UC DAVIS

2013 FINANCIAL REPORT

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A MESSAGE TO
Chancellor Linda P.B. Katehi

This report sets forth the financial position and results of operations of the University of California, Davis for the fiscal year ended June 30, 2013.

Despite the challenging operating environment over the last few years, UC Davis continues to lead the world in new directions through our teaching, research and public service. Student demand is as strong as ever: Fall 2012 enrollment was up compared to 2011, increasing by 2 percent. Contrary to other institutions, we have also maintained our fierce commitment to access and affordability, and take great pride in having maintained our unmatched commitment to access and affordability despite the harsh financial realities of the past few years. Financial aid to all students, on a combined basis, grew to $233 million in 2013, an increase of $11 million.

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

The financial strengths of the campus continue to include a diverse source of revenues, including those from student fees, the state of California, federally sponsored grants and contracts, the medical center, private support and self-supporting enterprises. Expenses for UC Davis' core activities were almost $3.6 billion in 2013 compared to $3.3 billion in 2012 while revenues supporting those activities matched expenses at almost $3.6 billion in 2013 compared to $3.4 billion in 2012. UC Davis' net assets remain at $3.2 billion as of June 30, 2013.

The UC Davis Financial Statements are not individually audited, but rather are audited as part of the Consolidated Annual Financial Report of the University of California by the firm of PricewaterhouseCoopers LLP, who has issued an unqualified opinion thereon dated October 9, 2013 that has been transmitted to the UC Board of Regents.

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

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

John Meyer
Vice Chancellor for Administration and Resource Management

J. Michael Allred
Associate Vice Chancellor for Finance/Controller

MANAGEMENT'S DISCUSSION
and Analysis

The objective of Management's Discussion and Analysis (MD&A) is to give readers an overview of the financial position and operating activities of the University of California, Davis (UC Davis) for the year ended june 30, 2013, with selected comparative information for the year ended june 30, 2012. This discussion should be read in conjunction with the financial statements and the notes to the financial statements.

UC Davis' Financial Report, while not separately audited, is prepared from the official University of California records and accounts which are maintained in accordance with the standards prescribed by the governmental accounting standards board. The three primary statements—the statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows—encompass the UC Davis campus and its discretely presented component, the UC Davis Foundation. However, the MD&A and the notes to the financial statements focus only on the campus. Information relating to the UC Davis Foundation can be found in their separately issued financial statements.

UNIVERSITY OF CALIFORNIA, DAVIS

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

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

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

UC DAVIS FINANCIAL POSITION

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

At June 30, 2013, UC Davis' assets were $5.7 billion, liabilities were almost $2.4 billion, and deferred inflows were $31 million increasing the campus' net position by $73 million in 2013 to $3.2 billion.

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

	JUNE 30, 2013	JUNE 30, 2012	CHANGE
Investments	$1,783	$1,608	$175
Accounts receivable, net	550	467	83
Capital assets, net	3,145	3,153	(8)
Other assets	184	181	3
TOTAL ASSETS	**5,662**	**5,409**	**253**
Debt	1,525	1,554	(29)
Other liabilities	869	659	210
TOTAL LIABILITIES	**2,394**	**2,213**	**181**
Deferred inflows from service concession agreements	31	32	(1)
TOTAL DEFERRED INFLOW OF RESOURCES	**31**	**32**	**(1)**
NET POSITION			
Investment in capital assets, net of related debt	1,652	1,630	22
Restricted: nonexpendable	114	110	4
Restricted: expendable	593	523	70
Unrestricted	878	901	(23)
TOTAL NET POSITION	**$3,237**	**$3,146**	**$73**

UC DAVIS ASSETS

UC Davis' total assets have grown by $253 million in 2013 to $5.7 billion. Generally, over the past two years, capital assets have increased while investments have increased or decreased consistent with market performance.

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

The Regents of the University of California (the regents) utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. The GEP portfolio return was a positive return of 12.0 percent in 2013 and a negative return of 0.7 percent in 2012. TRIP had positive returns of 8.3 percent in 2013 and 6.7 percent in 2012. STIP had positive returns of 2.1 percent and 2.4 percent in 2013 and 2012, respectively.

While investments increased due to strong market performance in 2013, investments also decreased $9.3 million because the campus changed its accounting policy for reporting externally-held irrevocable trusts to report these gifts when the time requirements are met and the gifts are received.

Accounts receivable increased by $83 million from $467 million in 2012 to $550 million in 2013. Accounts receivable include those from the state and federal government, local and private grants and contracts, receivables associated with the Medical Center related to patient care and from others. Receivables are reported net of bad debt allowances.

Capital assets include land, infrastructure, buildings and improvements, equipment, libraries, collections and construction in progress. As has been the case in recent years, the required spending for capital assets continues to increase. The original cost of capital assets increased by $178 million in 2013, consisting of capital expenditures of $331 million offset by $153 million of capital assets disposed of during the year in the normal course of doing business. Capital expenditures in 2012 were $270 million and disposals were $60 million. During 2013, capitalized costs for completed projects were $269 million. Capitalized buildings and improvements included the Medical Center Cancer Center expansion for $32 million, a School of Veterinary Medicine building for almost $58 million, a new residence hall for $37 million, additional improvements to the Law School King Hall of $34 million and various other buildings. Projects under construction, net of the cost of those projects completed and reclassified during 2013 to buildings and improvements or equipment, totaled $153 million.

Accumulated depreciation increased from $2.4 billion in 2012 to $2.6 billion in 2013. Depreciation expense for the year was $243 million and the accumulated depreciation on assets sold or disposed of during the year was just over $56 million. Generally, all of the disposals were for equipment that was fully depreciated or had reached the end of its useful life.

Other assets include deferred charges, pledges receivable, notes and mortgages receivable and inventories and totaled $184 million for 2013 and $181 million for 2012.

UC DAVIS LIABILITIES AND DEFERRED INFLOWS

In 2013, UC Davis' total liabilities increased by $181 million to almost $2.4 billion in 2013. Capital expenditures are financed from a variety of sources including equity contributions, federal and state support, revenue bonds and leases. UC Davis' debt to finance capital assets decreased by $29 million in 2013 to $1.5 billion with a $99 million decrease in long term debt due to principal payments and bond refunding offset by a $69 million increase in commercial paper, held until permanent financing is obtained.

In 2013, General Revenue Bonds totaling $1.6 billion and Limited Project Revenue Bonds of $1.0 billion were issued to finance and refinance certain facilities and projects of the university. UC Davis' portion the General Revenue Bonds and Limited Project Revenue Bonds was $83.7 million and $53 million, respectively, and was used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper and bank loans. Reductions to outstanding debt in 2013 were $302.7 million including $226.3 million for one-time principal payments for the refinancing or refunding of previously outstanding debt.

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

In 2012, General Revenue Bonds totaling $399.8 million were issued to finance and refinance certain facilities and projects of the university. UC Davis proceeds of $56 million were used to pay for project construction and issuance costs and refund $15 million of outstanding General Revenue Bonds and Multiple Purpose Project Revenue Bonds.

The university's General Revenue Bond ratings are currently affirmed at Aa1 with a negative outlook by Moody's Investors Service, AA+ by Fitch with a stable outlook and AA by Standard & Poor's with a stable outlook. The university's Limited Project Revenue Bonds and Medical Center Pooled Revenue Bonds are currently affirmed at Aa2 with a negative outlook by Moody's Investor Services, AA by Fitch with a stale outlook and AA- by Standard & Poor's with a stable outlook.

Commercial paper borrowings increased $69 million in 2012 from $161.3 million in 2012 to $230.7 million in 2013. Commercial paper has been used as interim financing for construction projects and equipment financing.

Other liabilities, including accounts payable, accrued salaries and benefits, deferred revenue, pollution remediation and federal refundable loans increased from $659 million in 2012 to $869 million in 2013.

