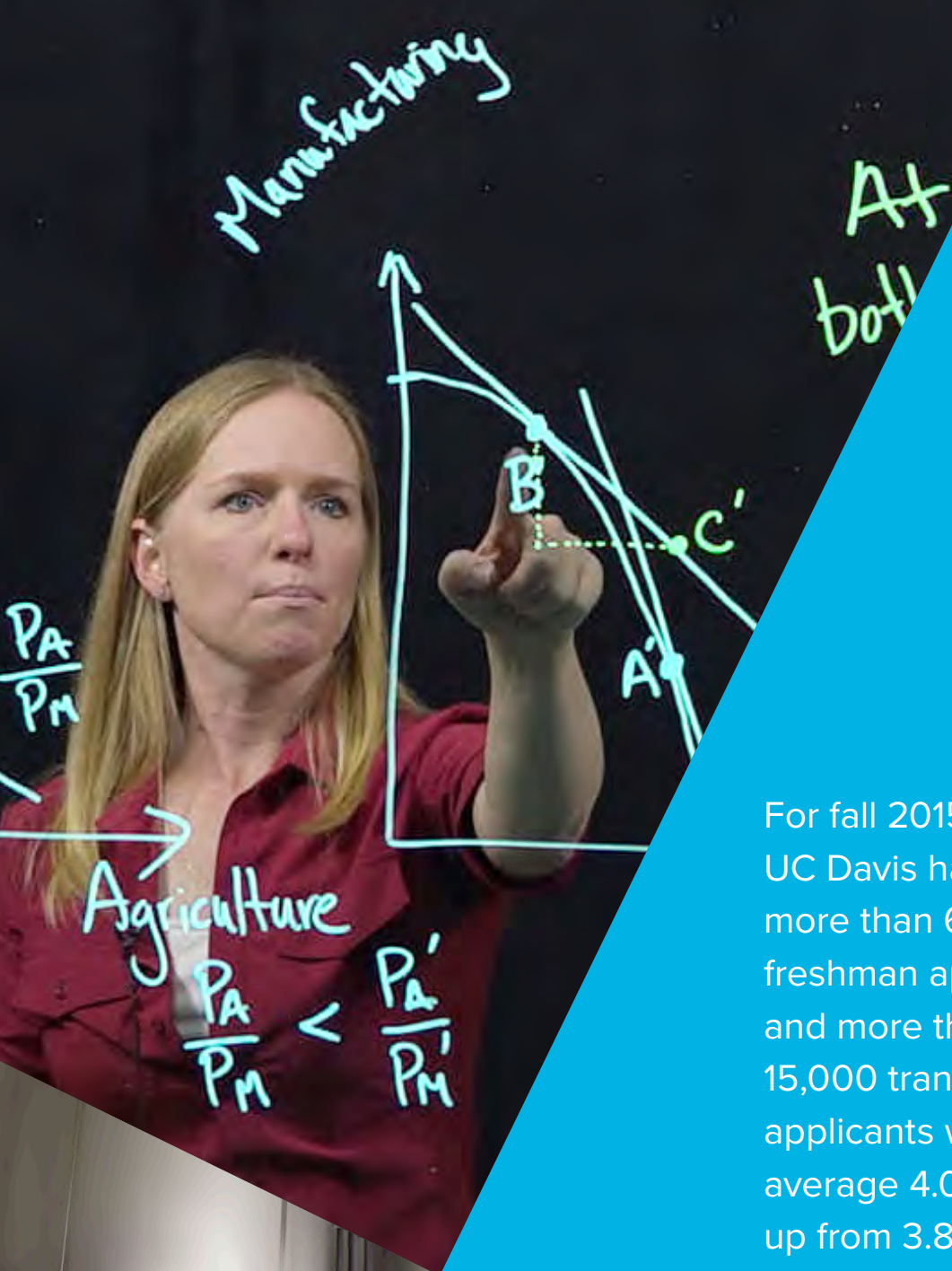
New technologies support dynamic online lectures, interactive classes

UC Davis is leading the development of hybrid and blended courses, which incorporate online instruction and activities with face-to-face classroom interaction to increase student engagement, promote deeper learning and boost access for a growing student population.

To encourage instructors to explore blended teaching and learning, UC Davis provides both financial support, curriculum and technological expertise for faculty to design new courses, or redesign traditional lecture-based courses to maximize the effectiveness of the online format. Since 2011, 26 hybrid courses have been developed under the Provost Hybrid Course Award – a \$13,500 grant to develop courses that are ADA compliant.

Dr. Janine Wilson, for example, has redesigned her Economic Development course, which typically enrolls 150 students. With increasing class size, varying levels of student preparedness, and a growing number of students for whom English is a second language, the hybrid model allows students to watch the videos as many times as they need to, and the captioned lectures can be useful for many international students.

The hybrid design replaces in-class large lectures with dynamic, technologically enhanced videos, and allows faculty to use traditional classroom time to meet with students face-to-face in smaller groups.



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Top Photo

Learning Glass technology developed by UC Davis allows faculty like Dr. Janine Wilson to visually walk students through complex models and concepts.

Bottom Photo

Professor Charlie Bamforth leads a discussion at the August A. Busch III Brewing and Food Science Laboratory.

Videos produced for hybrid courses go well beyond videotaped classroom lectures. The UC Davis e-Learning Studio offers cutting-edge teaching technologies such as the Learning Glass, which allows the lecturer to face students (via the camera) as they write equations or notes on a transparent pane.

Similar technologies are used to adapt courses for full online delivery, including Professor Charlie Bamforth's wildly popular Beer and the Science of Brewing course, allowing students throughout the UC system to learn from Bamforth's signature lecture style for years to come.



First-Year Seminars

During the 2014-15 academic year, nearly 4,300 students participated in First-Year Seminars, an exciting program of small, innovative classes that reflect instructor's intellectual interests. Limited to 19 students, each of these once-in-a-lifetime courses promote intellectual exchange, critical thinking and community. From honeybees to zombies to stinky cheese, the program provides unique experiences for first-year, new and transfer students to learn and make connections with other students and faculty.



Financial Sustainability

Rose Hong Truong and three classmates created the VisionFinder, an inexpensive, portable device used to prescribe eyeglasses in developing nations.



Financial Sustainability Action Plan

New Investments in the University

UC Davis officially launched the Financial Sustainability Action Plan in 2015 to provide a roadmap to generate new funds from four key sources — new revenues, efficiencies, research and fundraising — to invest in faculty, research, academic programs and support. The initiative aims to generate \$250 million annually in recurring funds at maturity.

The university will count progress toward this goal starting in 2011-12 which marked the kickoff of 2020 — an initiative which aims to add 5,000 students by 2020. In 2014-15, the Financial Sustainability Action Plan delivered \$63 million and has poured it right back into the enterprise, including new faculty in multiple disciplines, improvements to classrooms and the library, critical student advising and career counseling programs, financial aid and other support programs.

While generating funds and making investments in the university is not a new phenomenon, this initiative is intended to spur a culture of fiscal innovation and discovery to support some of its long-term investment goals.



The Financial Sustainability Action Plan aims to generate \$250 million annually in recurring funds at maturity to invest in the university.



Top Photo

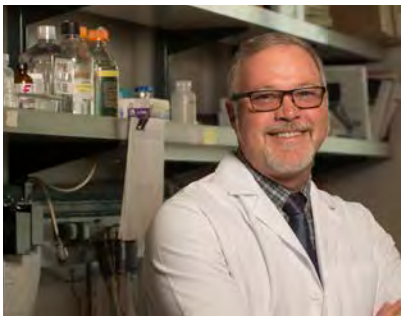
Both staff and students from the UC Davis School of Veterinary Medicine worked day and night caring for animals from the 2015 Valley and Butte Fires.

Bottom Photo

The John Le Conte research vessel is used by scientists from the UC Davis Tahoe Environmental Research Center to measure clarity in Lake Tahoe.

Hiring New Faculty Scholars

Funds from the Financial Sustainability Action Plan were used to hire new faculty scholars in departments across campus. Faculty like:



John D. McPherson, a basic scientist whose work contributed significantly to the sequencing of the human genome, has assumed the role of Associate Director for Basic Science and Deputy Director at the UC Davis Comprehensive Cancer Center and holds the Auburn Community Cancer Endowed Chair in Basic Science. McPherson leads the cancer center's growing human genomics research efforts with an eye toward improving access for cancer patients to precision medicines that target specific gene mutations responsible for tumor growth.



Veronika Hubeny, a leader in theoretical physics, joined the Department of Physics as a professor. Hubeny's interests include string theory, black holes and reconciling quantum mechanics with the classical model of gravity. She is a key member of the department's Center for Quantum Mathematics and Physics, a new initiative aimed at addressing questions at the forefront of modern theoretical and mathematical physics. The Center was founded in 2015 with five new faculty in physics and mathematics.




Marianne Bitler, an authority on health, education and public economics and the effects of government safety net programs on disadvantaged groups, joined the Department of Economics as a professor. She is also a faculty affiliate of UC Davis' Center for Poverty Research, one of three such federally designated centers in the nation. A research associate with the National Bureau of Economic Research and a research fellow at the IZA (Institute for the Study of Labor, based in Germany), she serves on an Institute of Medicine panel evaluating whether the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) food packages align with federal dietary guidelines.



Health System

Arsenia Harrison has retained her mobility with the help of an innovative study that uses the body's own stem cells to help regenerate blocked blood vessels in the legs.



Creating a Healthier World

Licensed as a 621-bed general acute care hospital with 32 operating rooms, the UC Davis Medical Center provides a full range of inpatient general acute and intensive care, and a full complement of ancillary, support and ambulatory services. The UC Davis Medical Center serves a 33-county 65,000-square-mile service area with a population of 6.2 million. In 2014-15, emergency department visits grew 22 percent over the previous year, primarily due to an increase in patients sponsored by the Medi-Cal program. A combination of higher volume and changes in rates resulted in an increase in net revenues of 8.4 percent. Income from operations was \$51.8 million.

The UC Davis Medical Center is the principal clinical teaching site for the University of California, Davis, School of Medicine, founded in 1966, and the Betty Irene Moore School of Nursing at UC Davis, established in 2009. The UC Davis Medical Group, supported by 1,015 faculty and contract physicians and approximately 700 residents and fellows, provides inpatient and outpatient medical services.



UC Davis Medical Center is the top-ranking hospital in the Sacramento metropolitan area, according to the results of the annual U.S. News & World Report “Best Hospitals” 2015-16 survey.

Top Photo

After a hard water landing during a recent skydiving jump, Iwan van der Schoor emerged with several broken ribs — and a life-threatening rupture of his main artery. A team of specialists and surgeons at UC Davis Medical Center’s level 1 trauma center was ready to save him.

Bottom Photo

Whether restoring eyesight, saving life and limb, developing breakthrough cancer treatments or offering the most advanced surgical techniques, UC Davis Health System expertise and innovation help improve lives in new ways every day.

Significant events during the year are highlighted below:

- The UC Davis Medical Center is the top-ranking hospital in the Sacramento metropolitan area, according to the results of the annual U.S. News & World Report “Best Hospitals” 2015-16 survey.
- The UC Davis Medical Center ranked as one of the nation’s best hospitals for 2015-16 in 10 adult medical specialties, including cancer care; cardiology and heart surgery; ear, nose and throat; geriatrics; gynecology; nephrology; neurology and neurosurgery; orthopaedics; pulmonology; and urology, according to the annual U.S. News & World Report “Best Hospitals” 2015-16 survey. Less than 3 percent of the nearly 5,000 hospitals that were analyzed for Best Hospitals 2015-16 were nationally ranked in even one specialty.
- U.S. News ranked UC Davis Children’s Hospital among the nation’s top children’s hospitals in five specialties in its 2015-16 rankings. Together with its longstanding partner Shriners Hospital for Children — Northern California, UC Davis Children’s Hospital ranked in orthopaedics and urology. The UC Davis Medical Center also ranked in neonatology, diabetes and endocrinology, neurology and neurosurgery.
- The UC Davis Medical Center ranked among The Leapfrog Group’s list of Top Hospitals for 2015, an elite distinction given for meeting tough national standards for safety and quality. The annual award is widely acknowledged as one of the most competitive awards a U.S. hospital can receive. UC Davis was one of 21 hospitals in California to receive it in 2015, the fourth consecutive year UC Davis placed on the list.



Research

Abraham Corrales, who is majoring in biochemistry and molecular biology, was one of 16 recipients across the country awarded with the prestigious National Institutes of Health (NIH) Undergraduate Scholarship



Attracting Historic Levels of Sponsored Research Awards

In 2014-15, UC Davis brought in a record \$786 million in sponsored research awards. The total represents an 11.5 percent increase from the previous year and a surge in support from the federal government by 13.4 percent year-over-year.

While research funding is flat in many organizations, UC Davis posted an increase of more than \$80 million. The School of Medicine received the largest share of research grants at UC Davis with \$264 million, followed by the College of Agricultural and Environmental Sciences at \$155 million and the School of Veterinary Medicine at \$114 million. Support for the College of Engineering surged by 57 percent to \$85 million over the previous year.

