



**UC DAVIS**

FINANCIAL REPORT  
2002

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## **A MESSAGE TO CHANCELLOR LARRY VANDERHOEF**

This report sets forth the financial position and results of operations of the University of California, Davis, for the fiscal year ended June 30, 2002.

UC Davis' financial position is strong and the campus is well positioned to meet any short-term obstacles. Major financial strengths of the campus 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 \$1.8 billion in 2002, while revenues supporting those activities were nearly \$2 billion. Capital assets increased by \$189 million in 2002, a reflection of the campus' commitment to provide the facilities necessary to accommodate current and future enrollment growth. UC Davis' net assets totaled \$1.7 billion at June 30, 2002, compared to \$1.5 billion at June 30, 2001.

The financial statements of the University of California, which include the Davis campus, are audited on an annual basis by the firm of PricewaterhouseCoopers LLP, who have issued an unqualified opinion thereon dated September 25, 2002 that has been transmitted to the UC Board of Regents. The financial statements in this report have not been individually audited.

The records and accounts of the university from which this report is prepared are maintained in accordance with generally accepted accounting principles, including all applicable effective statements of the Governmental Accounting Standards Board (GASB) and the statements of the Financial Accounting Standards Board (FASB).

As discussed in the "Summary of Significant Accounting Policies" note to the financial statements, as of July 1, 2001, the university adopted Governmental Accounting Standards Board Statement No. 35, "Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities," an amendment of Statement No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments," as well as Statement No. 37, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus" and Statement No. 38, "Certain Financial Statement Note Disclosures."



Stan Nosek  
Vice Chancellor for Administration



J. Michael Allred  
Associate Vice Chancellor for Finance

**MANAGEMENT HAS PREPARED THE** financial statements and the related footnote disclosures along with the discussion and analysis. The financial statements and discussion and analysis contain the financial activities of the University of California, Davis, campus. The objective of management's discussion and analysis is to help readers of the University of California, Davis, financial statements better understand the financial position and operating activities for the fiscal year ended June 30, 2002, with selected comparative information for the year ended June 30, 2001. This discussion should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2001, 2002, and 2003) in this discussion refer to the fiscal year ended June 30.

## **ADOPTION OF NEW ACCOUNTING STANDARDS**

The university's financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board (GASB). During 2002, the university adopted GASB Statement No. 35, "Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities," an amendment of Statement No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments," as well as Statement No. 37, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus," and Statement No. 38, "Certain Financial Statement Note Disclosures," prescribing expanded disclosure. Each of these new standards was applied on a retroactive basis.

Significant changes to the financial statements are as follows:

- Financial statements are presented to focus on UC Davis as a whole.

Previously, financial statements focused on individual fund groups.

- The statement of net assets separates current from noncurrent assets and liabilities and classifies net assets into four categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted.
- The statement of revenues, expenses and changes in net assets distinguishes operating from nonoperating revenues and expenses. UC Davis will consistently report an operating loss since certain significant revenues relied upon for fundamental operational support of the core instructional mission of the university are mandated by GASB Statement No. 34 to be reported as nonoperating revenues. These revenues include state educational appropriations, private gifts and investment income. Previously, there was not a concept of operating income or loss, and state educational appropriations and investment income were appropriately matched with the associated expenses.
- The statement of cash flows distinguishes UC Davis' cash flow from operating activities, noncapital financing activities, capital and related financing activities and investing activities. Previously, a cash flow statement was not required to be presented.
- The university's capital assets are depreciated over their economic useful lives. Previously, capital assets were not depreciated, but maintained at original cost. The cumulative effect of this accounting change was to reduce UC Davis' net assets at June 30, 2000, by \$1.09 billion. Depreciation and amortization expense of \$110 million and \$108 million was recorded in the statement of revenues, expenses and changes in net assets for 2002 and 2001, respectively. The net book value of the capital assets on the

statement of net assets is \$1.59 billion and \$1.48 billion at June 30, 2002 and 2001, respectively.