Deferred inflows of resources are related to the campus' service concession arrangements.

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 2012 was over $3.2 billion, with an increase of $73 million from 2012. Net position is reported in following categories: invested in capital assets, net of related debt; restricted, nonexpendable; restricted, expendable; and unrestricted.

The portion of net assets invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of these capital assets increased by $22 million from $1,630 million in 2012 to $1,652 million in 2013.

Restricted nonexpendable net assets include the corpus of UC Davis' permanent endowments and the estimated value of charitable remainder trusts. At June 30, 2013 the total market value of UC Davis' endowments and other restricted nonexpendable net assets was $114 million. At June 30, 2012 the total market value of UC Davis' endowments and other restricted nonexpendable net assets was $110 million.

Restricted expendable net assets of $593 million, at June 30, 2013, are subject to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include endowment income and gains, subject to UC Davis' spending policy; support received from gifts, appropriations, grants or contracts for specific programs or capital projects; trustee held investments; or other third party receipts. The increases or decreases in restricted, expendable funds are principally due to unrealized appreciation or depreciation respectively in the fair value of investment related to restricted gifts and funds functioning as endowments.

Under generally accepted accounting principles, net position that is not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, substantially all of these net assets are designated for academic and research initiatives or programs, or for capital purposes. Unrestricted net assets decreased by $23 million in 2013, from $901 million in 2012 to $878 million in 2013.

UC DAVIS RESULTS OF OPERATIONS

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

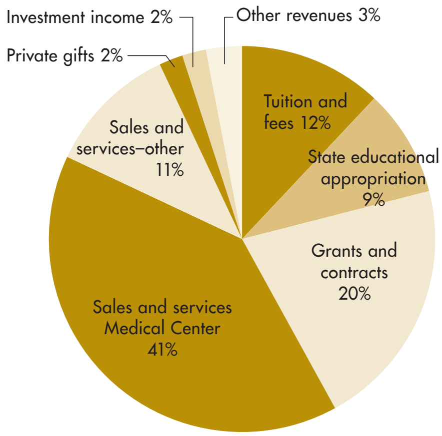
Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. In accordance with Governmental Accounting Standards Board (GASB) requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the university are mandated to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income. A summarized comparison of the operating results for 2013 and 2012, 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 2013 AND 2012 (DOLLARS IN MILLIONS)

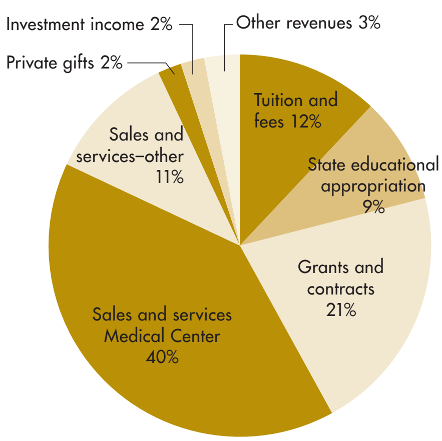
	YEAR ENDED JUNE 30, 2013			YEAR ENDED JUNE 30, 2012			
	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL	CHANGE
REVENUES							
Student tuition and fees, net	$434		$434	$405		$405	$29
State educational appropriations		314	314		299	299	15
Grants and contracts	648	49	697	645	52	697	-
Sales and services:							
Medical center	1,476		1,476	1,337		1,337	139
Other	399		399	385		385	14
Private gifts		71	71		62	62	9
Investment income		60	60		60	60	
Other revenues	75	42	117	77	40	117	
REVENUES SUPPORTING CORE ACTIVITIES	**3,032**	**536**	**3,567**	**2,849**	**513**	**3,362**	**206**
EXPENSES							
Salaries and benefits	2,315		2,315	2,188		2,188	127
Scholarships and fellowships	58		58	55		55	3
Utilities	38		38	38		38	
Supplies and materials	388		388	389		389	(1)
Depreciation	243		243	223		223	20
Interest expense		52	52		66	66	(14)
Other expenses	473		473	385		385	88
EXPENSES ASSOCIATED WITH CORE ACTIVITIES	**3,515**	**52**	**3,566**	**3,278**	**66**	**3,344**	**223**
INCOME (LOSS) FROM CORE ACTIVITES	**$(483)**	**484**	**1**	**$(429)**	**447**	**18**	(17)
OTHER NONOPERATING ACTIVITIES							
Net appreciation (depreciation) in fair value of investments			19			(45)	64
INCOME BEFORE OTHER CHANGES IN NET ASSETS			**20**			**(27)**	**47**
OTHER CHANGES IN NET ASSETS							
State capital appropriations			6			21	(15)
Capital gifts and grants			76			22	54
Permanent endowments			4			2	2
INCREASE (DECREASE) IN NET ASSETS			**106**			**18**	**88**
NET POSITION							
Beginning of year, as previously stated			3,164			3,146	18
Cumulative effect of accounting changes			(32)				
Beginning of year, as restated			3.132			3,146	18
NET ASSETS END OF YEAR			**3,238**			**$3,164**	**74**

REVENUES SUPPORTING CORE ACTIVITIES

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



The following chart provides a breakdown of revenues supporting core activities for the fiscal year ended June 30, 2012.



Revenues to support UC Davis' core activities of $3.6 billion, including those classified as nonoperating revenues, increased by $206 million from 2012 to 2013. UC Davis has very diversified sources of revenue. State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of the university. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country. Gifts to UC Davis allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Sales and service revenue includes the medical center, educational activities and auxiliary enterprises such as student housing, the bookstore, food service operations and parking.

Student tuition and fees revenue grew from $405 million in 2012 to $434 million in 2013, an increase of $29 million. These fees are net of scholarship allowances of $133.2 million in 2013 and $133.7 million in 2012. The new fee revenue over the past several years has generally been necessitated by growth in the demand for resources that has outpaced state educational appropriations. Consistent with past practices, one-third of the revenue generated from these fee increases is used for financial aid to mitigate the impact on students with financial need.

In 2013 and 2012, undergraduate, graduate and professional student enrollment increased by two and one percent, respectively. Mandatory tuition and fees for resident undergraduates were not changed in 2013 and 2012. Mandatory tuition and fees for resident undergraduates increased 8.0 percent effective summer 2011 and 9.6 percent effective fall 2011 in response to reductions in state educational appropriations. Nonresident undergraduates and both resident and nonresident graduate students also experienced increases in mandatory tuition and fees. Professional degree supplemental tuition varies by discipline, although most programs increased supplemental tuition levels in 2013 and 2012.

State of California educational appropriations to UC Davis were $314 million in 2013 and $299 million in 2012. State education appropriations increased as a result of tax initiatives approved by the voters of California in November 2012. The university did not raise tuition in 2012 in connection with the passage of these tax initiatives.

Revenue from federal, state, private and local grants and contracts remained at $697 million for both 2013 and 2012. Federal grant and contract revenue, including facilities and administration cost recovery of $88 million and direct expenditures of $343 million, decreased by almost $9 million to $430 million due to the expirations of the federal research stimulus programs. This revenue represents support from a variety of agencies including the Department of Health and Human Services,

$207 million; the Department of Education, $58 million; the National Science Foundation, $52 million; and the Department of Agriculture, $34 million. State grants (including special research appropriations) and contracts increased 7 percent due to increases in award levels in various state agencies. Private and local contracts and grants increased by $1 million reflecting an increase in the number of private grants and contracts.

Revenue from the UC Davis Medical Center, educational activities and auxiliary enterprises of over $1.8 billion increased by almost $153 million, or 8.9% percent, from 2012. UC Davis Medical Center revenue increased by $139 million over the prior year to over $1.4 billion in 2013. The revenue growth is primarily due to renegotiated contracts, rate adjustments and an increase in patient activity. Sales from educational activities, primarily physicians' professional fees and auxiliary enterprises increased by $13 million or 3 percent reflecting an expanded patient base and higher rates from third-party payers.