In addition to attracting research funding, UC Davis continues to foster discovery and innovation, enabling 13 startup companies in the last fiscal year. The university provides support for campus entrepreneurs in a number of ways, including facilitating intellectual property agreements and licensing inventions. Each startup is commercializing products or services that were seminally developed at UC Davis. Over the last three years, UC Davis has averaged about a dozen startups each year, up from only about four before 2012.



While research funding is flat in many organizations, UC Davis posted an increase of more than \$80 million.



Top Photo

A two-year-old plays with sunglasses while working with Kalina Stogsdill, an interventionist for the Early Start Denver Model intervention program for autism at the UC Davis MIND Institute.

Bottom Photo

A junior specialist at the UC Davis Center for Watershed Sciences gently tips a bucket of baby salmon into a mesh enclosure.



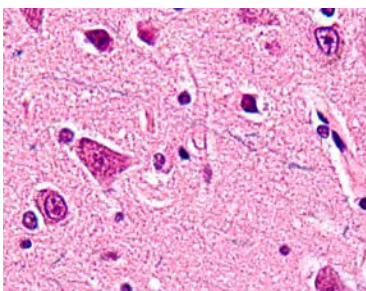
\$100 million for the PREDICT program at the One Health Institute in the School of Veterinary Medicine from the U.S. Agency for International Development to identify and control emerging diseases among people, wildlife and livestock worldwide.

Principal investigator: Jonna Mazet, professor of medicine and epidemiology.



\$18.75 million to boost international fruit and vegetable research from the U.S. Agency for International Development to bolster global food security.

Principal investigator: Elizabeth Mitcham, Director of the Horticulture Innovation Lab.



\$10 million to establish the Silvio O. Conte Center for Basic or Translational Mental-Health Research from the National Institutes of Mental Health. The new center will be one of only 15 in the country to study the origins of schizophrenia.

Principal investigator: Cameron Carter, professor in the Department of Psychiatry and Behavioral Sciences



\$4.7 million to better understand the underlying mechanisms involved in gastrointestinal health from the National Institutes of Health's National Center for Complementary and Alternative Medicine.

Principal investigator: David Mills, professor in the Department of Food Science and Technology.



Operations/ Administration

UC Davis saved 254 million gallons of water in 2015, reducing use by 24 percent from 2013 and putting the campus on target to meet Gov. Jerry Brown's conservation goal.



Building the University of the 21st Century

In 2014-15, UC Davis launched a Capital Investment Master Plan to develop a prioritized list of capital projects to build \$2 billion in new capital over the next 10 years. The aggressive growth strategy includes the creation of a Chemistry Discovery Complex, a large lecture hall and two new veterinary medicine hospitals – one for large animals, one for small.

While the Capital Investment Master Plan is being developed, UC Davis already has 1 million square feet of new or renovated space currently in the pipeline, exceeding a quarter of a billion dollars in capital. Projects include the \$59.1 million, three-building, 500-bed residence hall to increase capacity for first-year students, \$29.8 million International Complex to serve traveling students and faculty, \$23.4 million Memorial Union renewal project, and the \$22 million, 550-seat lecture hall.

Staying at the forefront of clean efficient energy technology is a hallmark of UC Davis construction and operation. With a stated goal that all new building and major renovation projects outperform California building code energy efficiency standards by 20 percent, achieve LEED Silver® certification at a minimum, and strive for LEED Gold®, UC Davis has 18 LEED® certified™ buildings.



In 2014-15, UC Davis launched a Capital Investment Master Plan to develop a prioritized list of capital projects to build \$2 billion in new capital over the next 10 years.



Top Photo

The International Complex, under construction, will serve a number of important programs – allowing students, staff and faculty to directly participate in university life and collaborate across departments.

Bottom Photo

A robotic washer moves along a panel at the 16.3 megawatt solar farm on the Davis campus.

UC Davis routinely invests in technology to make limited resources go further. Already, investments in energy efficiency upgrades have saved more than \$15.5 million in operating expenses since 2009. Efficiency improvements like this are a key component of the university's Climate Action Plan, which is committed to reducing greenhouse gas emissions.

The UC Davis Climate Action Plan (CAP) is a strategic outline of how the institution will measure greenhouse gas emissions and pursue strategies to reduce those emissions. The CAP addresses the Climate Protection section of the University of California Sustainable Practices Policy, which specifies reduction targets in 2014, 2020, carbon neutrality in 2025 for

operational control emissions and purchased electricity, and carbon neutrality in 2050 for commute and business air travel emissions.

To help meet the carbon neutrality goals, officials recently flipped the switch on a 16.3 megawatt solar farm – the largest installation at any U.S. college or university campus. The public-private partnership with SunPower Corp. will provide enough clean electricity behind the meter to cover 14 percent of the Davis campus' energy demands. Combined with other purchases of solar and hydroelectric energy, the plant is part of UC Davis' plan to obtain 60 percent of its electricity needs from renewable and carbon-free sources by 2017.



Philanthropy

A Central Valley Scholar majoring in biotechnology, Amanjot Kaur is also active with high school outreach and campus tours, and co-coordinated Field Day last year.



Giving Reaches New Heights

In 2014-15, the UC Davis total endowment fund reached \$1 billion.

UC Davis joined fewer than 100 universities in the nation with endowments of \$1 billion or more, becoming the fourth campus within the University of California system to hold this accomplishment. Specifically, the 2014-15 philanthropic total was \$184,180,960, which is more than an 11 percent increase from the previous fiscal year's total, \$165,704,177.

This year also marks the ninth consecutive year that UC Davis' fundraising total exceeded \$100 million. This success comes on the conclusion of the university's \$1 billion comprehensive fundraising campaign, through which donors directed \$282.5 million to the university's endowment.



In 2014-15,
UC Davis joined
fewer than 100
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\$1 billion or more.



Top Photo

Kate Hurley, director of the Koret Shelter Medicine Program, works to improve the quality of life of animals in shelters through improvements in veterinary preventive medicine and management of disease.

Bottom Photo

Inaugural cohort in the Guardian Professions Program, the country's first program dedicated to helping former foster youth earn graduate and professional degrees.

Newsworthy gifts from the year include:

- The late Ann E. Pitzer '58 donated \$5 million to name the Ann E. Pitzer Center, a new classroom and recital hall. The 17,000-square-foot building, scheduled to open in 2016, is the first building on the UC Davis campus to be named in honor of a female graduate.
- UC Davis launched the nation's first program dedicated to helping former foster youths earn graduate and professional degrees, thanks to a \$450,000 gift from the Stuart Foundation and donations from individuals. The Guardian Professions Program provides students with access to a support network of UC Davis staff members who offer guidance as the students apply for and pursue graduate degrees in any of the 94 graduate programs or professional schools at UC Davis.
- Through the George and Lena Valente Foundation, Lynn and Keith Volkerts made a \$1 million gift to help fund autism research and expand advocacy of assistance to families in need of services. The Volkerts, who are Sacramento residents, were inspired to make the gift after their two granddaughters were diagnosed with autism and began beneficial treatments at the UC Davis MIND Institute.

UC Davis alumni and other individuals contributed 43 percent of the fundraising total, and 20 donors made gifts of \$1 million or more during the 2014-15 fiscal year. Among the university's 10 colleges and schools and other units, the UC Davis Health System raised the largest amount — \$55.6 million — with the largest of that sum, \$17 million, being directed to the UC Davis Health System Eye Center.

Gifts came from donors in all 50 states and included \$109 million from Californians. Outside of California, the most gifts came from Washington residents, and the largest dollar amount came from New York residents. Within California, \$26.2 million came from Sacramento County, \$14.9 million from Yolo County, \$14 million from the city and county of San Francisco, and \$9.7 million from Alameda County. International contributions totaled \$3.2 million, with the largest amount coming from South Korea, followed by Japan.

Private gifts and grants to UC Davis account for roughly 4 percent of the university's overall budget. Donor-directed funds support students, faculty, staff, infrastructure, patient care, and universitywide priorities and opportunities.



Finances



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, 2015, WITH SELECTED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2014. 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 (“GASB”). THE THREE PRIMARY STATEMENTS—THE STATEMENTS OF NET POSITION, THE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION, AND THE STATEMENTS 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, WHICH INCLUDES THE MEDICAL CENTER. INFORMATION RELATING TO THE UC DAVIS FOUNDATION CAN BE FOUND IN ITS 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. In addition to the 10 campuses, the University encompasses 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 statement of net position presents the financial position of UC Davis at the end of the year. 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.

Financial statement balances for 2014 have been restated as a result of new information that was identified during the preparation of the 2015 financial statements. These restatements affect only the stand-alone UC Davis financial statements and do not in any way impact the audited consolidated financial statements of the University of California. The adjustments recorded to correct the 2014 balances are a result of properly capturing the UC Davis portion of the transactions and records maintained by the Office of the President.

At June 30, 2015, UC Davis' assets were nearly \$6.1 billion, deferred outflows of resources were \$774 million, liabilities were \$4.4 billion, and deferred inflows of resources were \$828 million, increasing the campus' net position by \$49 million in 2015 to \$1.6 billion.

The major components of the statement of net position, compared to the prior year are as follows:

(in millions of dollars)

	2015	RESTATED 2014	CHANGE
ASSETS			
Cash and investments	\$2,269	\$2,040	\$229
Accounts receivable, net	453	468	(15)
Capital assets, net	3,161	3,137	24
Other assets	198	182	16
TOTAL ASSETS	6,081	5,827	254
DEFERRED OUTFLOWS OF RESOURCES			
	774	539	235
LIABILITIES			
Debt	1,556	1,476	80
Pension related obligations	1,938	1,445	493
Other liabilities	919	825	94
TOTAL LIABILITIES	4,413	3,746	667
DEFERRED INFLOWS OF RESOURCES			
	828	1,055	(227)
NET POSITION			
Net investment in capital assets	1,645	1,684	(39)
Restricted: nonexpendable	118	119	(1)
Restricted: expendable	672	585	87
Unrestricted	(821)	(823)	2
TOTAL NET POSITION	\$1,614	\$1,565	\$49

UC Davis Assets and Deferred Outflows of Resources

UC Davis' total assets grew by \$254 million in 2015 to just under \$6.1 billion. Capital assets increased due to continued reinvestment in facilities and investments increased modestly 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. UC Davis uses STIP to meet operational liquidity needs. TRIP allows the campus 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 continues to use 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") utilize 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 had positive returns of 7.2 percent in 2015 and 19.0 percent in 2014. TRIP had positive returns of 2.6 percent in 2015 and

14.7 percent in 2014. STIP had positive returns of 1.4 percent and 1.6 percent in 2015 and 2014, respectively.

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. Accounts receivable decreased by \$15 million from \$468 million in 2014 to \$453 million in 2015. Receivables fluctuate based on the timing of collections. Private contracts and grants receivables decreased by \$31 million, medical center receivables increased by \$4 million, while other receivables, including those for educational activities and local and private grants and contracts, increased by \$12 million.

Capital assets includes land, infrastructure, buildings and improvements, intangibles, equipment, library collections and construction in progress. As has been the case in recent years, the required spending for capital assets continues to increase. The net increase in the original cost of capital assets was \$138 million in 2015, consisting of capital expenditures of \$228 million offset by \$90 million of capital assets disposed of during the year in the normal course of doing business. Capital expenditures in 2014 were \$295 million and disposals were \$133 million. During 2015, capitalized costs for completed construction projects were \$68 million. The largest capitalized project was the Castilian Hall Service Concession Arrangement for \$24 million. Projects under construction, net of the cost of those projects completed and reclassified during 2015 to

buildings and improvements or equipment, totaled \$156 million.

Accumulated depreciation increased from \$2.8 billion in 2014 to \$2.9 billion in 2015. Depreciation expense for the year was \$196 million and the accumulated depreciation on assets sold or disposed of during the year was \$82 million. Generally, all of the disposals were for equipment that was fully depreciated or had reached the end of its useful life. In 2015, an out of period adjustment was recorded for \$36 million to the medical center accumulated depreciation due to differences in useful lives used by the campus for certain medical center buildings. Management believes the out of period adjustment is not material to previously reported financial statements on a consolidated University of California basis.

Other assets include deferred charges, pledges receivable, notes and mortgages receivable, investments in joint ventures and inventories and totaled \$198 million and \$182 million for 2015 and 2014, respectively.

Changes in the net pension liability and losses on debt refundings are reported as deferred outflows of resources. The increase of \$235 million in deferred outflows of resources in 2015 is primarily related to the recognition of changes in the net pension liability.

UC Davis Liabilities and Deferred Inflows of Resources

In 2015, UC Davis' total liabilities and deferred inflows of resources increased by \$440 million to \$5.2 billion in 2015. The increase in 2015 was primarily related to the increase 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 increased by \$80 million in 2015 to \$1.6 billion, with a \$56 million decrease in commercial paper offset by an increase in bonds of \$136 million.