- As capital assets are disposed, both the original cost and the accumulated depreciation associated with those assets are removed from the statement of net assets. Previously, only the original cost was removed since UC Davis' capital assets were not depreciated.
- Cash associated with certain grants and contracts that is received in advance of the expense being incurred is recorded as deferred revenue. Revenue is accrued as earned. Previously, cash advances were included in net assets when received. The cumulative effect of this accounting change was to increase deferred revenue and reduce UC Davis' net assets at June 30, 2000, by \$26 million. The effect on UC Davis' statement of net assets and statement of revenues, expenses and changes in net assets for 2002 and 2001 is not significant since both years have been restated and are comparable.
- UC Davis' obligation on systemwide debt is recorded as a liability. The University of California may issue bonds and obligations specific to the construction, renovation and acquisition of facilities and equipment of a single campus or for systemwide construction, renovation and acquisitions. Previously, the liability of bonds and obligations issued specifically to the UC Davis campus and the medical center was recorded at the individual campus level, and the liability of systemwide debt obligations was recorded and administered centrally at the Office of the President and not recorded at the individual campus level. Principal and interest payments on systemwide debt were recorded as transfers. The cumulative effect of this accounting change was to increase long-term debt and reduce UC Davis' net assets at June 30, 2000, by \$312 million. The effect on UC Davis' statement of net assets and statement of revenues, expenses and changes in net assets for 2002 and 2001 is not significant since both years have been restated and are comparable.
- Interest expense on outstanding debt is accrued through the end of the fiscal year. Previously, interest expense was recorded on a cash basis. The cumulative effect of this accounting change was to increase accrued interest payable and reduce

UC Davis' net assets at June 30, 2000, by \$5 million. The effect on UC Davis' statement of net assets and statement of revenues, expenses and changes in net assets for 2002 and 2001 is not significant since both years have been restated and are comparable.

- Federal refundable loans are classified as a liability to the federal government. Previously, they were included in net assets. The cumulative effect of this accounting change was to increase the federal refundable loan liability and reduce UC Davis' net assets at June 30, 2000, by \$45 million. The effect on UC Davis' statement of net assets and statement of revenues, expenses and changes in net assets for 2002 and 2001 is not significant since both years have been restated and are comparable.
- Capital assets purchased by the university through federally sponsored awards, including assets where title is held by the federal government, are required to be capitalized and depreciated in UC Davis' financial statements. Previously, these federally owned assets were not included in UC Davis' financial statements. The cumulative effect of this accounting change was to increase both capital assets and UC Davis' net assets at June 30, 2000, by \$16 million at original cost and \$13 million at net book value. The net book value of these capital assets on the statement of net assets totaled \$12 million and \$11 million at June 30, 2002 and 2001, respectively.
- Scholarship allowances applied to student accounts are recorded as an offset to student tuition and fee, housing and dining and other revenue. Payments of financial aid made directly to students continue to be classified as scholarship and fellowship expenses. Previously, all scholarships and fellowships were classified as expenses. Scholarship allowances applied to student accounts reduced both operating revenue and operating expense in the statement of revenues, expenses and changes in net assets by \$36 million and \$27 million for 2002 and 2001, respectively.

### **UC DAVIS FINANCIAL POSITION**

The statement of net assets presents the assets, liabilities and net assets of UC Davis as of the end of the fiscal year. The statement of net assets is a point-of-

time financial statement and presents to the readers of the financial statements a fiscal snapshot of UC Davis.

From the data presented, readers of the statement of net assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors and lending institutions. Finally, the statement of net assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.

At June 30, UC Davis' assets were almost \$3 billion, liabilities were \$1.2 billion and net assets exceeded \$1.7 billion, an increase of \$151 million from 2001.

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

		JUNE 30 2002	JUNE 30 2001	CHANGE
<b>ASSETS</b>				
	Cash	\$1,026	\$819	\$207
	Accounts receivable, net	210	226	(16)
	Capital assets, net	1,586	1,476	110
	Other assets	116	108	8
<b>TOTAL ASSETS</b>		<b>2,938</b>	<b>2,629</b>	<b>309</b>
<b>LIABILITIES</b>				
	Debt	733	686	47
	Other liabilities	477	366	111
<b>TOTAL LIABILITIES</b>		<b>1,210</b>	<b>1,052</b>	<b>158</b>
<b>NET ASSETS</b>				
	Investment in capital assets, net of related debt	895	791	104
	Restricted-expendable	117	131	(14)
	Unrestricted	716	655	61
<b>TOTAL NET ASSETS</b>		<b>\$1,728</b>	<b>\$1,577</b>	<b>\$151</b>

## UC DAVIS ASSETS

UC Davis' cash totaled over \$1 billion at the end of 2002, an increase of \$207 million from 2001. The increase in cash was primarily due to the receipt of the research facilities revenue bond proceeds for construction of the Davis Center for Comparative Medicine and the Genome and Biomedical Science Facility project and the timing of the June payroll and benefit payments, which were made in July this year as opposed to June last year.