Gifts may be made directly to UC Davis or through the UC Davis Foundation. UC Davis' private gifts for operating purposes increased by $9 million in 2013 to almost $71 million, primarily due to an increase in the number of gifts. UC Davis continues to be diligent in developing private revenue sources, and when gifts to the UC Davis Foundation are included with those given directly to UC Davis, gifts have generally increased over the past several years.

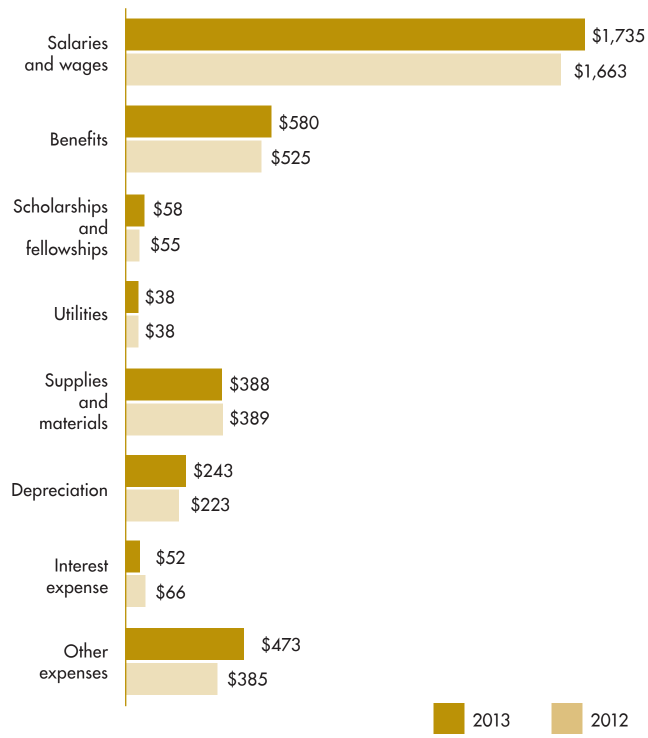
Investment income for the year of almost $60 million consisted of $13 million from the University of California's Short Term Investment Pool (STIP), $24 million from the University of California's Total Return Investment Pool (TRIP), and $23 million from endowments. Investment income in 2012 totaled $60 million consisting of $17 million from STIP, $22 from TRIP and $21 million from endowments.

Other revenues for 2013 of $117 million included almost $32 million of state financing appropriations, $2 million in federal interest subsidies and $6 million of other revenues and are reported as non-operating revenue and $77 million of other revenue reported as operating revenue. The state of California financing appropriation is directly related to the required rental payments under lease-purchase agreements with the state of California.

EXPENSES ASSOCIATED WITH CORE ACTIVITIES

The following chart provides a breakdown of expenses associated with core activities for the fiscal years ended June 30, 2013 and 2012.

EXPENSES ASSOCIATED WITH CORE ACTIVITIES (DOLLARS IN MILLIONS)



UC Davis' expenses associated with core activities for 2013, including those classified as non-operating expenses were almost $3.6 billion, an increase of $223 million, or 6.8 percent, from 2012. More than half of UC Davis' expenses are related to salaries and benefits for almost 20,000 full time equivalent employees of UC Davis.

In 2013, salaries and wages increased $72 million from 2012 due to an increase in the number of employees in 2013 from 2012 and a 2.8 percent increase in the average salary per FTE. Benefits increased by $56 million, or over 10 percent, from $524 million in 2012, to $580 million in 2013 primarily due to the increase in annual contributions required for pension benefits and increases in health insurance costs for current and retired employees.

Scholarships and fellowships, payments of financial aid made directly to students and reported as operating expenses were $58 million in 2013, an increase of $3 million, or 5 percent, from 2012. Scholarship allowances, fee waivers and other indirect payments by UC Davis are also forms of financial aid that increased from $167 million in 2012 to $175 million in 2013, an increase of $8 million. However, scholarship allowances are reported as an offset to revenue, not as operating expenses. On a combined basis, financial aid to students in all forms grew from $222 million in 2012 to $233 million in 2013, an increase of $11 million.

Utility costs remained the same in 2013 and in 2012, at $38 million. During 2013, supplies and materials costs also remained stable, decreasing $1 million from the 2012 amount of $389 while there continues to be inflationary pressure on the cost of medical supplies and laboratory instruments and higher costs for the general supplies necessary to support expanded research activity, increased medical patient volumes and student enrollment. Other operating expenses increased by $88 million, from $385 million in 2012 to $473 million in 2013. The campus continues to find opportunities to manage expenses.

In accordance with GASB's reporting standards, operating losses were $483 million in 2013 and $429 million in 2012. However, these operating losses were offset by $484 million and $447 million of net revenues in 2013 and 2012, respectively, classified as non-operating by GASB, but clearly supporting the operating activities of UC Davis. Therefore, revenue to support core activities exceeded the associated expenses by $1 million in 2013 and $18 million in 2012. This income is restricted by either legal or fiduciary obligations, allocated for academic and research initiatives or programs, required for debt service, or required for capital purposes.

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 2013, UC Davis recognized net appreciation in the fair value of investments of $19 million compared to net depreciation of $45 million during 2012. Equity and bond markets have been volatile over the last two years. The campus' portfolio showed positive performance due to increases in the equity markets that exceeded the bond markets in 2013.

OTHER CHANGES IN NET ASSETS

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

State capital appropriations decreased by $15 million in 2013 to $6 million. Capital appropriations are from bond measures approved by California voters.

UC DAVIS STATEMENT OF CASH FLOWS

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

A summary comparison of cash flows for 2013 and 2012 is as follows (in millions of dollars):

	6/30/13	6/30/12	CHANGE
CASH PROVIDED (USED) BY:			
Operating activities	$(125)	$(257)	$132
Noncapital financing activities	444	422	22
Capital and related financing activities	(232)	(254)	22
Investing activities	54	44	10
NET INCREASE (DECREASE) IN CASH	**141**	**(45)**	**186**
Cash, beginning of the year	697	742	(45)
CASH, END OF THE YEAR	**$838**	**$697**	**$141**

UC Davis' cash increased by $141 million from 2012 to $838 million in 2013. Substantially all of UC Davis' cash is invested in the Short Term Investment Pool (STIP) managed by the treasurer of the regents and considered as demand deposits.

Cash of $125 million was used for operating activities, offset by $444 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 $232 million in 2013, 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 $54 million in 2013.

LOOKING FORWARD

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

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

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

Currently, the university does not pre-fund retiree health benefits and provides for benefits on a pay-as-you-go basis. The unfunded liability for the university campuses and medical centers as of the July 1, 2012 actuarial valuation was $14.5 billion.

For UC Davis, the unfunded liability for the campus and medical center was $1.2 billion. The regents approved a new eligibility formula for the Retiree Health Plan for all employees hired on or after July 1, 2013, and non-grandfathered members, that is based on a graduated formula using both a member's age and years of Retirement Plan service credit upon retirement, subject to collective bargaining for represented members.

UCRP costs are funded by a combination of investment earnings, employee member and employer contributions. The unfunded liability for the campuses and medical centers as of July 1, 2012 actuarial valuation was $10.0 billion or 78.1 percent funded. For UC Davis, the unfunded liability for the campus and medical center was $561million. As of July 1, 2013, the funded ratio is expected to decrease to approximately 76 percent. The total university funding policy contributions in the July 1, 2012 actuarial valuations represent 28.7 percent of covered compensation. Member and employer contributions increased to 6.5 percent and 12 percent, respectively, of covered compensation in July 2013. Member contributions for the employees in the new benefit tier are 7.0 percent, and the employer rate is uniform across all members. The regents approved increasing employee member and employer contributions to 8.0% and 14.0 percent, respectively, in July 2014. These contribution rates are below UCRP's total funding contributions. The regents also approved a new tier of pension benefits applicable to employees hired on or after July 1, 2013, which increased the early retirement age from 50 to 55, but retain many of the current features of UCRP. The new tier would not offer lump sum cash outs, inactive member Cost of Living Adjustments (COLAs) or subsidized survivor annuities for spouses and domestic partners. These changes are subject to collective bargaining for union-represented employees.