In 2015, General Revenue Bonds totaling \$1.7 billion and Limited Project Revenue Bonds totaling \$1.7 billion were issued to finance and refinance certain facilities and projects of the University including UC Davis' obligation of \$409 million, including \$211 million for one-time principal payments for the refinancing of previously outstanding debt. The General Revenue Bonds issued included \$90 million of bonds maturing in 2115 to finance capital projects of the University or for such other purposes as authorized by the Regents.

In April 2014, General Revenue Bonds totaling \$970 million were issued to finance and refinance certain facilities and projects of the University including UC Davis' obligation of \$68 million.

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.

The University's General Revenue Bond ratings are currently affirmed at Aa2, AA and AA by Moody's Investors Service, Standard & Poor's

and Fitch, respectively, all with stable outlooks. The University's Limited Project Revenue Bonds and Medical Center Pooled Revenue Bonds are currently affirmed at Aa3, AA- and AA- by Moody's Investors Service, Standard & Poor's and Fitch, respectively, all with stable outlooks.

Commercial paper is used as interim financing for construction projects and equipment financing. Commercial paper borrowings decreased \$56 million in 2015 from \$84 million in 2014 to \$28 million in 2015 primarily due to new funding of \$31 million offset by transfers out of interim financing to permanent funding of \$87 million.

The campus has a financial responsibility for pension benefits associated with its defined benefit plans. The campus' pension obligation was \$1.9 billion and \$1.4 billion in 2015 and 2014, respectively. The increase in net pension liability has been primarily driven by the decline in investment performance of the University of California's Retirement Plan's ("UCRP") investment portfolio and changes in assumptions. UCRP's total investment rate of return was 4.5 percent in 2015 and 17.4 percent in 2014. The discount rate used to estimate the net pension liability was 7.25 percent in 2015 and 7.5 percent in 2014. Assumption changes included lowering the expected rate of return and extending the mortality tables, which increased the net pension liability, offset by lowering the expected inflation rate.

Other liabilities, including accounts payable, accrued salaries and benefits, unearned revenue,

pollution remediation and federal refundable loans increased from \$825 million in 2014 to \$919 million in 2015. Other liabilities fluctuate based on the timing of payments.

Deferred inflows of resources are related to the campus' service concession arrangements and changes in the net pension liability. Deferred inflows of resources in 2015 decreased by \$227 million due to changes in pension obligations as a result of changes in assumptions for inflation offset by recognition of investment gains from previous years.

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 2015 was \$1.6 billion, with an increase of \$49 million from 2014. Net position is reported in the following categories: net investment in capital assets; restricted, nonexpendable; restricted, expendable; and unrestricted.

The portion of net position invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of these capital assets decreased by \$39 million from \$1,684 million in 2014 to \$1,645 million in 2015 as a result of net capital asset additions and new debt issuances offset by principal debt repayments.

Restricted nonexpendable net position includes the corpus of UC Davis' permanent endowments

and the estimated value of charitable remainder trusts. At June 30, 2015 the total market value of UC Davis' endowments and other restricted nonexpendable net position was \$118 million.

Restricted expendable net position of \$672 million, at June 30, 2015, is subject to externally imposed restrictions governing their use. Restricted expendable net position 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 investments 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 position is not subject to externally imposed restrictions, substantially all of UC Davis' reserves are designated for academic and research initiatives or programs, or for capital purposes. As of June 30, 2015, unrestricted net position is in a deficit position. The decrease in the deficit from 2014 to 2015 is due to changes in the net pension obligation related to strong financial market performance offset by increases

in the University's pension and retiree health benefit obligations.

UC Davis Results of Operations

Changes in total net position as presented on the statements of net position is based on the activity presented in the statements 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.

In general, 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 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 2015 and 2014, 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:

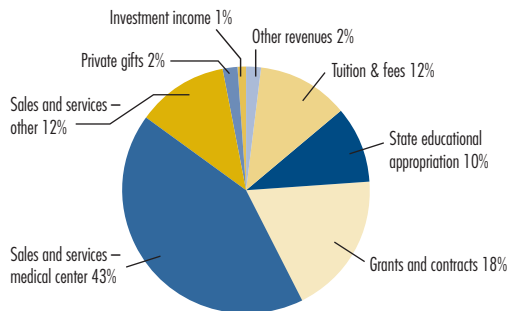
OPERATING RESULTS FOR 2015 AND 2014

(in millions of dollars)

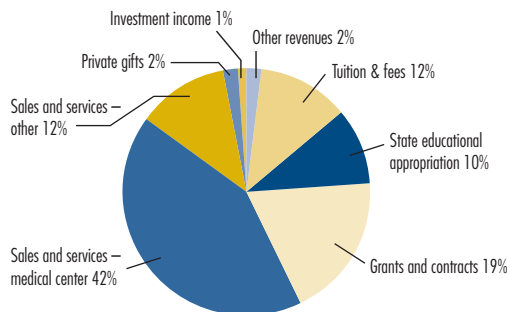
	YEAR ENDED JUNE 30, 2015			RESTATED YEAR ENDED JUNE 30, 2014			CHANGE
	OPERATING	NON OPERATING	TOTAL	OPERATING	NON OPERATING	TOTAL	
REVENUES							
Student tuition and fees, net	\$460		\$460	\$441		\$441	\$19
State educational appropriations		\$391	391		\$372	372	19
Grants and contracts, net	657	52	709	673	51	724	(15)
Sales and services:							
Medical center, net	1,724		1,724	1,590		1,590	134
Other, net	495		495	443		443	52
Private gifts		64	64		71	71	(7)
Investment income, net		55	55		48	48	7
Other revenues, net	79	16	95	75	9	84	11
REVENUES SUPPORTING CORE ACTIVITIES	3,415	578	3,993	3,222	551	3,773	220
EXPENSES							
Salaries and benefits	2,666		2,666	2,527		2,527	139
Scholarships and fellowships	42		42	45		45	(3)
Utilities	37		37	40		40	(3)
Supplies and materials	424		424	388		388	36
Depreciation	196		196	228		228	(32)
Interest expense		69	69		59	59	10
Other expenses	537	6	543	503	6	509	34
EXPENSES ASSOCIATED WITH CORE ACTIVITIES	3,902	75	3,977	3,731	65	3,796	181
INCOME (LOSS) FROM CORE ACTIVITIES	\$(487)	\$503	\$16	\$(509)	\$486	\$(23)	\$39
OTHER NONOPERATING ACTIVITIES							
Net appreciation (depreciation) in fair value of investments			19			153	(134)
INCOME BEFORE OTHER CHANGES IN NET POSITION			35			130	(95)
OTHER CHANGES IN NET POSITION							
State capital appropriations			1			2	(1)
Capital gifts and grants			3			9	(6)
Permanent endowments			3			4	(1)
Other changes in net position			7			7	-
INCREASE IN NET POSITION			49			152	(103)
NET POSITION							
Beginning of year, as previously stated			1,565			1,335	230
Cumulative effect of restatements						78	(78)
BEGINNING OF YEAR, AS RESTATED			1,565			1,413	152
NET POSITION END OF YEAR			\$1,614			\$1,565	\$49

Revenues Supporting Core Activities

The following chart provides a breakdown of revenues supporting core activities for the fiscal year ended June 30, 2015.



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



Revenues to support UC Davis' core activities of almost \$4 billion, including those classified as nonoperating revenues, increased by \$220 million from 2014 to 2015. UC Davis has very diversified sources of revenue. Student tuition and fees, in conjunction with state of California educational appropriations, are the core components that support the instructional mission of the campus. Grants and contracts provide opportunities for undergraduate and

graduate students to participate in dynamic research projects 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 from academic departments, primarily the veterinary and medical schools, and auxiliary enterprises such as student housing, the bookstore, food service operations and parking.

Student tuition and fees revenue grew from \$441 million in 2014 to \$460 million in 2015, an increase of \$19 million. These fees are net of scholarship allowances of \$171 million in 2015 and \$152 million in 2014. The increase in student fee revenue over the past several years has generally resulted from enrollment growth. 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 2015, total enrollment, consisting of undergraduate, graduate and professional students, grew by nearly 4 percent. Mandatory tuition and fees for undergraduates and graduates were not changed in 2015 and 2014. Professional degree supplemental tuition varies by discipline; no increases were approved for 2015 and limited increases were approved for 2014.

State of California educational appropriations to UC Davis were \$391 million in 2015 and \$372 million in 2014. State educational appropriations increased as a result of tax initiatives approved by the voters of California in November 2012. The University did not raise resident undergraduate tuition from 2013 to 2015 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 in October 2013.

Revenue from federal, state, private and local grants and contracts decreased by \$15 million to \$709 million in 2015 from \$724 million in 2014. Federal grant and contract revenue, including facilities and administration cost recovery of \$85 million and direct expenditures of \$338 million, decreased by \$13 million to \$423 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, \$193 million; the Department of Education, \$62 million; the National Science Foundation, \$54 million; and the Department of Agriculture, \$35 million. State grants (including special research appropriations) and contracts decreased 3 percent due to decreases in award levels in various state agencies. Private and local contracts and grants increased by \$2 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 \$2.2 billion increased by \$186 million, or 9 percent, from 2014. UC Davis Medical Center revenue increased by \$134 million over the prior year to over \$1.7 billion in 2015. The revenue growth is primarily due to growth in the specialty pharmacy program and continued

growth in Medi-Cal (California’s Medicaid program) under the Affordable Care Act. Sales from educational activities, primarily physicians’ professional fees and auxiliary enterprises increased by \$52 million or 12 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 for the benefit of the campus. UC Davis’ private gifts for operating purposes decreased from \$71 million in 2014 to \$64 million in 2015. The decrease is primarily related to a shift in giving from the Regents to the Foundation in accordance with campus initiatives.

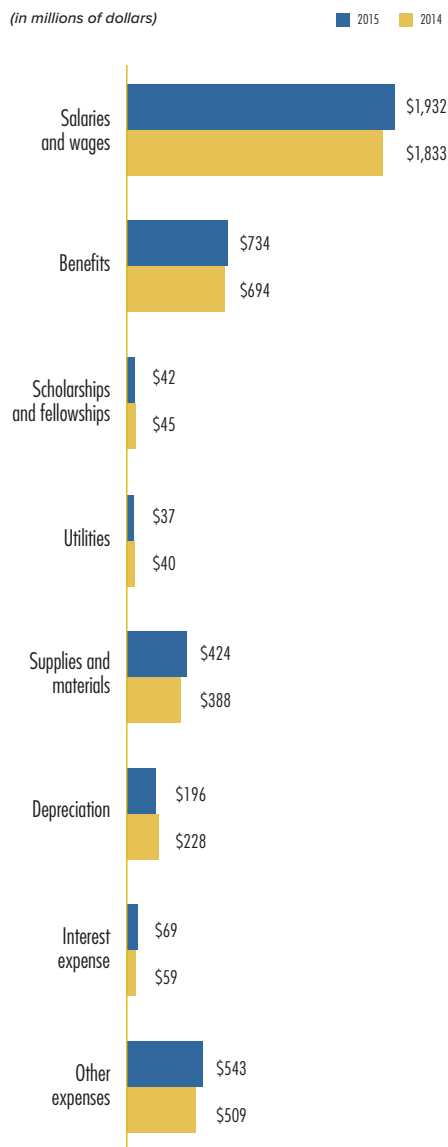
Investment income for the year of \$55 million consisted of \$8 million from the University of California’s Short Term Investment Pool (“STIP”), \$29 million from the University of California’s Total Return Investment Pool (“TRIP”), and \$18 million from endowments. Investment income in 2014 totaled \$48 million consisting of \$7 million from STIP, \$17 million from TRIP and \$24 million from endowments. The increase in investment income is primarily related to realized gains on the sale of TRIP investments.

Other revenues for 2015 of \$95 million included \$1 million in federal interest subsidies and \$15 million of other revenues that are reported as nonoperating revenue and \$79 million of other revenue reported as operating revenue. The increase in other operating revenues is attributed to several minor increases, the largest being in student health insurance of \$3 million. The increase in nonoperating revenue is primarily due to a \$5 million increase in Medical Center state hospital fee grants.

Expenses Associated with Core Activities

The following chart provides a breakdown of expenses associated with core activities for the fiscal years ended June 30, 2015 and 2014.