Accounts receivable decreased by \$16 million from \$226 million in 2001 to \$210 million in 2002.

Accounts receivable include those from the state and federal government, local and private grants and contracts, those associated with the medical center that are related to patient care and from others. Increases in receivables associated with state and federal government were offset by increased collections in other areas.

The required spending for capital assets is exceptional at this time in order to provide the facilities necessary to accommodate current and future enrollment growth. Capital assets include land, infrastructure, buildings and improvements, equipment, libraries, collections and construction in progress. The original cost of capital assets increased by \$189 million in 2002, consisting of capital expenditures of \$229 million offset by \$40 million of capital assets disposed of during the year in the normal course of doing business. Capital expenditures in 2001 were \$229 million and disposals were \$28 million. During 2002, capitalized costs for completed projects included \$76 million for new buildings and improvements to existing buildings, \$60 million for new equipment and \$14 million for libraries and collections. Projects under construction, net of the cost of those projects completed and reclassified during 2002 to buildings and improvements or equipment, totaled \$218 million, a \$78 million increase over 2001. The Plant and Environmental Replacement Facility was capitalized in 2002 at \$38 million. Additions to projects under construction include the UC Medical Center Tower II Phase 2 expansion (\$12 million), the UC Medical Center M.I.N.D. Institute (\$13 million), the Genome and Biomedical Science Facility (\$17 million) and the Robert and Margrit Mondavi Center for the Performing Arts (\$21 million).

Accumulated depreciation increased from \$1.17 billion in 2001 to \$1.25 billion in 2002. Depreciation expense for the year was \$110 million and the accumulated depreciation on assets sold or disposed of during the year was \$30 million. Substantially all of the disposals were for equipment that was fully depreciated or had reached the end of its useful life.

Other assets of \$116 million in 2002, including investments held by trustees, noncurrent pledges receivable, notes and mortgages receivable and inventories did not significantly change from 2001.

## UC DAVIS LIABILITIES

Capital expenditures are financed from a variety of sources including equity contributions, federal and state support, revenue bonds, certificates of participation and leases. UC Davis' debt to finance capital assets grew from \$686 million in 2001 to \$733 million in 2002, an increase of \$47 million.

During 2002, the University of California issued \$122.8 million of Research Facility Revenue bonds, of which UC Davis' participation totaled \$62 million. Proceeds are available to pay for project construction and issuance costs and to repay interim financing incurred prior to the issuance of the bonds. New capital lease obligations this year totaled \$1 million, primarily for equipment. Subsequent to June 30, 2002, the University of California issued \$365.9 million of Multiple Purpose Projects Revenue Bonds, for which UC Davis' obligation totaled \$23 million. The proceeds from these bonds are available to finance and refinance the acquisition, construction, renovation and improvement of the Robert and Margrit Mondavi Center for the Performing Arts and certain telecommunication facilities.

Debt service in 2002 was \$54 million consisting of \$17 million for principal and \$37 million for interest, including accrued interest. Principal reductions during the year were due to scheduled debt service payments. In 2002, the state of California provided \$13 million of UC Davis' debt service requirements under the terms of lease-purchase agreements that are recorded as capital leases.

Other liabilities, including accounts payable, accrued salaries and benefits, deferred revenue and federal refundable loans increased by \$111 million, primarily due to accrued June payroll and benefit payments made in July this year, as opposed to June of last year.

## UC DAVIS NET ASSETS

Net assets represent the residual interest in UC Davis' assets after all liabilities are deducted. UC Davis' net assets at the end of 2002 totaled \$1.73 billion, an increase of \$151 million from 2001. Net assets are reported in four major 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 out-

standing debt used to finance the acquisition, construction or improvement of these capital assets, grew from \$791 million in 2001 to \$895 million in 2002. The \$104 million increase represents UC Davis' continuing investment in its physical facilities and accounts for most of the increase in UC Davis' net assets for 2002.