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, effective for the university's fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the university to its employees. This Statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This statement requires that most changes in the net pension liability be included in pension expense in the period of the change. As of June 30, 2013, the university reported an obligation to UCRP of $3.4 billion, representing unfunded contributions to UCRP based upon the university's funding policy. Under GASB No. 68, the university's obligation to UCRP is expected to increase, however the amount of the increase has not been determined at this time.

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

The continuing financial success of the medical center is predicated on a multifaceted strategy, which includes competing in commercial markets and offering high quality regional services. Positive results in commercial contracts have helped address the lack of support for medical education and care for the poor. Further, the medical center remains competitive by reducing costs through improved efficiencies, making strategic investments and by expanding their presence in the market through stronger links with other providers and payers.

Payment strategies must recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment and invest in infrastructure and program expansion.

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. On March 30, 2010 the Health Care and Education Reconciliation Act of 2011 was signed, amending the PPACA (collectively the "Affordable Care Act"). On June 29, 2012, the Supreme Court upheld the constitutionality of much of the Affordable Care Act. The Affordable Care Act addresses a broad range of topics affecting the health care industry, including a significant expansion of health care coverage. The coverage expansion is accomplished primarily through incentives for individuals to obtain and employers to provide health care coverage and an expansion in Medicaid eligibility. The Affordability Care Act also includes incentives for medical research and the use of electronic health records, changes designed to curb fraud, waste and abuse, and creates new agencies and demonstration projects to promote the innovation and efficiency in the health care delivery system. Some provisions of the health care reform legislation were effective immediately; others are being phased in through 2014. The medical center will likely be affected by the coverage expansion provisions that go into effect in 2014, creating pressure on the medical center to care for more patients without additional financial resources; however, the effect of this legislation is not determinable at this time.

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

In reviewing such information it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions.

UC Davis does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

UNIVERSITY OF CALIFORNIA, DAVIS
STATEMENT OF NET POSITION
AT JUNE 30, 2013 AND 2012 (IN THOUSANDS OF DOLLARS)

	UC DAVIS		UC DAVIS FOUNDATION	
	2013	2012	2013	2012
ASSETS				
Current Assets				
Cash	$834,440	$697,046	$24,181	$23,286
Short term investments	58,798	60,960		
Investments held by trustees	1,662	762		
Accounts receivable, net	549,672	466,933	127	4
Pledges receivable	6,030	4,528	4,596	5,188
Current portion of notes & mortgages receivable, net	9,858	9,206		-
Inventories	29,276	28,089		
Other current assets	37,899	37,537	14	1
TOTAL CURRENT ASSETS	**1,531,635**	**1,305,061**	**28,918**	**28,479**
Noncurrent Assets				
Investments	883,196	846,454	260,833	244,314
Investments held by trustees	2,302	2,352		
Pledges receivable, net	2,898	4,604	13,242	5,157
Notes and mortgages receivable, net	70,036	69,437		-
Land, buildings, equipment, libraries and collections, net	3,144,503	3,153,450		-
Other noncurrent assets	27,513	27,434		-
TOTAL NONCURRENT ASSETS	**4,130,448**	**4,103,731**	**274,075**	**249,471**
TOTAL ASSETS	**5,662,083**	**5,408,792**	**302,993**	**277,950**
LIABILITIES				
Current Liabilities				
Accounts payable	116,162	106,660	13	7
Accrued salaries and benefits	179,648	98,937		
Deferred revenue	127,336	118,971		
Commercial paper	230,677	161,314		
Current portion of long-term debt	70,899	74,180		
Funds held for others	–	–	1,503	1,428
Other current liabilities	272,172	193,971		
TOTAL CURRENT LIABILITIES	**996,894**	**754,033**	**1,516**	**1,435**
Noncurrent Liabilities				
Refundable federal loans	53,846	53,395		
Obligations under life income agreements	–	–	7,405	7,493
Long term debt	1,223,012	1,318,283		
Other noncurrent liabilities	119,961	87,675	5,740	5,284
TOTAL NONCURRENT LIABILITIES	**1,396,819**	**1,459,353**	**13,145**	**12,777**
TOTAL LIABILITIES	**2,393,713**	**2,213,386**	**14,661**	**14,212**
DEFERRED INFLOW OF RESOURCES				
Deferred inflows from service concession agreements	**30,839**	**31,713**		
NET POSITION				
Invested in capital assets, net of related debt	1,651,724	1,629,756		
Restricted:				
Nonexpendable:				
Endowments and gifts	113,694	110,177	166,168	154,893
Expendable:				
Endowments and gifts	566,061	515,893	120,245	106,204
Other, including loans, capital projects, debt service and appropriations	27,855	6,483		
Unrestricted	878,197	901,384	1,919	2,641
TOTAL NET POSITION	**$3,237,531**	**$3,163,693**	**$288,332**	**$263,738**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA, DAVIS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

IN YEARS ENDED JUNE 30, 2013 AND 2012 (IN THOUSANDS OF DOLLARS)

	UC DAVIS		UC DAVIS FOUNDATION	
	2013	2012	2013	2012
OPERATING REVENUES				
Student tuition and fees, net	$434,317	$405,381		
Grants and contracts:				
Federal	381,344	387,443		
State	114,128	106,555		
Private	144,465	142,982		
Local	8,268	8,319		
Sales and services:				
Medical center	1,476,447	1,337,229		
Educational activities	308,515	292,417		
Auxiliary enterprises, net	89,676	92,348		
Campus foundation private gifts			$23,519	$19,352
Other operating revenues, net	75,466	76,760	359	337
TOTAL OPERATING REVENUES	**3,032,626**	**2,849,434**	**23,878**	**19,689**
OPERATING EXPENSES				
Salaries and wages	1,734,929	1,663,358		
Benefits	580,348	524,445		
Scholarships and fellowships	57,541	54,849		
Utilities	38,285	38,144		
Supplies and materials	387,998	388,791		
Depreciation	243,209	223,210		
Campus foundation grants			22,679	17,588
Other operating expenses	472,891	384,769	338	293
TOTAL OPERATING EXPENSES	**3,515,201**	**3,277,566**	**23,017**	**17,881**
OPERATING INCOME (LOSS)	**(482,575)**	**(428,132)**	**861**	**1,808**
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	314,365	299,275		
State financing appropriations	31,756	29,489		
Build America Bonds federal interest subsidies	1,954	1,879		
Federal Pell grants	48,979	51,660		
Private gifts	70,808	62,078		
Investment income	59,628	60,428	1,900	1,875
Net appreciation (depreciation) in fair value of investments	29,118	(37,198)	22,716	(2,541)
Interest expense	(51,865)	(65,779)		
Loss on disposal of capital assets, net of proceeds	(10,313)	(8,188)		
Other nonoperating revenues (expenses)	8,213	9,121	1,079	(54)
NET NONOPERATING REVENUES (EXPENSES)	**502,643**	**402,765**	**25,695**	**(720)**
INCOME (LOSS) BEFORE OTHER CHANGES IN NET POSITION	**20,068**	**(25,367)**	**26,556**	**1,088**
OTHER CHANGES IN NET POSITION				
State capital appropriations	5,868	20,205		
Capital gifts and grants	76,047	21,540		
Permanent endowments	3,568	1,519	10,581	10,937
OTHER CHANGES IN NET POSITION	**85,483**	**43,264**	**10,581**	**10,937**
INCREASE IN NET POSITION	**105,551**	**17,897**	**37,137**	**12,025**
NET POSITION				
Beginning of year, as previously reported	3,163,693	3,145,796	263,738	251,713
Cumulative effect of accounting changes	(31,713)		(12,543)	
Beginning of year, as restated	3,131,980	3,145,796	251,195	251,713
NET POSITION, END OF YEAR	**$3,237,531**	**$3,163,693**	**$288,332**	**$263,738**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA, DAVIS
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012 (IN THOUSANDS OF DOLLARS)