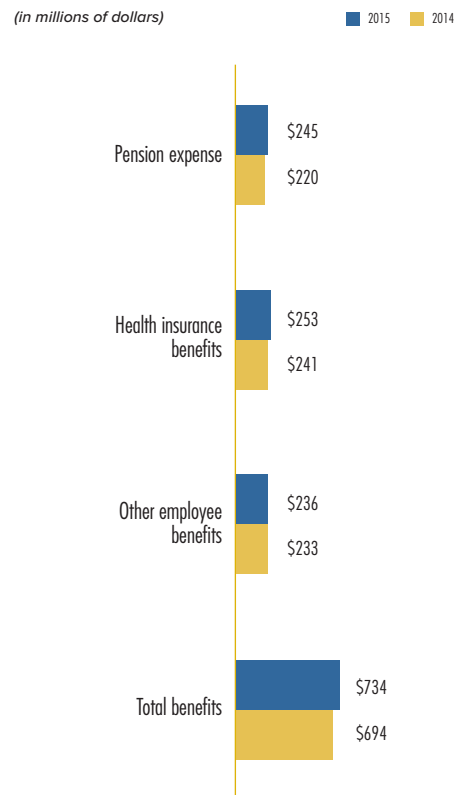
EXPENSES ASSOCIATED WITH CORE ACTIVITIES



UC Davis' expenses associated with core activities for 2015, including those classified as nonoperating expenses were almost \$4.0 billion in 2015 and \$3.8 billion in 2014. 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 2015, salaries and benefits increased \$139 million or 6 percent from 2014. The increase is primarily attributable to approved merit increases, contractual rate increases for represented and academic staff, as well as an increase in consolidated headcount of approximately 1 percent. Benefits have increased in line with the increase in salaries with the largest increase due to higher pension expense of \$25 million.

BENEFITS COMPONENTS



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 \$42 million in 2015, a decrease of \$3 million, or 7 percent, from 2014. Scholarship allowances, representing financial aid and fee waivers awarded by UC Davis, also forms of financial aid, increased from \$191 million in 2014 to \$212 million in 2015, an increase of \$21 million. On a combined basis, financial aid to students in all forms grew from \$236 million in 2014 to \$254 million in 2015, an increase of \$18 million or 8 percent.

During 2015, supplies and materials costs increased \$36 million, from \$388 million in 2014 to \$424 million in 2015 primarily due to an increase in medical supplies, including a new chemotherapy drug pharmacy program of \$24 million and pacemakers and prosthetics of \$8 million. While there continues to be inflationary pressure on the cost of medical supplies and laboratory instruments, as well as higher costs for the general supplies necessary to support expanded research activity, this is counteracted by increased revenues from medical patient volumes and student enrollment, and the campus continues to find opportunities to manage the costs of supplies and materials.

Other operating expenses increased by \$34 million, from \$503 million in 2014 to \$537 million in 2015. The increase is primarily due to increases in medical services, consulting and temporary contract services and patient care. Other nonoperating expenses, representing the loss on disposals of capital assets, were \$6 million in both 2015 and 2014. Interest expense increased in 2015 due to the issuance of new debt.

In accordance with GASB standards, reported operating losses were \$487 million in 2015 and \$509 million in 2014. The operating losses were offset by \$503 million and \$486 million of net nonoperating revenues in 2015 and 2014, respectively. Although these amounts are classified as nonoperating by GASB, they support the core operating activities of UC Davis. Therefore, revenues to support core activities exceeded the associated expenses by \$16 million in 2015, while expenses to support core activities exceeded the associated revenues by \$23 million in 2014.

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 2015, UC Davis recognized net appreciation in the fair value of investments of \$19 million compared to net appreciation of \$153 million during 2014. The campus' portfolio showed positive performance in 2015 and 2014 due to returns in both the equity and bond markets.

Other Changes in Net Position

Other changes in net position 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. Capital appropriations are from bond measures approved by California voters.

UC Davis Cash Flows

The final statement presented by UC 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 represents operating cash flows and shows the net cash used in or provided by 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 summarizes the cash used for the acquisition and construction of capital and related items. The fourth section summarizes cash flows from investing activities and illustrates the purchases, proceeds and interest received from investing activities.

A summary comparison of cash flows for 2015 and 2014 is as follows:

(in millions of dollars)

	6/30/2015	RESTATED 6/30/2014	CHANGE
CASH PROVIDED (USED) BY:			
Operating activities	(\$196)	(\$202)	\$6
Noncapital financing activities	529	504	25
Capital and related financing activities	(179)	(281)	102
Investing activities	34	(250)	284
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	188	(229)	417
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	578	807	(229)
CASH AND CASH EQUIVALENTS, END OF THE YEAR	\$766	\$578	\$188

UC Davis' cash increased by \$188 million from \$578 million in 2014 to \$766 million in 2015. Substantially all of UC Davis' cash is invested in STIP managed by the Chief Investment Officer of the Regents and considered demand deposits. The increase in cash is primarily due to the increase in medical center cash of \$111 million.

Cash of \$196 million was used for operating activities, offset by \$529 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 \$179 million in 2015, 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 provided by investing activities totaled \$34 million in 2015. The cash generated from investing activities included net investment income of \$55 million offset by purchases in investments exceeding proceeds by \$21 million.

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 budget framework agreed to with the governor provides the University with base budget adjustments of four percent annually over the next four years, through 2019. The framework also calls for no tuition increases in 2016 and 2017, with tuition increases generally pegged to the rate of inflation to be implemented beginning in 2018. The Student Services Fee is set to increase five percent in 2016 and each year thereafter with the customary one-third of the increase being directed to financial aid. Fifty percent of the remaining revenue generated from the increase will be used to enhance student mental health services and the remaining fifty percent will be distributed to support other student services programs. The framework also acknowledges the University's plan to increase nonresident supplemental tuition by up to eight percent for 2016 and 2017 and five percent thereafter. The framework also recognizes the increases in professional degree supplemental tuition approved by the Regents in November 2014 for existing and new programs and calls for no increases in law school tuition for the next four years. The framework also provides \$25 million in one-time funding for deferred maintenance. In addition to these funding elements, the budget framework includes a number of performance-related provisions.

The University will also receive \$436 million in one-time funds over the next three years for UCRP, including \$96 million in 2016, \$170 million in 2017 and \$170 million in 2018.

This funding is contingent upon the Regents' approval of a cap on pensionable salary at the same rate as the state's Public Employee Pension Reform Act ("PEPRA") cap for the defined benefit plan for employees hired on or after July 1, 2016. The pension cap now in place is equivalent to the Internal Revenue Service level, currently \$265,000; for employees hired on or after July 1, 2016, pensionable salaries would be capped at \$117,020 in 2016, for those in the defined benefit plan. These changes will only affect new employees hired after the new options are implemented. For represented groups, retirement options will be subject to collective bargaining.

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, 2015 actuarial valuation was \$17.3 billion based upon using a discount rate of 4.5 percent. UC Davis' proportion of the

unfunded liability for the campus and medical center was \$1.5 billion in 2015, an increase of \$142 million from 2014. 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. The University's retiree health benefit obligations reported in the financial statements are expected to increase as a result of new accounting pronouncements that will be effective in the future.

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, 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://budget.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
STATEMENTS OF NET POSITION
AT JUNE 30, 2015 AND 2014

(in thousands of dollars)

	UC DAVIS		UC DAVIS FOUNDATION	
	2015	RESTATED 2014	2015	2014
ASSETS				
Cash and cash equivalents	\$765,868	\$578,009	\$20,726	\$18,496
Short term investments	88,457	49,550		
Investments held by trustees	1,661	1,662		
Accounts receivable, net	453,011	467,515		6
Pledges receivable, net	3,312	3,832	5,967	6,977
Current portion of notes and mortgages receivable, net	10,134	10,117		
Inventories	33,858	32,431		
Other current assets	52,498	45,140		15
CURRENT ASSETS	1,408,799	1,188,256	26,693	25,494
Investments	1,409,839	1,408,548	352,401	319,432
Investments held by trustees	2,826	2,665		
Pledges receivable, net	1,931	2,216	12,932	10,243
Notes and mortgages receivable, net	71,810	67,971		
Capital assets, net	3,161,197	3,136,897		
Other noncurrent assets	24,610	20,638		
NONCURRENT ASSETS	4,672,213	4,638,935	365,333	329,675
TOTAL ASSETS	6,081,012	5,827,191	392,026	355,169
DEFERRED OUTFLOWS OF RESOURCES	774,340	539,178		
LIABILITIES				
Accounts payable	141,223	131,161		
Accrued salaries and benefits	207,618	195,140		
Unearned revenue	133,572	138,479		
Commercial paper	27,607	83,520		
Current portion of long-term debt	61,342	61,632		
Funds held for others			792	797
Other current liabilities	247,496	175,835		
CURRENT LIABILITIES	818,858	785,767	792	797
Refundable federal loans	57,537	53,722		
Obligations under life income agreements			6,317	4,564
Long-term debt	1,466,966	1,330,920		
Obligations to UCRP	1,516,466	1,129,152		
Payable to UCOP for Pension	421,108	315,793		
Other noncurrent liabilities	133,080	130,878	563	733
NONCURRENT LIABILITIES	3,595,157	2,960,465	6,880	5,297
TOTAL LIABILITIES	4,414,015	3,746,232	7,672	6,094
DEFERRED INFLOWS OF RESOURCES	827,723	1,054,949		
NET POSITION				
Net investment in capital assets	1,644,893	1,684,527		
Restricted:				
Nonexpendable:				
Endowments and gifts	117,673	118,550	204,504	193,907
Expendable:				
Endowments and gifts	508,374	479,091	177,588	153,101
Other, including loans, capital projects, endowment income debt service and appropriations	163,934	105,894		
Unrestricted	(821,260)	(822,874)	2,262	2,067
TOTAL NET POSITION	\$1,613,614	\$1,565,188	\$384,354	\$349,075

See accompanying Notes to Financial Statements.

University of California, Davis

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED JUNE 30, 2015 AND 2014

(in thousands of dollars)

	UC DAVIS		UC DAVIS FOUNDATION	
	2015	RESTATED 2014	2015	2014
OPERATING REVENUES				
Student tuition and fees, net	\$460,452	\$441,020		
Grants and contracts, net:				
Federal	370,551	385,116		
State	130,157	134,052		
Private	143,269	142,558		
Local	12,756	11,422		
Sales and services:				
Medical center, net	1,723,966	1,590,227		
Educational activities, net	400,558	350,980		
Auxiliary enterprises, net	94,570	91,907		
Campus foundation private gifts			\$34,951	\$17,612
Other operating revenues, net	78,803	74,887	65	67
TOTAL OPERATING REVENUES	3,415,082	3,222,169	35,016	17,679
OPERATING EXPENSES				
Salaries and wages	1,932,395	1,832,844		
Benefits	733,794	693,915		
Scholarships and fellowships	42,058	45,151		
Utilities	37,172	40,171		
Supplies and materials	424,496	388,001		
Depreciation	195,669	228,453		
Campus foundation grants			28,819	33,392
Other operating expenses	536,588	502,716	327	309
TOTAL OPERATING EXPENSES	3,902,172	3,731,251	29,146	33,701
OPERATING INCOME (LOSS)	(487,090)	(509,082)	5,870	(16,022)
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	390,857	371,509		
State financing appropriations	36	130		
Build America Bonds federal interest subsidies	727	2,738		
Federal Pell grants	51,958	50,954		
Private gifts	63,877	71,313		
Investment income, net	54,683	47,574	2,286	2,597
Net appreciation (depreciation) in fair value of investments	19,272	153,406	14,473	47,377
Interest expense	(69,168)	(58,994)		
Loss on disposal of capital assets, net of proceeds	(6,126)	(5,909)		
Other nonoperating revenues (expenses)	15,054	6,567		
NET NONOPERATING REVENUES	521,170	639,288	16,759	49,974
INCOME BEFORE OTHER CHANGES IN NET POSITION	34,080	130,206	22,629	33,952
OTHER CHANGES IN NET POSITION				
State capital appropriations	564	1,920		
Capital gifts and grants	3,407	8,726		
Permanent endowments	3,186	4,325	12,650	26,791
Other changes in net position	7,189	6,962		
OTHER CHANGES IN NET POSITION	14,346	21,933	12,650	26,791
INCREASE IN NET POSITION	48,426	152,139	35,279	60,743
NET POSITION				
Beginning of year, as previously reported	1,565,188	1,334,935	349,075	288,332
Cumulative effect of restatements		78,114		
END OF YEAR	\$1,613,614	\$1,565,188	\$384,354	\$349,075

See accompanying Notes to Financial Statements.