	UC DAVIS		UC DAVIS FOUNDATION	
	2013	2012	2013	2012
CASH FLOWS FROM OPERATIONAL ACTIVITIES				
Student tuition and fees	$423,783	$404,277		
Grants and contracts	656,499	630,982		
Medical centers	1,396,534	1329,642		
Educational activities	306,826	293,889		
Auxiliary enterprises	89,583	92,263		
Collections of loans to students and employees	12,325	10,483		
Private gifts			$14,569	$14,056
Payments to employees	(1,660,784)	(1,704,125)		
Payments to suppliers and utilities	(761,829)	(771,341)		
Payments for benefits	(572,644)	(529,901)		
Payments for scholarships and fellowships	(57,541)	(54,849)		
Loans issued to students and employees	(13,204)	(11,048)		
Payments to campus and beneficiaries			(24,225)	(19,089)
Other receipts	55,127	52,989	610	725
NET CASH USED BY OPERATING ACTIVITIES	**(125,325)**	**(256,739)**	**(9,046)**	**(4,308)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	314,365	299,275		
Federal Pell grants	48,972	51,681		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes	16,351	15,853	9,666	8,043
Other private gifts	58,204	46,820		
Other receipts (payments)	6,212	8,329		
NET CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**444,104**	**421,958**	**9,666**	**8,043**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVIIES				
Commercial paper financing	69,360	40,894		
State capital appropriations	7,607	20,668		
State financing appropriations	27,099	25,863		
Build America Bonds federal interest subsidies	1,954	1,879		
Capital gifts and grants	25,087	15,529		
Proceeds from debt issuance	217,926	118,303		
Proceeds from the sale of capital assets	362	962		
Purchases of capital assets	(227,858)	(305,236)		
Refinancing/prepayment outstanding debt	(226,374)	(25,104)		
Principal paid on debt and capital leases	(75,514)	(80,216)		
Interest paid on debt and capital leases	(51,251)	(67,453)		
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(231,602)**	**(253,911)**		
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale and maturities of investments	46,090	15,577	17,990	24,928
Purchases of investments	(51,501)	(31,628)	(19,616)	(26,632)
Investment income, net of investment expense	59,628	60,382	1,901	1,875
NET CASH PROVIDED BY INVESTING ACTIVITIES	**54,217**	**44,331**	**275**	**171**
NET INCREASE (DECREASE) IN CASH	**141,394**	**(44,361)**	**895**	**3,906**
Cash - beginning of year	697,046	741,407	23,286	19,380
CASH - END OF YEAR	**$838,440**	**$697,046**	**$24,181**	**$23,286**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating income (loss)	$(482,575)	$(428,132)	$861	$1,808
Depreciation and amortization expense	243,209	223,210		
Loss on impairment of capital assets	600			
Noncash gifts			(1,457)	(686)
Allowance for doubtful accounts	5,490	14,521	(549)	140
Change in assets and liabilities:				
Investments	–	–	(948)	(825)
Receivables, net	(95,468)	(39,320)	(6,945)	4,752
Investments held by trustees	(900)	–		
Inventories	(1,186)	(2,486)		
Deferred charges	(702)	(4,649)		
Other assets	132	539	(14)	(1)
Accounts payable	(8,546)	(3,635)	6	6
Accrued salaries and benefits	(80,712)	(50,761)		
Deferred revenue	8,364	4,746		
Other liabilities	108,453	29,228		
NET CASH USED BY OPERATING ACTIVITIES	**$(125,325)**	**$(256,739)**	**$(9,046)**	**$(4,310)**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA, DAVIS
NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

ORGANIZATION

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

FINANCIAL REPORTING ENTITY

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

In November 2010, the GASB issued Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, effective for the University's fiscal year beginning July 1, 2012. This Statement requires the University to report the activities for certain public-private partnerships as service concession arrangements in the financial statements. Service concession arrangements are recorded when the arrangements meet certain criteria which include building and operating a facility, obtaining the right to collect fees from third parties and transferring ownership of the facility to the University at the end of the arrangement. In accordance with Statement No. 60, retrospective application is required. The effects of reporting service concession arrangements in the University's financial statements for the year ended June 30, 2012, were as follows:

(IN THOUSANDS OF DOLLARS)	YEAR ENDED JUNE 30, 2012		
	AS PREVIOUSLY REPORTED	EFFECT OF ADOPTION OF STATEMENT NO. 68	AS RESTATED
STATEMENT OF NET POSITION			
Capital assets, net	3,121,737	31,713	3,153,450
Noncurrent assets	4,072,018	31,713	4,103,731
Total assets	5,377,079	31,713	5,408,792
Deferred inflows for service concession arrangements		31,713	31,713
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION			
Depreciation and amortization	222,336	874	223,210
Total operating expenses	3,276,692	874	3,277,566
Operating income (loss)	(427,258)	874	(428,132)
Other nonoperating revenues (expenses)	8,247	874	9,121
Net nonoperating revenues	401,891	874	402,765

The campus and its affiliated foundation periodically receive notification that it has a financial interest in various charitable trusts where the assets are invested and administered by outside trustees. Effective July 1, 2012, the campus and its affiliated foundation changed its accounting policy and does not record these gifts until the time requirements have been met and the assets are received. The impact of this change in accounting principle resulted in a reduction to the beginning of the year net position of $9 million for the campus and $12.5 million for the campus foundation for the fiscal year ended June 30, 2013.

OTHER ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

Estimated economic lives are generally as follows:

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

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

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

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

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

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

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

POLLUTION REMEDIATION OBLIGATIONS. Upon an obligating event, UC Davis estimates the components of any expected pollution remediation costs and recoveries from third parties. The costs, estimated using the expected cash flow technique, are accrued as a liability. Pollution remediation liabilities generally involve groundwater, soil and sediment contamination at certain sites where state and other regulatory agencies have indicated that the campus is among the responsible parties. The liabilities are revalued annually and may increase or decrease the cost of recovery from third parties, if any, as a result of additional information that refines the estimates, or from payments made from revenue sources that support the activity. There were no expected recoveries at June 30, 2013 and 2012 reducing the pollution remediation liability.

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

> **Invested in capital assets, net of related debt.** This category includes all of UC Davis' capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
>
> **Restricted.** UC Davis classifies net assets resulting from transactions with purpose restrictions as restricted net assets until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact.
>
> > ***Nonexpendable.*** Net assets subject to externally imposed restrictions that must be retained in perpetuity by UC Davis are classified as nonexpendable net assets. Such assets include UC Davis' permanent endowment funds that are held by the University of California and are not included in the UC Davis financial statements.
> >
> > ***Expendable.*** Net assets whose use by UC Davis is subject to externally imposed restrictions that can be fulfilled by actions of UC Davis pursuant to those restrictions or that expire by the passage of time are classified as expendable net assets.
>
> **Unrestricted.** Net assets that are neither restricted nor invested in capital assets, net of related debt, are classified as unrestricted net assets. Unrestricted net assets may be designated for specific purposes by management or the regents.

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

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

Nonoperating revenue and expense includes state educational appropriations (for the support of UC Davis' operating expenses), state financing appropriations, private gifts for other than capital purposes, investment income, net unrealized appreciation or depreciation in the fair value of investments, interest expense, and gain or loss on the disposal of capital assets.

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

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

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

GRANT AND CONTRACT REVENUE. UC Davis receives grant and contract revenue from governmental and private sources. Revenue associated with the direct costs of sponsored programs is recognized as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs is at cost reimbursement rates negotiated with UC Davis' federal cognizant agency, the Department of Health and Human Services. For the fiscal year ended June 30, 2013, the facilities and administrative cost recovery totaled $124 million; $88 million from federally sponsored programs and $36 million from other sponsors. For the fiscal year ended June 30, 2012, the facilities and administrative cost recovery totaled $122 million; $88 million from federally sponsored programs and $34 million from other sponsors.

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

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

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

	2013	2012
Student tuition and fees	$133,167	$133,715
Auxiliary enterprises	27,390	21,490
Other operating revenues	14,542	12,335
SCHOLARSHIP ALLOWANCES	**$175,099**	**$167,540**

COMPENSATED ABSENCES. UC Davis accrues annual leave for employees at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked.

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

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

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

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

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

USE OF ESTIMATES. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

NEW ACCOUNTING PRONOUNCEMENTS. In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities, effective for UC Davis' fiscal year beginning July 1, 2013. This Statement reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The campus is evaluating the effect that Statement No. 65 will have on its financial statements.

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

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

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions,* effective for UC Davis' fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the university to its employees. This Statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. As of June 30, 2013, the university reported an obligation to UCRP of $3.4 billion, representing unfunded contributions to UCRP based upon the university's funding policy. Under Statement No. 68, the university's obligation to UCRP is expected to increase. The campus is evaluating the effect that Statement No. 68 will have on its financial statements.

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

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

1. CASH AND CASH EQUIVALENTS

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

UC Davis' deposits into STIP are considered demand deposits. Unrealized gains and losses associated with the fluctuation in the fair value of the investments included in the STIP (and predominately held to maturity) are not recorded by each operating entity but are absorbed by the university, as the manager of the pool. The carrying value of UC Davis' demand deposits was $838 million in 2013 and $697 million in 2012.

2. INVESTMENTS

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

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, TRIP allows the campus the opportunity to maximize the return on our long-term working capital by taking advantage of the economies of scale of investing in a large pool across a broad range of asset classes. TRIP is managed to a total return objective and is intended to supplement STIP.

Investments authorized by the regents for TRIP include a diversified portfolio of equity and fixed income securities.

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

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

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

3. INVESTMENTS HELD BY TRUSTEES

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

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

The state financing appropriations to UC Davis are deposited in commingled U.C. bond funds managed by the state of California Treasurer's Office, as trustee, and used to satisfy the annual lease requirements under lease- purchase agreements with the state. The fair market value of these deposits was $2.3 million at June 30, 2013.

Investments held by trustees for future landfill closure expenditures are in accordance with requirements of the California Integrated Waste Management Board. The fair value of these investments was $1.66 million at June 30, 2013.

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

4. ACCOUNTS RECEIVABLE

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

	STATE AND FEDERAL GOVERNMENT	MEDICAL CENTER	OTHER	TOTAL
At June 30, 2013:				
Accounts receivable	$95,646	$1,466,908	$122,607	$1,685,161
Allowance for uncollectible amounts	(145)	(1,111,760)	(23,584)	(1,135,489)
ACCOUNTS RECEIVABLE, NET	**$95,501**	**$355,148**	**$99,023**	**$549,672**
At June 30, 2012:				
Accounts receivable	$102,823	$1,257,331	$110,068	$1,470,222
Allowance for uncollectible amounts	(172)	(981,913)	(21,204)	(1,003,289)
ACCOUNTS RECEIVABLE, NET	**$102,651**	**$275,418**	**$88,864**	**$466,933**

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

5. PLEDGES RECEIVABLE

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

	2013	2012
Total pledges receivable outstanding	$9,266	$9,522
Less: Unamortized discount to present value	(103)	(192)
Allowance for uncollectible pledges	(234)	(198)
TOTAL PLEDGES RECEIVABLE, NET	**8,928**	**9,132**
Less: Current portion of pledges receivable	(6,030)	(4,528)
NONCURRENT PORTION OF PLEDGES RECEIVABLE	**$2,898**	**$4,604**

Payments of pledges receivable for each of the five fiscal years subsequent to June 30, 2013 and thereafter are as follows (in thousands of dollars):

YEAR ENDING JUNE 30, 2013	
2014	$6,264
2015	1,559
2016	1,305
2017	138
2018	0
2019–2023	0
TOTAL PAYMENTS ON PLEDGES RECEIVABLE	**$9,266**

6. NOTES AND MORTGAGES RECEIVABLE

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

	CURRENT PORTION	NONCURRENT PORTION		TOTAL
		NOTES	MORTGAGES	
At June 30, 2013				
Notes and mortgages receivable	$10,504	$76,976	$20	$87,500
Allowance for uncollectible amounts	(646)	(6,960)	$0	(7,606)
NOTES AND MORTGAGES RECEIVABLE, NET	$9,858	$70,016	$20	$79,894
At June 30, 2012				
Notes and mortgages receivable	$9,772	$76,293	$0	$86,065
Allowance for uncollectible amounts	(566)	(6,856)	$0	(7,422)
NOTES AND MORTGAGES RECEIVABLE, NET	$9,206	$69,437	$0	$78,643

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

UC Davis' capital asset activity for the years ended June 30, 2013, and June 30, 2012, is as follows (in thousands of dollars):

	2011	ADDITIONS	DISPOSALS	2012	ADDITIONS	DISPOSALS	2013
ORIGINAL COST							
Land	$60,589	$475	0	$61,064	$0	$170	$60,894
Infrastructure	177,775	2,685	0	180,460	4,267	0	184,727
Buildings & improvements	3,474,757	134,959	(4,657)	3,637,646	233,213	(10,701)	3,860,158
Equipment	902,317	85,916	(39,912)	948,321	68,376	(44,017)	972,680
Intangible assets	77,069	9,223	(14,493)	71,799	7,105	(11,387)	67,517
Libraries & collections	386,343	16,074	(435)	401,982	16,061	(2,098)	415,945
Special collections	40,889	1,928	(932)	41,885	1,910	(42)	43,753
Construction in progress	218,131	18,967	–	237,098	0	(84,359)	152,739
CAPITAL ASSETS, AT ORIGINAL COST	$5,337,870	$270,227	$(60,429)	$5,580,255	$330,932	$(152,774)	$5,758,413

	2011	DEPRECIATION & AMORTIZATION	DISPOSALS	2012	DEPRECIATION & AMORTIZATION	DISPOSALS	2013
ACCUMULATED DEPRECIATION							
Infrastructure	$70,143	$6,318	0	$76,461	$6,276	$0	$82,737
Buildings & improvements	1,269,032	119,348	(4,123)	1,384,257	137,462	(7,214)	1,514,505
Equipment	591,721	72,790	(38,693)	625,818	73,855	(37,790)	661,883
Intangible assets	54,605	11,503	(11,442)	54,666	11,971	(10,665)	55,972
Libraries & collections	273,287	13,251	(935)	285,603	13,645	(435)	298,813
ACCUMULATED DEPRECIATION	$2,258,788	$223,210	$(55,193)	$2,426,805	$243,209	$(56,104)	$2,613,910
CAPITAL ASSETS, NET	$3,079,082	$47,017	$(5,236)	$3,153,450	$87,723	$(96,670)	$3,144,503

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, 2013 and 2012 is as follows (in thousands of dollars):

	INTEREST RATES	MATURITY YEARS	2013	2012
The Regents of the University of California:				
General Revenue Bonds	1.6-6.3%	2013-2040	$505,316	$572,972
Medical Center Pooled Revenue Bonds	3.0-6.6%	2013-2047	303,285	317,336
Limited Project Revenue Bond	3.0-5.0%	2013-2042	103,157	85,778
Revenue bonds			911,758	976,086
Capital leases	0.0-11.0%	2013-2035	333,571	352,366
Mortgages and other borrowings	Various	2013-2017	48,582	64,011
TOTAL OUTSTANDING DEBT			**1,293,911**	**1,392,463**
Current portion of long term debt			(70,899)	(74,180)
TOTAL LONG-TERM DEBT			**$1,223,012**	**$1,318,283**

Total interest expense during the years ended June 30, 2013, and 2012 was $52 million and $66 million, respectively.