University of California, Davis
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014

(in thousands of dollars)

	UC DAVIS		UC DAVIS FOUNDATION	
	2015	RESTATED 2014	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	\$463,050	\$440,728		
Grants and contracts	684,041	666,245		
Medical center	1,577,977	1,512,132		
Educational activities	386,413	351,429		
Auxiliary enterprises	94,902	92,516		
Collections of student and employee loans	12,511	12,203		
Private gifts			\$27,281	\$11,675
Payments to employees	(1,913,755)	(1,811,041)		
Payments to suppliers and utilities	(777,287)	(815,733)		
Payments for benefits	(710,023)	(651,654)		
Payments for scholarships and fellowships	(42,058)	(45,151)		
Loans issued to students and employees	(15,375)	(11,175)		
Payments to campus and beneficiaries			(28,819)	(33,392)
Other receipts	43,437	57,899	(242)	(260)
NET CASH USED IN OPERATING ACTIVITIES	(196,167)	(201,602)	(1,780)	(21,977)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	389,291	371,510		
Federal Pell grants	51,959	50,904		
State Hospital Fee Program grants	4,864			
Gifts received for other than capital purposes:				
Private gifts for endowment purposes	3,186	4,325	8,685	13,656
Other private gifts	64,682	74,193		
Other receipts (payments)	15,357	3,325		
NET CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	529,339	504,257	8,685	13,656
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
<i>Commercial paper financing:</i>				
Proceeds from issuance	31,096	34,778		
Payments of principal	(87,009)	(127,496)		
Interest paid	(314)	(175)		
State capital appropriations	1,376	1,108		
State financing appropriations	36	130		
Build America Bonds federal interest subsidies	1,740	1,742		
Capital gifts and grants	320	3,098		
Proceeds from debt issuance	408,781	471,751		
Proceeds from the sale of capital assets	898	692		
Purchases of capital assets	(189,896)	(220,934)		
Refinancing/prepayment outstanding debt	(211,150)	(323,293)		
Principal paid on debt and capital leases	(60,822)	(59,848)		
Interest paid on debt and capital leases	(73,963)	(62,626)		
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(178,907)	(281,073)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale and maturities of investments	4,388,284	2,299,455	65,366	37,613
Purchases of investments	(4,409,373)	(2,597,204)	(72,327)	(37,128)
Investment income, net of investment expense	54,683	47,574	2,286	2,151
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	33,594	(250,175)	(4,675)	2,636
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	187,859	(228,593)	2,230	(5,685)
Cash and cash equivalents, beginning of year	578,009	806,602	18,496	24,181
CASH AND CASH EQUIVALENTS, END OF YEAR	\$765,868	\$578,009	\$20,726	\$18,496

See accompanying Notes to Financial Statements.

CONTINUED

University of California, Davis

STATEMENTS OF CASH FLOWS *CONTINUED*

YEARS ENDED JUNE 30, 2015 AND 2014

(in thousands of dollars)

	UC DAVIS		UC DAVIS FOUNDATION	
	2015	RESTATED 2014	2015	2014
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES				
Operating income (loss)	(\$487,090)	(\$509,082)	\$5,870	(\$16,022)
Cumulative effect of change in accounting principle		(2,228)		
Depreciation and amortization expense	195,669	228,453		
Loss on impairment of capital assets	1,081	634		
Noncash gifts			(5,992)	(6,555)
Allowance for doubtful accounts	(8,360)	5,688	(384)	(379)
<i>Change in assets and liabilities:</i>				
Receivables, net	18,748	(15,862)	(1,288)	993
Investments held by trustees	1	167		
Inventories	(1,427)	(3,155)		
Deferred charges	(7,389)	(7,529)		
Other assets	(3,941)	7,163	14	
Accounts payable	(3,303)	18,241		(14)
Accrued salaries and benefits	12,478	15,492		
Deferred revenue	(4,907)	11,143		
Pension obligations	(85,881)	42,439		
Other liabilities	178,154	6,834		
NET CASH USED IN OPERATING ACTIVITIES	(\$196,167)	(\$201,602)	(\$1,780)	(\$21,977)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired through capital leases	\$456	\$601		
Capital assets acquired with liability at year-end	21,597	12,263		
Capital assets acquired through service concession arrangements	23,680			
Gifts of capital assets	3,089	5,628		

See accompanying Notes to Financial Statements.

University of California, Davis

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2015 AND 2014

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”) is appointed by the governor and approved by the state Senate. Various University programs and capital outlay projects are funded through appropriations from the state’s annual Budget Act. The University’s financial statements are discretely presented in the state’s general purpose financial statements as a component unit.

The University of California, Davis (“UC Davis”) is one of the 10 campuses, five medical centers 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 UC Davis financial statements included in this annual financial report present the combined activities of the Davis campus, including the UC Davis Medical Center. The University of California system is subject to an annual audit of the consolidated financial statements which includes UC Davis. Stand-alone financial statements for UC Davis have not been separately audited.

The operations of the associated students’ organization are included in the primary financial reporting entity because the Regents have certain fiduciary responsibilities for this organization. Organizations that are not significant or for which UC Davis is

not financially accountable, such as the alumni organization, are not included in the reporting entity.

The UC 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. In accordance with the statements of the Governmental Accounting Standards Board (“GASB”) detailed below, UC Davis Foundation activity is disclosed on the UC Davis financial statements in a separate column.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, using the economic resources measurement focus and the accrual basis of accounting. The University follows accounting principles issued by GASB.

The significant accounting policies of UC Davis are as follows:

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

INVESTMENTS. Investments are recorded at fair value. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or utilizing an industry standard pricing service, when available. 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 bid price of a dealer who regularly trades in the security being valued. Certain securities may be valued on a basis of a price provided by a single source.

Investments also include private equities, absolute return funds and real estate. Private equities include venture capital partnerships, buyout and international funds. Fair values for interests in private equity, absolute value partnerships and real estate partnerships are based on valuations provided by the general partners of the respective partnerships. Interests in certain direct investments in real estate are estimated based upon independent appraisals. Because the private equity, real estate and absolute return partnerships, along with direct investments in real estate, are not

readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investments existed.

Investments in registered investment companies are valued based upon the reported net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value.

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the University's statement of revenues, expenses and changes in net position.

FUNDS HELD BY TRUSTEES. The UC Davis campus has been named the irrevocable beneficiary for several charitable remainder trusts for which the campus is not the trustee. Upon maturity of each trust, the remainder of the trust corpus will be transferred to the campus. These funds cannot be sold, disbursed or consumed until a specified number of years have passed or a specific event has occurred. The campus is also an income beneficiary of certain trusts where the assets are invested and administered by outside trustees.

Consistent with UC Davis' recognition policy for pledges of endowments, receivables and contribution revenue associated with these trusts are not reflected in the accompanying financial statements. The campus recognizes contribution revenue when all eligibility requirements have been met.

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

PLEDGES RECEIVABLE, NET. Unconditional pledges of private gifts, net of allowance for uncollectible amounts, are recorded as pledges receivable and revenue in the year promised at the present value of

expected cash flows. Conditional pledges, including 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. Receivables and contribution revenue associated with externally held investment trusts are not reflected in the accompanying financial statements. UC Davis recognizes contribution revenue when all eligibility requirements have been met.

NOTES AND MORTGAGES RECEIVABLE, NET. Loans to students, net of allowance for uncollectible amounts, are provided from federal student loan programs and from other University sources. Home mortgage loans, primarily to faculty, are provided from the University's Short Term Investment Pool and from other university sources. Mortgage loans provided by the Short Term Investment Pool are classified as investments, and loans provided by other sources are classified as mortgages receivable in the statements of net position.

INVENTORIES. Inventories for the campus, consisting primarily of supplies and merchandise for resale, 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. Inventories for the medical center consist primarily of pharmaceuticals and medical supplies and are stated on a FIFO basis at the lower of cost or market.

CAPITAL ASSETS, NET. Land, infrastructure, buildings and improvements, intangible assets, equipment, library books and special collections are recorded at cost at the date of acquisition or estimated fair value at the date of donation in the case of gifts. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual value. Intangible assets include software, easements, land rights, trademarks, patents and other similar arrangements. Capital leases are recorded 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 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. Incremental costs, including salaries and employee benefits, directly related to the acquisition, development and installation of major capital projects are included in the cost of the capital assets. 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. Equipment under capital leases is amortized over the estimated useful life of the equipment. 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 as follows:

	YEARS
Infrastructure	25
Buildings and improvements	15-33
Equipment	2-20
Computer software	3-7
Intangible assets	40 - Indefinite
Library books and collections	15

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

Inexhaustible capital assets, such as land 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 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.

INVESTMENT IN JOINT VENTURES. Certain medical centers, including the UC Davis Medical Center, have entered into joint-venture arrangements with various third-party entities that include home health services, cancer center operations and a health maintenance organization. Investments in these joint ventures are

recorded using the equity method and are classified as noncurrent assets in the statements of net position. At June 30, 2015 the investment in joint ventures for the UC Davis Medical Center was \$24.6 million.

BOND PREMIUM. The premium received in the issuance of long-term debt is amortized as a reduction of interest expense over the term of the related long-term debt.

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, such as student tuition and fees and fees for housing and dining services.

REFUNDABLE FEDERAL LOANS. Certain loans to students are administered by UC Davis with funding primarily supported by the federal government. UC Davis' statements of net position include both the notes receivable and the related refundable federal 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, 2015 and 2014 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 UC Davis 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:

NET INVESTMENT IN CAPITAL ASSETS. 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 the net position resulting from transactions with purpose restrictions as restricted net position until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable. The net position subject to externally imposed restrictions, which must be retained in perpetuity by UC Davis, is classified as nonexpendable net position. This includes UC Davis' permanent endowment funds that are held by the University and are not included in the UC Davis financial statements.

Expendable. The net position 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 position.

UNRESTRICTED. The net position that is not reserved, restricted, or invested in capital assets, net of related debt, is classified as unrestricted net position. UC Davis' unrestricted net position may be designated for specific purposes by management or the Regents. Substantially, all of UC Davis' unrestricted net position is allocated for academic and research initiatives or programs, for capital programs or for other purposes.

Expenses are charged to either restricted or unrestricted net position based upon a variety of factors, including consideration of prior and future revenue sources, the type of expense incurred, UC Davis' budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost.

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 statements of revenues, expenses and changes in net position as operating activities.

Certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of UC Davis are mandated by the GASB standards to be reported as nonoperating revenues, including state educational appropriations, certain federal grants for student financial aid, 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 revenues and expenses include state financing appropriations, Build America Bonds federal interest subsidies, net appreciation or depreciation in the fair value of investments, interest expense, and 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 position.

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 the University on an annual basis, and UC Davis receives an allocation of these funds. State educational appropriations are recognized as nonoperating revenue; however, the related expenses for educational or specific operating purposes are reported as operating expenses. 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 under other changes in net position when the related expenditures are incurred. Special state appropriations, such as AIDS, tobacco, and breast cancer research, are reported as grant operating 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 U.S. Department of Health and Human Services. For the fiscal year ended June 30, 2015, the facilities and administrative cost recovery totaled \$120 million; \$85 million from federally sponsored programs and \$35 million from other sponsors. 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.

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 and other fees, 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 recorded as an offset to revenues in the statements of revenues, expenses and changes in net position for the years ended June 30 are as follows:

(in thousands of dollars)

	2015	2014
Student tuition and fees	\$170,987	\$151,513
Auxiliary enterprises	23,150	22,157
Other operating revenues	17,722	16,995
SCHOLARSHIP ALLOWANCES	\$211,859	\$190,665

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 BENEFITS 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 have 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 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 statements of revenues, expenses and changes in net position. The financial records of the UCRHBT are reported within the University's Annual Financial Report.

RETIREE HEALTH BENEFITS AND OBLIGATIONS FOR RETIREE HEALTH BENEFITS. UC Davis' costs for campus and medical center retiree health benefits expense is based upon the annual required contribution to the retiree health plan, as actuarially determined. UC Davis contributions toward retiree health benefits, at rates determined by the University, are made to UCRHBT and reduce the obligation for retiree health benefits which is recorded in the University's statements of net position.

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

Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic

factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for pension benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

UC RETIREMENT PLAN (“UCRP”) BENEFITS AND OBLIGATION TO UCRP. UC Davis’ cost for campus and medical center UCRP benefits expense is based upon the annual required contribution to UCRP, as actuarially determined. Contributions to UCRP are made based upon rates or amounts determined by the University, and reduce UC Davis’ obligation to UCRP in the statements of net position.

ENDOWMENT SPENDING. Under provisions of California law, the Uniform Management of Institutional Funds Act (“UMIFA”) allows for investment income, as well as a portion of realized and unrealized gains, to be expended for the operational requirements of UC Davis programs.

TAX EXEMPTION. UC Davis is recognized as a tax-exempt organization under the provisions of Section 501(c)(3) of the Internal Revenue Code (“IRC”). Because UC Davis is a state institution, related income received by UC Davis is also exempt from federal tax under IRC Section 115(a). In addition, UC Davis is exempt from state income taxes imposed under the California Revenue and Taxation Code.

USE OF ESTIMATES. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Although management believes the estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made, and actual amounts could differ from those estimates.

RECLASSIFICATIONS. Certain reclassifications have been made to the 2014 financial information to conform to the 2015 financial presentation.

NEW ACCOUNTING PRONOUNCEMENTS. In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for the University’s fiscal year beginning July 1, 2015. This Statement establishes standards for accounting and financial reporting for fair value measurements. The

Statement requires investments to be measured at fair value and permits the use of net asset value as the fair value when an investment does not have a readily determinable fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Statement No. 72 also requires certain disclosures related to all fair value measurements. The University is evaluating the effect that Statement No. 72 will have on its financial statements.

In June 2015, the GASB issued *Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*, effective for the University’s fiscal year beginning July 1, 2015. This Statement establishes requirements for those pensions and pension plans that were not covered by Statements No. 67 and No. 68, specifically those not administered through a trust meeting specified criteria. The University is evaluating the effect that Statement No. 73 will have on its financial statements.