OUTSTANDING DEBT ACTIVITY

Activity with respect to UC Davis' outstanding debt for the years ended June 30, 2013 and 2012 is as follows (in thousands of dollars):

	REVENUE BONDS	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASE OBLIGATIONS	TOTAL
YEAR ENDED JUNE 30, 2013				
Current portion at June 30, 2012	$34,170	$20,890	$19,120	$74,180
Reclassification from noncurrent	260,048	17,721	20,175	297,944
Principal payments	(35,648)	(21,480)	(19,201)	(76,329)
Refinancing or repayment of debt	(226,374)	–	-	(226,374)
Amortization of deferred financing costs	1,478	–	-	1,478
CURRENT PORTION AT JUNE 30, 2013	**33,674**	**17,131**	**20,094**	**70,899**
Noncurrent portion at June 30, 2012	941,916	43,121	333,246	1,318,283
New obligations	196,216	6,051	406	202,673
Reclassification to current	(260,048)	(17,721)	(20,175)	(297,944)
NONCURRENT PORTION AT JUNE 30, 2013	**$878,084**	**$31,451**	**$313,477**	**$1,223,012**
YEAR ENDED JUNE 30, 2012				
Current portion at June 30, 2011	$32,137	$19,661	$26,651	$78,449
Reclassification from noncurrent	49,558	31,427	19,811	$100,796
Principal payments	(33,685)	(21,701)	(27,128)	($82,514)
Refinancing or repayment of debt	(15,389)	(8,497)	(214)	($24,100)
Amortization of deferred financing costs	1,549	–	-	$1,549
CURRENT PORTION AT JUNE 30, 2012	**34,170**	**20,890**	**19,120**	**74,180**
Noncurrent portion at June 30, 2011	935,439	38,504	351,993	1,325,936
New obligations	56,035	36,044	1,064	93,143
Reclassification to current	(49,558)	(31,427)	(19,811)	(100,796)
NONCURRENT PORTION AT JUNE 30, 2012	**$941,916**	**$43,121**	**$333,246**	**$1,318,283**

COMMERCIAL PAPER

The university has available a commercial paper program which may be issued for interim/permanent financing for capital projects, interim financing of equipment, financing of working capital for the medical centers and other working capital needs, 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, 2012 and 2011 was $161 million and $106 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, 2013 and 2012 were $1.2 billion for both years.

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

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

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

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

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

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

2013 ACTIVITY

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

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

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

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

2012 ACTIVITY

In August 2011, General Revenue Bonds totaling $399.8 million, including $354.9 million tax-exempt bonds and $44.9 million taxable bonds, were issued to finance and refinance certain facilities and projects of the university. UC Davis proceeds of $56 million were used to pay for project construction and issuance costs and refund $15 million of outstanding General Revenue Bonds and Multiple Purpose Project Revenue Bonds. The bonds mature at various dates through 2041. The tax-exempt bonds have a stated weighted average interest rate of 4.9 percent. The taxable bonds have a stated weighted average interest rate of 4.7 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

SUBSEQUENT EVENTS

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 $2.5 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.

CAPITAL LEASES

UC Davis has entered into lease-purchase agreements with the state of California, recorded as capital leases. The state sells lease revenue bonds to finance construction and equipping of certain state-owned buildings to be used by UC Davis. During the construction phase, UC Davis acts as agent for the state. Bond proceeds remain on deposit with the state, as trustee, until UC Davis is reimbursed as the project is constructed.

Upon completion, the buildings and equipment are leased to UC Davis under terms and amounts that are sufficient to satisfy the state's lease revenue bond requirements with the understanding that the state will provide financing appropriations to UC Davis to satisfy the annual lease requirements. At the conclusion of the lease term, ownership transfers to UC Davis.

UC Davis did not enter into lease-purchase agreements with the state for the year ended June 30, 2013 to finance the construction of various campus projects.

The state of California financing appropriation to UC Davis under the terms of the lease-purchase agreements, recorded as nonoperating revenue in the statement of revenue, expenses and changes in net assets, for the year ended June 30, 2013 was $32 million, and $29 million in 2012. The principal and interest, including accrued interest, reported in UC Davis' financial statements for the years ended June 30, 2013, and 2012 contain amounts related to these lease-purchase agreements with the state of California as follows (in thousands of dollars):

	2013	2012
Capital lease principal	17,140	14,929
Capital lease interest	18,785	19,135
	35,925	**34,064**

FUTURE DEBT SERVICE

Future debt service payments for each of the five fiscal years subsequent to June 30, 2013, and thereafter are as follows (in thousands of dollars):

	REVENUE BONDS	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASES		TOTAL PAYMENTS	PRINCIPAL	INTEREST
			STATE	OTHER			
YEAR ENDED JUNE 30, 2012							
FY 2014	77,531	17,809	35,925	2,215	133,480	70,906	62,574
2015	77,042	14,377	35,503	1,915	128,837	96,852	58,985
2016	78,408	10,522	29,887	521	119,338	63,861	55,477
2017	76,711	6,532	29,875	140	113,258	60,407	52,851
2018	77,365	623	29,681	80	107,749	57,508	50,241
2019 - 2023	373,194	–	143,007	–	516,201	308,272	207,929
2024 - 2028	302,763	–	114,439	–	417,202	285,601	131,601
2029 - 2033	178,334	–	83,031	–	261,365	190,222	71,143
2034 - 2038	139,970	–	20,824	–	160,794	132,334	28,460
2039 - 2043	49,170	–	–	–	49,170	42,535	6,635
2044 - 2048	13,771	–	–	–	13,771	12,412	1,359
2049 - 2053	1	–	–	–	1	1	0
TOTAL FUTURE DEBT SERVICE	**1,444,260**	**49,863**	**558,097**	**4,871**	**$2,021,166**	**$1,293,911**	**$727,255**
Less: Interest component of future payments	532,512	1,275	212,087	167			
PRINCIPAL PORTION OF FUTURE PAYMENTS	**$911,748**	**$48,588**	**$346,010**	**$4,704**			

9. OTHER NONCURRENT LIABILITIES

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

	2013		2012	
	CURRENT	NONCURRENT	CURRENT	NONCURRENT
Compensated absences	$84,968	$41,142	$81,426	$43,550
3rd party payer settlement liability	168,021		98,701	
Accrued interest	10,705		8,218	
McClellan closure		17,593		17,593
Pollution remediation		57,336		22,531
Landfill closure		3,890		4,001
Other liabilities	8,478		5,626	
TOTAL OTHER LIABILITIES	**$272,172**	**$119,961**	**$193,971**	**$87,675**

POLLUTION REMEDIATION LIABILITIES

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

MCCLELLAN CLOSURE LIABILITY

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

LANDFILL CLOSURE

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

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

UC Davis is required by state laws and regulations to make contributions to a trust to finance closure care. At June 30, 2013, investments of $1.6 million were held for these purposes.

10. RETIREE HEALTH PLANS

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

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

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

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

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

Participating university locations, such as the campus, are required to contribute at a rate assessed each year by the University of California Retiree Health Benefit Trust (UCRHBT). The contribution requirements are based upon projected pay-as-you-go financing requirements. The assessment rate for 2013 started at $1.80 but then rose to $3.72 in January while the rate for 2012 was $3.51. This is per $100 of UCRP covered payroll which resulted in campus contributions of $36 million and $46 million for years ended June 30, 2013 and 2012, 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, 2012, the date of the latest actuarial valuation, were $97 million and $14 billion, respectively. The net assets held in trust for pension benefits on the UCRHBT's Statement of Plan Fiduciary Net assets were $44.3 million at June 30, 2013. For the years ended June 30, 2013 and 2012, combined contributions from the university's campuses and medical centers were $311.2 million and $346.3 million, respectively, including an implicit subsidy of $86 million and $54 million, respectively. The university's annual retiree health benefit expense for its campuses and medical centers was $1.4 billion and $1.5 billion for the years ended June 30, 2013 and 2012, 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 $7.36 billion at June 30, 2013 increased by $1.10 billion and $1.15 billion for the years ended June 30, 2013 and 2012, respectively.

Information related to plan assets and liabilities as they relate to individual campuses and medical centers is not readily available. Additional information on the retiree health plans can be obtained from the 2012-2013 annual reports of the University of California and the University of California Health and Welfare Program.

11. RETIREMENT PLANS

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

The UCRP provides lifetime retirement income, disability protection, and survivor benefits to eligible employees. Benefits are based on average highest three years compensation, age, and years of service and are subject to limited cost-of-living increases.

Contributions to the UCRP may be made by the campus and the employees. The rates for contributions as a percentage of payroll are determined annually pursuant to the regents' funding policy and based upon recommendations of the consulting actuary. The regents determine the portion of the total contribution to be made by the campus and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements. University and employee contributions were $813 million and $1.4 billion, respectively, during the year ended June 30, 2013. University and employee contributions were $1.9 billion and $1.2 billion, respectively, during the year ended June 30, 2012.

The actuarial value of UCRP 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, 2012, the date of the latest actuarial valuation, were $35.7 billion and $45.8 billion, respectively, resulting in a funded ratio of 78.1 percent. The net assets held in trust for pension benefits attributable to the campuses and medical centers included in the UCRP Statement of Plan's Fiduciary Net assets were $63.1 billion and $58.4 billion at June 30, 2013 and June 30, 2012, respectively.

For the years ended June 30, 2013 and 2012, the university's annual UCRP benefits expense for its campuses and medical centers was $2.05 billion $1.88 billion, respectively. As a result of contributions that were less than the UCRP benefits expense, the university's obligation for UCRP benefits attributable to its campuses and medical centers increased by $1.2 billion to $3.4 billion for the year ended June 30, 2013.

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

Information related to plan assets and liabilities, as they relate to campus employees, is not readily available. Additional information on the retirement plans can be obtained from the 2012-2013 annual reports of the University of California Retirement Plan, the University of California Retirement Savings Plan and the University of California PERS–VERIP.

12. ENDOWMENT FUNDS

The value of endowment and gifts at June 30, 2013 and 2012 is as follows (in thousands):

	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
YEAR ENDED JUNE 30, 2013				
Endowments	$111,559	$159,878	$147	$271,584
Funds functioning as endowments		308,725		308,725
Annuity and life income	2,135			2,135
Gifts		97,458	1,940	99,398
ENDOWMENTS AND GIFTS	**$113,694**	**$566,061**	**$2,087**	**$681,842**
YEAR ENDED JUNE 30, 2012				
Endowments	$107,991	$150,245	$557	$258,793
Funds functioning as endowments		273,169		273,169
Annuity and life income	2,186			2,186
Gifts		92,479	2,127	94,606
ENDOWMENTS AND GIFTS	**$110,177**	**$515,893**	**$2,684**	**$628,754**

The portion of investment returns earned on endowments held by the regents and distributed each year to support current operations is based upon a rate (stated in dollars per share) that is approved by the regents. The total distribution from endowments held by the regents to UC Davis was $23 million for the year ended June 30, 2013.

13. OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the years ended June 30, 2013, and June 30, 2012 are as follows (in thousands of dollars):

	2013	2012
Instruction	$630,580	$602,100
Research	524,847	508,167
Public service	77,628	63,394
Academic support	209,105	164,275
Student services	107,489	97,706
Institutional support	106,072	146,708
Operations and maintenance of plant	130,394	94,588
Student financial aid	68,747	55,805
Medical center	1,310,883	1,216,812
Auxiliary enterprises	96,889	95,825
Depreciation	243,209	223,210
Impairment of capital assets	600	-
Other	8,758	8,976
TOTAL OPERATING EXPENSES	**$3,515,201**	**$3,277,566**

14. SEGMENT INFORMATION

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

Condensed financial statement information related to the UC Davis Medical Center for the years ended June 30, 2013, and 2012, follows (in thousands of dollars):

	2013	2012
Bonds outstanding	314,344	329,874
Related debt service payments	31,546	31,880
Bonds due serially through	2,047	2,047
CONDENSED STATEMENT OF NET ASSETS		
Assets		
Current assets	556,367	422,067
Capital assets, net	1,077,727	1,122,623
Other assets	27,641	26,162
TOTAL ASSETS	**1,661,735**	**1,570,852**
Liabilities		
Current liabilities	259,868	192,730
Long-term debt	320,143	355,776
TOTAL LIABILITIES	**580,011**	**548,506**
Net assets		
Invested in capital assets, net of debt	696,397	727,648
Restricted	–	–
Unrestricted	385,327	294,698
TOTAL NET ASSETS	**1,081,724**	**1,022,346**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS		
Operating revenues	1,476,447	1,337,229
Operating expenses	(1,301,772)	(1,207,599)
Depreciation expense	(88,238)	(84,821)
OPERATING INCOME	**86,437**	**44,809**
Nonoperating revenues (expenses)	(11,116)	(9,936)
INCOME BEFORE CHANGES IN OTHER ASSETS	**75,321**	**34,873**
Health systems support	(24,230)	(1,077)
Transfers to the University of California	8,201	42,403
Other, including donated assets	86	
INCREASE IN NET ASSETS	**59,378**	**76,199**
Net assets–beginning balance	1,022,346	946,147
NET ASSETS–ENDING BALANCE	**1,081,724**	**1,022,346**
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	177,777	141,721
Noncapital financing activities	10,785	4,476
Capital and related financing activities	(75,409)	(101,162)
Investing activities	4,823	7,584
NET INCREASE (DECREASE) IN CASH	**96,406**	**52,619**
Cash–beginning balance	158,203	105,584
CASH–ENDING BALANCE	**254,609**	**158,203**

Additional Information on the UC Davis Medical Center can be obtained from its separate June 30, 2013, audited financial statements.

15. UC DAVIS FOUNDATION

Under university policies approved by the regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the mission of the campus. Although independent boards govern the UC Davis Foundation, their assets are dedicated for the benefit of the campus. During the years ended June 30, 2013 and 2012, gifts of $22.7 million and $17.6 million, respectively were transferred to UC Davis from the UC Davis Foundation. At June 30, 2013 and 2012, UC Davis Foundation's net assets were $288 million and $264 million, respectively.

16. COMMITMENTS AND CONTINGENCIES

UC Davis leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenditures for the years ended June 30, 2013 and 2012, were $32 million and $26 million, respectively. The terms of operating leases extend through the year ending 2034. Future minimum payments on operating leases with an initial or remaining non-cancelable term in excess of one year are as follows (in thousands of dollars):

	MINIMUM ANNUAL LEASE PAYMENTS
YEAR ENDING JUNE 30, 2013	
2014	27,948
2015	20,351
2016	13,504
2017	10,657
2018	8,327
2019-2023	28,138
2024-2028	426
2029-2033	20
2034-2034	4
TOTAL	**$109,375**

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

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

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