In June 2015, the GASB issued *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for the University’s fiscal year beginning July 1, 2016. This Statement addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement No. 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires note disclosures and required supplementary information (“RSI”) related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Additionally, Statement No. 74 sets forth note disclosure requirements for defined contribution OPEB plans. Statement No. 74 will affect the information presented in the footnotes to the financial statements and required supplementary information for UCRHBT. The University is evaluating the effect that Statement No. 74 will have on its financial statements.

In June 2015, the GASB issued *Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the University’s fiscal year beginning July 1, 2017. This Statement revises existing standards for measuring

and reporting retiree health benefits provided by the University to its employees. This Statement requires recognition of a liability equal to the net retiree health benefit liability, which is measured as the total retiree health benefit liability, less the amount of the UCRHBT's fiduciary net position. The total retiree health benefit liability is determined based upon discounting projected benefit payments based on claims costs, the benefit terms and legal agreements existing at the UCRHBT'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. The Statement requires that most changes in the net retiree health benefit liability be included in retiree health benefit expense in the period of change. As of June 30, 2015, the University reported a retiree health benefit obligation of \$9.4 billion. Under Statement No. 75, the University's OPEB obligation is expected to increase. The University is evaluating the effect that Statement No. 75 will have on its financial statements.

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

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

University is evaluating the effect that Statement No. 77 will have on its financial statements.

1. Cash and Cash Equivalents

UC Davis cash and cash equivalents are maintained centrally and managed by the University. Demand deposit accounts used by UC Davis are zero balance accounts where balances are subject to a daily sweep into the central University management system.

UC Davis invests surplus cash balances in the Short Term Investment Pool ("STIP") managed by the Chief Investment Officer of the University. The Regents are responsible for managing the University's investments and establishing investment policy, which is carried out by the Chief Investment Officer of the Regents. 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.

Under University policy, deposits are only held with high quality financial institutions that maintain minimum issuer ratings on long-term debt as set forth by the University and disclosed in its audited Annual Report. At June 30, 2015 and 2014, the carrying amounts of UC Davis' demand deposits were \$766 million and \$578 million and bank balances were \$761 million and \$574 million, respectively. The difference between the carrying amount and the bank balance is due to outstanding transfers, checks, and other reconciling items. The checking accounts at June 30, 2015 and 2014 were insured by federal depository insurance up to \$250,000. All amounts in excess of federally insured limits at June 30, 2015 and 2014 are uninsured and uncollateralized. UC Davis does not have significant exposure to foreign currency risk in its cash and cash equivalents.

2. Investments

The Regents, as the governing Board, are responsible for the oversight of the University's investments and establishes an investment policy, which is carried out by the Chief Investment Officer. These investments are associated with the STIP, Total Return Investment Pool ("TRIP"), General Endowment Pool ("GEP"), UC Retirement System ("UCRS"), UCRHBT and other investment pools managed by the Chief Investment Officer, or are separately invested.

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.

Investments authorized by the Regents for STIP include fixed income securities with a maximum maturity of five and one-half years. In addition, for STIP, the Regents have also authorized loans, primarily to faculty members residing in California, under the University's Mortgage Origination Program with terms of up to 40 years.

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

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.

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 an 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 all pools except for STIP. Absolute return strategies which may incorporate short sales plus derivative positions to implement or hedge an investment position, are also authorized for all pools except for STIP.

Derivative instruments, including futures, forward contracts, options and swap contracts, are authorized for portfolio rebalancing in accordance with the Regents' asset allocation policy and as substitutes for physical securities. Derivatives are not used for speculative purposes.

More detail about the University of California's investments, securities lending and derivative financial instruments 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 \$1.7 million at June 30, 2015.

Investments held by trustees for endowment life annuities are reported as noncurrent assets. The fair value of these investments was \$2.8 million at June 30, 2015.

UC Davis' deposits into the trusts, or receipts from the trusts, are classified as a capital and related financing activity in the statements 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' statements of cash flows.

4. Accounts Receivable

Accounts receivable and the allowances for uncollectable amounts are as follows:

(in thousands of dollars)

	STATE AND FEDERAL GOVERNMENT	MEDICAL CENTER	LOCAL AND PRIVATE GRANTS AND CONTRACTS	EDUCATIONAL ACTIVITIES	OTHER	TOTAL
<i>At June 30, 2015</i>						
Accounts receivable	\$81,858	\$318,250	\$38,082	\$47,209	\$39,389	\$524,788
Allowance for uncollectible amounts	(245)	(52,941)	(22)	(18,229)	(340)	(71,777)
ACCOUNTS RECEIVABLE, NET	\$81,613	\$265,309	\$38,060	\$28,980	\$39,049	\$453,011
<i>At June 30, 2014</i>						
Accounts receivable	\$113,174	\$312,910	\$42,594	\$38,010	\$37,290	\$543,978
Allowance for uncollectible amounts	(197)	(52,141)	(22)	(23,177)	(926)	(76,463)
ACCOUNTS RECEIVABLE, NET	\$112,977	\$260,769	\$42,572	\$14,833	\$36,364	\$467,515

Other accounts receivable are primarily related to student tuition and fees and auxiliary enterprises.

5. Pledges Receivable

The composition of pledges receivable at June 30 is summarized as follows:

(in thousands of dollars)

	2015	2014
Total pledges receivable outstanding	\$5,933	\$9,298
Less: Unamortized discount to present value	(60)	(60)
Allowance for uncollectible pledges	(630)	(3,190)
TOTAL PLEDGES RECEIVABLE, NET	5,243	6,048
Less: Current portion of pledges receivable	(3,312)	(3,832)
NONCURRENT PORTION OF PLEDGES RECEIVABLE	\$1,931	\$2,216

Future receipts under pledge agreements 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	
2016	\$3,742
2017	727
2018	621
2019	331
2020	512
2021-2025	-
TOTAL PAYMENTS ON PLEDGES RECEIVABLE	\$5,933

6. Notes And Mortgages Receivable

Notes and mortgages receivable, along with the allowance for uncollectible amounts, are as follows:

(in thousands of dollars)

	CURRENT PORTION	NONCURRENT PORTION		TOTAL
		NOTES	MORTGAGES	
<i>At June 30, 2015</i>				
Notes and mortgages receivable	\$11,153	\$78,061	\$137	\$89,351
Allowance for uncollectible amounts	(1,019)	(6,388)		(7,407)
NOTES AND MORTGAGES RECEIVABLE, NET	\$10,134	\$71,673	\$137	\$81,944
<i>At June 30, 2014</i>				
Notes and mortgages receivable	\$10,977	\$76,260	\$63	\$87,300
Allowance for uncollectible amounts	(860)	(8,352)		(9,212)
NOTES AND MORTGAGES RECEIVABLE, NET	\$10,117	\$67,908	\$63	\$78,088

7. Capital Assets, Net

UC Davis' capital asset activity for the years ended June 30, 2015 and 2014, is as follows:

(in thousands of dollars)

	2013	ADDITIONS	DISPOSALS	2014	ADDITIONS	DISPOSALS	2015
ORIGINAL COST							
Land	\$60,894			\$60,894			\$60,894
Infrastructure	184,727	\$11,289		196,016	\$17,340		213,356
Buildings & improvements	3,859,286	156,374	\$(1,326)	4,014,334	50,874	\$(794)	4,064,414
Equipment	972,678	70,656	(54,591)	988,743	63,934	(66,433)	986,244
Intangible assets	67,517	39,573	(8,762)	98,328	9,287	(22,101)	85,514
Libraries & collections	415,945	15,845	(919)	430,871	14,821	(967)	444,725
Special collections	43,753	1,821	(26)	45,548	1,160	(5)	46,703
Construction in progress	152,739		(67,467)	85,272	70,658		155,930
CAPITAL ASSETS, AT ORIGINAL COST	\$5,757,539	\$295,558	(\$133,091)	\$5,920,006	\$228,074	(\$90,300)	\$6,057,780
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure	\$82,737	\$6,691		\$89,428	\$6,939		\$96,367
Buildings & improvements	1,513,636	127,056	\$(974)	1,639,718	94,874	\$(713)	1,733,879
Equipment	661,880	70,309	(47,191)	684,998	67,968	(59,543)	693,423
Intangible assets	55,971	10,348	(8,116)	58,203	11,620	(21,020)	48,803
Libraries & collections	298,812	14,049	(2,099)	310,762	14,268	(919)	324,111
ACCUMULATED DEPRECIATION AND AMORTIZATION	\$2,613,036	\$228,453	(\$58,380)	\$2,783,109	\$195,669	(\$82,195)	\$2,896,583
CAPITAL ASSETS, NET	\$3,144,503			\$3,136,897			\$3,161,197

Service concession arrangements, reported as buildings and improvements, are \$69.6 million of original cost and \$17.2 million of accumulated depreciation at June 30, 2015. Service concession arrangements, reported as buildings and improvements, are \$45.9 million of original cost and \$15.9 million of accumulated depreciation at June 30, 2014.

In 2015, the campus determined that certain medical center buildings had been over depreciated as a result of differences in useful lives used by the campus. The campus has recorded an out-of-period adjustment in 2015 to correct this error, resulting in an increase in net fixed assets in the statements of net position and a decrease in depreciation expense of \$36 million.

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 is as follows:

(in thousands of dollars)

	INTEREST RATE RANGE	MATURITY YEARS	2015	RESTATED 2014
THE REGENTS OF THE UNIVERSITY OF CALIFORNIA:				
General Revenue Bonds	0.1 - 7.6%	2016-2115	\$950,883	\$931,188
Medical Center Pooled Revenue Bonds	1.0 - 6.6%	2017-2047	300,269	318,059
Limited Project Revenue Bonds	0.6 - 6.3%	2016-2045	219,898	101,701
Unamortized bond premium			38,396	6,979
REVENUE BONDS			1,509,446	1,357,927
Mortgages and other borrowings	Various	2015-2018	17,449	31,440
Capital lease obligations	0.0-7.75%	2015-2020	1,413	3,185
TOTAL OUTSTANDING DEBT			1,528,308	1,392,552
Current portion of long-term debt			61,342	61,632
TOTAL LONG-TERM DEBT			\$1,466,966	\$1,330,920

Total interest expense during the years ended June 30, 2015 and 2014 was \$69 million and \$59 million, respectively.

Outstanding Debt Activity

Activity with respect to UC Davis' current and noncurrent debt for the years ended June 30 is as follows:

(in thousands of dollars)

	REVENUE BONDS AND PREMIUMS	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASE OBLIGATIONS	TOTAL
<i>Year ended June 30, 2015</i>				
Current portion	\$45,411	\$14,001	\$2,220	\$61,632
Reclassification from noncurrent	50,840	10,339	862	62,041
Principal payments	(44,603)	(13,991)	(2,228)	(60,822)
Amortization of deferred premium	(1,509)			(1,509)
CURRENT PORTION	50,139	10,349	854	61,342
Noncurrent portion	1,312,516	17,439	965	1,330,920
New obligations	408,781		456	409,237
Refinancing or prepayment of debt	(211,150)			(211,150)
Reclassification to current	(50,840)	(10,339)	(862)	(62,041)
NONCURRENT PORTION	\$1,459,307	\$7,100	\$559	\$1,466,966
<i>Year ended June 30, 2014 (RESTATED)</i>				
Current portion	\$35,851	\$17,131	\$20,094	\$73,076
Reclassification from noncurrent	45,413	14,010	313,119	372,542
Principal payments	(39,957)	(17,140)	(2,751)	(59,848)
Refinancing or prepayment of debt	4,949		(328,242)	(323,293)
Amortization of deferred premium	(845)			(845)
CURRENT PORTION	45,411	14,001	2,220	61,632
Noncurrent portion	893,422	31,450	313,482	1,238,354
New obligations	464,507		601	465,108
Reclassification to current	(45,413)	(14,011)	(313,118)	(372,542)
NONCURRENT PORTION	\$1,312,516	\$17,439	\$965	\$1,330,920

Commercial Paper

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

The program's liquidity is supported by available investments in STIP and TRIP. Commercial paper is collateralized by a pledge of the revenues derived from the ownership or 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, 2015 and 2014 was \$28 million and \$84 million, respectively. Unallocated commercial paper available to draw at June 30, 2015 and 2014 was \$79 million and \$38 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, 2015 and 2014 were \$1.4 billion and \$1.3 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.

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 commercial paper agreements or 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 Revenue 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.

2015 Activity

In March 2015, General Revenue Bonds totaling \$1.2 billion, including \$381.8 million of taxable bonds and \$797.0 million of tax-exempt bonds, were issued to finance or refinance certain facilities and projects of the University. The bonds mature at various dates through 2045. Proceeds for the campus, including a bond premium of \$19 million, were used to pay for project construction and issuance costs and to refund \$151 million of outstanding General Revenue Bonds. The taxable bonds have a stated weighted average interest rate of 3.8 percent. The tax-exempt bonds have a stated weighted average interest rate of 4.6 percent.

The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. The refunding resulted in a loss of \$39.1 million with the campus' portion of \$5 million, recorded as a deferred outflow of resources that will be amortized as interest expense over the remaining life of the refunded bonds.

In March 2015, Limited Project Revenue Bonds totaling \$1.7 billion, including \$436.5 million of taxable bonds and \$1.2 billion of tax-exempt bonds, were issued to finance or refinance the acquisition, construction, improvement and renovation of certain athletic, parking, recreational, dining and student and faculty housing facilities of the University. The bonds mature at various dates through 2050. Proceeds for the campus, including a bond premium of \$14 million, were used to pay for project construction and issuance costs and refund \$60 million of outstanding General Revenue Bonds and Limited Project Revenue Bonds. The taxable bonds have a weighted average interest rate of 4.1 percent. The tax-exempt bonds have a stated weighted average interest rate of 4.8 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. The refunding resulted in a loss of \$55.0 million with the campus' portion of \$4 million, recorded as a deferred outflow of resources that will be amortized as interest expense over the remaining life of the refunded bonds.

In April 2015, General Revenue Bonds totaling \$500.0 million were issued to finance capital projects of the University or for such purposes as authorized by the Regents. The campus' proceeds were \$90 million. The taxable bonds have a stated interest rate of 4.8 percent, maturing in 2115.

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 million 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 5.0 percent. The taxable bonds have a stated weighted average interest rate of 4.5 percent.

Capital Leases

UC Davis has entered into lease-purchase agreements with the state of California, recorded as capital leases. The state sold 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 issued 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 statements of revenue, expenses and changes in net position, for the year ended June 30, 2014 was \$130,000. The scheduled principal and interest, including accrued interest, reported in UC Davis'

financial statements for the year ended June 30, 2014 contain amounts related to these lease-purchase agreements with the state of California as follows:

(in thousands of dollars)

	2014
State capital lease principal	\$630
State capital lease interest	5,594
	\$6,224

Capital leases entered into with other lessors, typically for equipment, totaled \$456,000 and \$601,000 for the years ended June 30, 2015 and 2014, respectively.

Future Debt Service

Future debt service payments 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	REVENUE BONDS	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASE OBLIGATIONS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
FY 2016	\$117,669	\$10,522	\$882	\$129,073	\$61,341	\$67,732
FY 2017	114,926	6,533	264	121,723	58,155	63,568
FY 2018	114,644	623	189	115,456	54,003	61,453
FY 2019	114,081		63	114,144	54,876	59,268
FY 2020	111,886		63	111,949	55,064	56,885
FY 2021 - 2025	527,256			527,256	286,462	240,794
FY 2026 - 2030	398,614			398,614	232,859	165,755
FY 2031 - 2035	318,685			318,685	198,378	120,307
FY 2036 - 2040	270,142			270,142	194,706	75,436
FY 2041 - 2045	173,859			173,859	129,721	44,138
FY 2046 - 2050	96,849			96,849	62,743	34,106
FY 2051 - 2055	33,597			33,597		33,597
FY 2056 - 2060	33,597			33,597		33,597
FY 2061 - 2065	33,597			33,597		33,597
FY 2066 - 2070	33,597			33,597		33,597
FY 2071 - 2075	33,597			33,597		33,597
FY 2076 - 2080	33,597			33,597		33,597
FY 2081 - 2085	33,597			33,597		33,597
FY 2086 - 2090	33,597			33,597		33,597
FY 2091 - 2095	33,597			33,597		33,597
FY 2096 - 2100	33,597			33,597		33,597
FY 2101 - 2105	33,597			33,597		33,597
FY 2106 - 2110	33,597			33,597		33,597
FY 2111 - 2115	166,310			166,310	140,000	26,310
TOTAL FUTURE DEBT SERVICE:	2,928,085	17,678	1,461	\$2,947,224	\$1,528,308	\$1,418,916
Less: Interest component of future payments	1,418,639	229	48			
PRINCIPAL PORTION OF FUTURE PAYMENTS	\$1,509,446	\$17,449	\$1,413			

9. Other Current And Noncurrent Liabilities

UC Davis' other liabilities as of June 30 are as follows:

(in thousands of dollars)

	2015		2014	
	CURRENT	NONCURRENT	CURRENT	NONCURRENT
Compensated absences	\$91,529	\$55,862	\$83,959	\$53,105
Third-party payor settlement liability	130,680		71,338	
Accrued interest	9,053		6,566	
McClellan closure		17,593		17,593
Pollution remediation		56,366		56,366
Landfill closure		2,315		3,814
Other liabilities	16,234	944	13,972	
TOTAL OTHER LIABILITIES	\$247,496	\$133,080	\$175,835	\$130,878

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 campus reviews the liabilities 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. These estimates consider the investigative work and analysis of engineers, outside environmental consultants, and the advice of legal staff regarding the status and anticipated results of various administrative and legal proceedings. In most cases, only a range of reasonably possible costs can be estimated. In establishing the campus' liability, the sum of probability-weighted amounts in a range of possible estimated amounts is used. Accordingly, such estimates can change as the campus periodically evaluates and revises these estimates as new information becomes available. The campus cannot predict whether new information gained as projects progress will affect the estimated liability accrued. The timing of payment for estimated future environmental costs is influenced by a number of factors such as the regulatory approval process, and the time required to design, construct, and implement the remedy. There were no expected recoveries at June 30, 2015 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 which is anticipated to occur in 2029. 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 has 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, 2015, investments of \$1.7 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 is summarized as follows:

(in thousands of dollars)

	2015		2014	
	DEFERRED OUTFLOWS	DEFERRED INFLOWS	DEFERRED OUTFLOWS	DEFERRED INFLOWS
Service concession arrangements		\$52,406		\$29,965
Net pension liability	\$752,178	775,317	\$523,836	1,024,984
Loss in debt refunding	22,162		15,342	
TOTAL DEFERRED OUTFLOW AND INFLOW OF RESOURCES	\$774,340	\$827,723	\$539,178	\$1,054,949

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 and their eligible family members (“retirees”) of the University of California and its affiliates. The Regents have the authority to establish and amend the benefit plans.

Membership in UCRP is required to become eligible for retiree health benefits. Participation in the retiree health benefit plans consisted of the following at July 1, 2014, the date of the latest actuarial valuation:

	UNIVERSITY OF CALIFORNIA
Retirees who are currently receiving benefits	40,235
Employees who may receive benefits at retirement	121,901
TOTAL MEMBERSHIP	162,136

CONTRIBUTIONS. The contribution requirements of eligible retirees and the participating university locations, such as UC Davis, are established and may be amended by the University. Membership in 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 who are employed by the University after July 1, 2013, and retire at the age of 56 or older, become

eligible for a percentage of the University’s contribution based on age and years of service. Retirees are eligible for the maximum University contribution at age 65 with 20 or more years of service. Retirees employed by the University prior to 1990 and not rehired after that date are eligible for the University’s maximum contribution if they retire before age 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least 5 years of service. Retirees employed by the University after 1989 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum employer contribution, increasing to 100 percent after 20 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 UC Davis, are required to contribute at a rate assessed each year by the University. The contribution requirements are based upon projected pay-as-you-go financing requirements. The assessment rates were \$2.65 and \$3.40 per \$100 of UCRP covered payroll effective July 1, 2015 and 2014, respectively. This resulted in UC Davis contributions of \$41 million and \$47 million for years ended June 30, 2015 and 2014, 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, 2014, the date of the latest actuarial valuation, were \$65.2 million and \$14.1 billion, respectively. The net position held in trust for retiree health benefits on the UCRHBT's statement of plan fiduciary net position were \$50.6 million and \$65.2 million at June 30, 2015 and 2014, respectively. For the years ended June 30, 2015 and 2014, combined contributions from the University's campuses and medical centers were \$350.2 million and \$380.1 million, respectively, including an implicit subsidy of \$91.6 million and \$85.2 million, respectively. The University's annual retiree health benefit expense for its campuses and medical centers was \$1.3 billion and \$1.2 billion for the years ended June 30, 2015 and 2014, 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 \$9.1 billion and \$8.2 billion at June 30, 2015 and 2014, respectively, increased by \$924.0 million and \$836.7 million for the years ended June 30, 2015 and 2014, respectively.

Information on 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 2014-2015 annual reports of the University of California.

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. UCRS consists of UCRP, a single-employer defined benefit plan funded with University and employee contributions, and the University of California Retirement Savings Program ("UCRSP") that includes four defined contribution plans with options to participate in internally or externally managed investment portfolios generally funded with employee non-elective and elective

contributions. The Regents have the authority to establish and amend the benefit plans.

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN.

UCRP provides lifetime retirement income, disability protection, 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.

The University's membership in UCRP consisted of the following at June 30, 2015:

	UNIVERSITY OF CALIFORNIA
Retirees and beneficiaries receiving benefits	67,321
Inactive members entitled to, but not receiving benefits	75,165
Active members:	
Vested	75,158
Nonvested	48,610
TOTAL ACTIVE MEMBERS	123,768
TOTAL MEMBERSHIP	266,254

CONTRIBUTIONS. Contributions to UCRP are made by UC Davis and its 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, 2014, employee member and employer contributions were 8 percent and 14 percent,

respectively. Member contributions for the employees in the new benefit tier applicable to employees hired on or after July 1, 2013 are 7 percent. The employer rate is uniform across all members.

Employee contributions to UCRP are accounted for separately and currently accrue interest at 6 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, including \$50.6 million of additional deposits made by the campus and medical center in July 2014, were as follows for the years end June 30:

(in thousands of dollars)

	2015			2014		
	EMPLOYER	EMPLOYEE	TOTAL	EMPLOYER	EMPLOYEE	TOTAL
Campus	\$190,188	\$68,128	\$258,316	\$102,663	\$51,103	\$153,766
Medical Center	134,272	50,913	185,185	72,105	39,081	111,186
TOTAL	\$324,460	\$119,041	\$443,501	\$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 is as follows:

(in thousands of dollars)

	2015		2014	
	PROPORTION OF THE NET PENSION LIABILITY	PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	PROPORTION OF THE NET PENSION LIABILITY	PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Campus	9.2%	\$888,905	9.2%	\$660,342
Medical Center	6.5%	627,561	6.6%	468,810
TOTAL		\$1,516,466		\$1,129,152

UC Davis' net pension liability was measured as of June 30 and was based upon rolling forward the results of the actuarial valuations as of July 1. 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:

(shown as a percentage)

	2015	2014
Inflation	3.0	3.5
Investment rate of return	7.25	7.5
Projected salary increases	3.8 - 6.2	4.3 - 6.8
Cost-of-living adjustments	2.0	2.0

The actuarial assumptions used in 2014 were based upon the results of an experience study conducted for the period of July 1, 2006 through June 30, 2010. For active members, inactive members and healthy retirees, the RP-2000 Combined Healthy Mortality Table, projected with scale AA to 2015, with ages set back two years was 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 were changed in 2015 based upon the results of an experience study conducted for the period of July 1, 2010 through June 30, 2014. For active members, inactive members and healthy retirees, the RP-2014 White Collar Mortality Tables are used (separate tables for males and females), projected with the two-dimensional MP2014 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with two-dimensional MP2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females.

The long-term expected investment rate of return assumption for UCRP was determined based on a building-block method in which expected future real rates of return (expected returns, net of inflation) are

developed for each major asset class. These 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 percentage, adding expected inflation and subtracting expected expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

ASSET CLASS	TARGET ALLOCATION	LONG-TERM EXPECTED RATE OF RETURN
U.S. Equity	28.5%	6.1%
Developed International Equity	18.5	7.0
Emerging Market Equity	8.0	8.6
Core Fixed Income	12.5	0.8
High Yield Bonds	2.5	3.0
Emerging Market Debt	2.5	3.9
TIPS	4.5	0.4
Real Estate	5.5	4.8
Private Equity	8.0	11.2
Absolute Return/Hedge Funds/Real Assets	9.5	4.2
TOTAL	100.0%	5.6%

DISCOUNT RATE. The discount rate used to estimate the net pension liability as of June 30, 2015 and 2014 was 7.25 and 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, 2015 and 2014.

SENSITIVITY OF THE NET PENSION LIABILITY TO THE DISCOUNT RATE ASSUMPTION. The following presents the June 30, 2015 net pension liability of the campus and the Medical Center calculated using the June 30, 2015 discount rate assumption of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)

	1% DECREASE (6.25%)	CURRENT DISCOUNT (7.25%)	1% INCREASE (8.25%)
Campus	\$1,498,881	\$888,905	\$390,987
Medical Center	1,058,199	627,561	276,034
TOTAL	\$2,557,080	\$1,516,466	\$667,021

DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES. Deferred outflows of resources and deferred inflows of resources for pension were related to the following sources:

(in thousands of dollars)

	CAMPUS	MEDICAL CENTER	TOTAL
<i>At June 30, 2015</i>			
DEFERRED OUTFLOWS OF RESOURCES			
Changes in proportion and differences between contributions and proportionate share of contributions	\$1,615	\$24,229	\$25,844
Changes of assumptions or other inputs	259,526	183,223	442,749
Net difference between projected and actual earnings on pension plan investments	166,229	117,356	283,585
TOTAL	\$427,370	\$324,808	\$752,178
DEFERRED INFLOWS OF RESOURCES			
Changes in proportion and differences between contributions and proportionate share of contributions	\$26,380	\$12,539	\$38,919
Changes of assumptions or other inputs	126,818	89,534	216,352
Net difference between projected and actual earnings on pension plan investments	268,841	189,800	458,641
Difference between expected and actual experience	35,994	25,411	61,405
TOTAL	\$458,033	\$317,284	\$775,317
<i>At June 30, 2014</i>			
DEFERRED OUTFLOWS OF RESOURCES			
Changes in proportion and differences between contributions and proportionate share of contributions	\$676	\$32,257	\$32,933
Changes of assumptions or other inputs	193,961	137,704	331,665
Net difference between projected and actual earnings on pension plan investments	93,125	66,113	159,238
TOTAL	\$287,762	\$236,074	\$523,836
DEFERRED INFLOWS OF RESOURCES			
Changes in proportion and differences between contributions and proportionate share of contributions	\$20,208	\$1,630	\$21,838
Changes of assumptions or other inputs	175,388	124,517	299,905
Net difference between projected and actual earnings on pension plan investments	373,116	264,893	638,009
Difference between expected and actual experience	38,149	27,083	65,232
TOTAL	\$606,861	\$418,123	\$1,024,984

The net amount of deferred outflows of resources and deferred inflows of resources as of June 30, 2015 related to pension that will be recognized in pension expense during the next five years are as follows:

(in thousands of dollars)

	CAMPUS	MEDICAL CENTER	TOTAL
2016	\$7,041	\$16,415	\$23,456
2017	(40,620)	(17,376)	(57,996)
2018	(59,844)	(36,568)	(96,412)
2019	52,345	37,987	90,332
2020	10,415	7,066	17,481
TOTAL	(\$30,663)	\$7,524	(\$23,139)

DEFINED CONTRIBUTION PLAN. The University makes Defined Contribution Plan (“DC Plan”) retirement contributions on the summer or equivalent term salaries of eligible academic employees who teach, conduct research or provide administrative service during the summer session or an equivalent term. To be eligible, employees must hold academic year appointments and be active members of UCRP or another defined benefit plan to which the University contributes. The contribution rate is 7.0 percent of eligible salary, of which 3.5 percent is University-paid and 3.5 percent is employee-paid, both on a pretax basis. The University may also contribute on behalf of eligible senior managers. Employer contributions to the DC Plan were \$4.9 million and \$4.7 million for the years ended June 30, 2015 and 2014, respectively.

The DC Plan Pretax Account also includes mandatory contributions from part-time, seasonal and temporary employees at the University who are not currently participating in UCRP or another defined benefit plan to which the University contributes (Safe Harbor participants). Safe Harbor participation includes certain University student employees and resident aliens with F-1 and J-1 visa status. Safe Harbor participants contribute 7.5 percent of their gross salary (up to the Social Security wage base) to the Plan in lieu of deductions for Social Security taxes.

All University employees, except students who normally work fewer than 20 hours per week, are eligible to make voluntary contributions to the DC Plan After-Tax Account and defer taxation on the earnings until the accumulations are withdrawn. The maximum amount participants may contribute annually to the After-Tax Account is determined by the IRC §415(c) limit. The University may also make DC Plan contributions on behalf of eligible senior managers.

The Supplemental Defined Contribution Plan (“SDC Plan”) accepts employer contributions in behalf of certain designated employees. Employer contributions are fully vested and there is no provision for employee contributions. There were no assets or employer contributions to the SDC Plan for the years ended June 30, 2015 and 2014.

TAX DEFERRED 403(B) PLAN. The University’s Tax-Deferred 403(b) Plan (“403(b) Plan”) accepts pretax employee contributions. The University may also make contributions in behalf of certain members of management. Employer contributions to the 403(b) Plan were \$1.5 million each for the years ended June 30, 2015 and 2014.

457(B) DEFERRED COMPENSATION PLAN. The University’s 457(b) Deferred Compensation Plan (“457(b) Plan”) accepts pretax employee contributions. The University may also make contributions in behalf of certain members of management. There were no employer contributions to the 457(b) Plan for the years ended June 30, 2015 and 2014.

Participants in the DC Plan, the SDC Plan, the 403(b) Plan and the 457(b) Plan may direct their elective and nonelective contributions to investment funds managed by the Chief Investment Officer. They may also invest account balances in certain mutual funds. The participants’ interests in mutual funds is shown separately in the statement of plans’ fiduciary net position.

Additional information on the retirement plans can be obtained from the 2014-2015 annual reports of the University of California Retirement System which can be obtained at <http://reportingtransparency.universityofcalifornia.edu/>.

13. Endowment Funds

The value of endowments and gifts held and administered by the Regents for UC Davis at June 30, 2015 and 2014 is as follows:

(in thousands of dollars)

	RESTRICTED NON- EXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
<i>At June 30, 2015</i>				
Endowments	\$114,847	\$175,685		\$290,532
Funds functioning as endowments		233,241	\$149,462	382,703
Annuity and life income	2,826			2,826
Gifts		99,448	2,210	101,658
ENDOWMENTS AND GIFTS	\$117,673	\$508,374	\$151,672	\$777,719
<i>At June 30, 2014 (RESTATED)</i>				
Endowments	\$115,885	\$161,391		\$277,276
Funds functioning as endowments		221,136	\$141,032	362,168
Annuity and life income	2,665			2,665
Gifts		96,564	1,906	98,470
ENDOWMENTS AND GIFTS	\$118,550	\$479,091	\$142,938	\$740,579

The University's endowment income distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution provided by dividend and interest income and by capital gains may vary significantly from year to year. The University's policy is to retain the realized and unrealized appreciation with the endowment after the annual income distribution has been made. The portion of investment returns earned on endowments held by the Regents and distributed each year to support current operations of UC Davis is based upon a rate of 4.75% (stated in dollars per share). The total distribution from endowments held by the Regents to UC Davis was \$25 million for the year ended June 30, 2015.

14. Operating Expenses By Function

Operating expenses, by functional classification, for the years ended June 30, 2015 and 2014 are as follows:

(in thousands of dollars)

	2015	RESTATED 2014
Instruction	\$761,131	\$699,875
Research	529,802	520,917
Public service	79,507	96,988
Academic support	202,413	189,799
Student services	135,045	124,105
Institutional support	116,570	122,431
Operations and maintenance of plant	92,643	99,612
Student financial aid	52,553	56,136
Medical center	1,634,500	1,488,794
Auxiliary enterprises	98,468	97,189
Depreciation	195,669	228,453
Impairment of capital assets	1,082	634
Other	2,789	6,318
TOTAL	\$3,902,172	\$3,731,251

15. Segment Information

UC Davis' significant identifiable activities for which revenue bonds are outstanding where revenue is pledged in support of revenue bonds are related to its medical center. The medical center's 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 each of the University's medical centers for the year ended June 30, 2015 is provided in footnote 17 of the University of California Annual Financial Report. Condensed financial statement information for the UC Davis Medical Center for the years ended June 30, 2015, and 2014, is as follows:

(in thousands of dollars)

	2015	2014
Bonds outstanding	\$300,269	\$318,059
Related debt service payments	33,180	33,198
Bonds due serially through	2047	2047
CONDENSED STATEMENTS OF NET POSITION		
Current assets	\$734,783	\$609,403
Capital assets, net	1,003,080	1,044,562
Other noncurrent assets	21,540	20,638
TOTAL ASSETS	1,759,403	1,674,603
TOTAL DEFERRED OUTFLOWS OF RESOURCES	338,097	251,415
Current liabilities	351,615	259,435
Long-term debt	294,564	323,879
Other noncurrent liabilities	801,568	600,375
TOTAL LIABILITIES	1,447,747	1,183,689
TOTAL DEFERRED INFLOWS OF RESOURCES	317,284	418,123
Net investment in capital assets	683,085	697,588
Unrestricted	(350,616)	(373,382)
TOTAL NET POSITION	\$332,469	\$324,206
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		
Operating revenues	\$1,723,966	\$1,590,227
Operating expenses	(1,587,012)	(1,447,553)
Depreciation expense	(85,078)	(85,928)
OPERATING INCOME	51,876	56,746
Nonoperating revenues (expenses), net	(5,262)	(9,761)
INCOME BEFORE CHANGES IN NET POSITION	46,614	46,985
Health systems support	(32,323)	(38,256)
Transfers from University, net	(10,563)	(5,077)
Changes in allocation for pension payable to University	3,137	(29)
Other, including donated assets	1,398	944
INCREASE IN NET POSITION	8,263	4,567
Net position – beginning of year	324,206	319,639
NET POSITION – END OF YEAR	\$332,469	\$324,206

CONTINUED

CONTINUED*(in thousands of dollars)*

	2015	2014
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	\$235,172	\$181,224
Noncapital financing activities	(41,048)	(50,406)
Capital and related financing activities	(88,396)	(101,334)
Investing activities	5,521	13,912
NET INCREASE IN CASH AND CASH EQUIVALENTS	111,249	43,396
Cash and cash equivalents – beginning of year	298,005	254,609
CASH AND CASH EQUIVALENTS – END OF YEAR	\$409,254	\$298,005

Additional information for the UC Davis Medical Center can be obtained from the UC Medical Centers June 30, 2015, audited financial statements available at: <http://www.ucop.edu/financial-accounting/>.

16. UC Davis Foundation

Under University policies approved by the Regents, each campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the mission of the campus and the University. Although an independent board governs the UC Davis Foundation, its assets are dedicated for the benefit of the campus.

The UC Davis Foundation was established in 1959 to raise funds to benefit UC Davis. The UC Davis Foundation is a component unit of the campus.

The financial statements of the UC Davis Foundation are presented discretely in a separate column on the campus' financial statements because of its nature and significance of its relationship with the campus. During the years ended June 30, 2015 and 2014, gifts of \$28.8 million and \$33.4 million, respectively, were transferred to UC Davis from the UC Davis Foundation.

Condensed financial statement information related to UC Davis' foundation for the years ended June 30, 2015 and 2014 is as follows:

(in thousands of dollars)

	2015	2014
CONDENSED STATEMENTS OF NET POSITION		
Current assets	\$26,693	\$25,494
Other noncurrent assets	365,333	329,675
TOTAL ASSETS	392,026	355,169
Current liabilities	792	797
Noncurrent liabilities	6,880	5,297
TOTAL LIABILITIES	7,672	6,094
Restricted	382,092	347,008
Unrestricted	2,262	2,067
TOTAL NET POSITION	\$384,354	\$349,075
CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		
Operating revenues	\$35,016	\$17,679
Operating expenses	(29,146)	(33,701)
OPERATING INCOME (LOSS)	5,870	(16,022)
Nonoperating revenues (expenses), net	16,759	49,974
INCOME BEFORE CHANGES IN NET POSITION	22,629	33,952
Permanent endowments	12,650	26,791
INCREASE IN NET POSITION	35,279	60,743
Net position – beginning of year	349,075	288,332
NET POSITION – END OF YEAR	\$384,354	\$349,075
CONDENSED STATEMENTS OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	(\$1,780)	(\$21,977)
Noncapital financing activities	8,685	13,656
Investing activities	(4,675)	2,636
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,230	(5,685)
Cash and cash equivalents – beginning of year	18,496	24,181
CASH AND CASH EQUIVALENTS – END OF YEAR	\$20,726	\$18,496

Additional information for the UC Davis Foundation can be found at: <http://giving.ucdavis.edu/ways-to-give/uc-davis-foundation-old/index.html>

17. Commitments And Contingencies

CONTRACTUAL COMMITMENTS. Unrestricted amounts committed but unexpended for construction projects totaled \$170.8 million at June 30, 2015.

UC Davis leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2015 and 2014, were \$35 million and \$34 million, respectively. The terms of operating leases extend through the year 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	MINIMUM ANNUAL LEASE PAYMENTS
2016	\$34,831
2017	30,066
2018	20,677
2019	16,615
2020	13,869
2021-2025	30,845
2026-2030	1,506
2031-2034	16
TOTAL	\$148,425

CONTINGENCIES. Substantial amounts are received and expended by UC Davis, including its medical center, under federal and state programs, 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 position.

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 of dollars)

	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					
2015	9.2%	\$888,905	\$899,612	98.8%	82.9%
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%
DAVIS MEDICAL CENTER					
2015	6.5%	627,561	635,120	98.8%	82.9%
2014	6.6%	468,810	603,824	77.6%	86.3%
2013	6.5%	690,989	563,695	122.6%	78.3%
2012	6.3%	880,516	522,988	168.4%	71.3%

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Vice Chancellor Shaun Keister

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UC DAVIS

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