Restricted nonexpendable net assets would normally include the corpus of a university's permanent endowments and the estimated value of charitable remainder trusts. In the University of California, endowments, funds functioning as endowments and trusts are managed and invested centrally by the University of California, and as such are not reported in UC Davis' financial statements. At June 30, 2002, the total value, at cost, of UC Davis' endowments and other restricted nonexpendable net assets was \$159 million. The total market value of UC Davis' endowments and other restricted nonexpendable net assets as of June 30, 2002, was \$331 million.

Restricted expendable net assets of \$117 million 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.

Under generally accepted accounting principles, net assets that are 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.

## UC DAVIS RESULTS OF OPERATIONS

Changes in total net assets as presented on the statement of net assets are based on the activity presented in the statement of revenues, expenses and changes in net assets. The purpose of the statement is to present operating and nonoperating revenues received by the institution and the operating and nonoperating expenses paid by the institution and any other revenues, expenses, gains and losses received or spent by the institution.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of UC Davis. 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 university. Nonoperating revenues are revenues received for which goods and services are not provided. The result of the GASB requirement is that state appropriations, private gifts and investment income which are relied upon and budgeted for the opera-

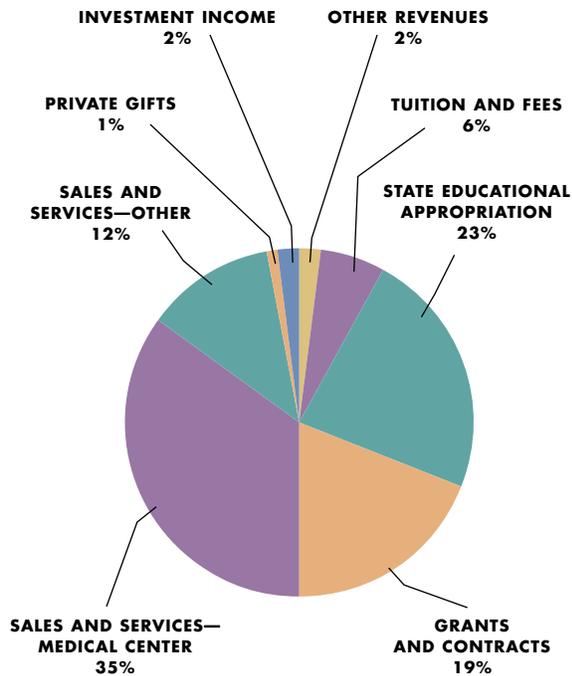
tional support of the core instructional mission of UC Davis are mandated to be recorded as nonoperating because they are provided to the institution without the direct receipt of commensurate goods and services for those revenues.

A summarized comparison of the operating results for 2002 and 2001, 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 (in millions of dollars):

	YEAR ENDED JUNE 30, 2002			YEAR ENDED JUNE 30, 2001			CHANGE
	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL	
<b>REVENUES</b>							
Student tuition and fees, net	\$124		\$124	\$122		\$122	\$2
State educational appropriations		\$464	464		\$443	443	21
Grants and contracts	370		370	324		324	46
Sales and services:							
Medical center	698		698	679		679	19
Other	230		230	215		215	15
Private gifts		22	22		26	26	(4)
Investment income		46	46		43	43	3
Other revenues	18	13	31	17	13	30	1
<b>Revenues supporting core activities</b>	<b>1,440</b>	<b>545</b>	<b>1,985</b>	<b>1,357</b>	<b>525</b>	<b>1,882</b>	<b>103</b>
<b>EXPENSES</b>							
Salaries and benefits	1,139		1,139	1,045		1,045	94
Scholarships and fellowships	30		30	32		32	(2)
Utilities	24		24	35		35	(11)
Supplies and materials	202		202	223		223	(21)
Depreciation	110		110	108		108	2
Interest expense		37	37		37	37	-
Other expenses	283		283	305		305	(22)
<b>Expenses associated with core activities</b>	<b>1,788</b>	<b>37</b>	<b>1,825</b>	<b>1,748</b>	<b>37</b>	<b>1,785</b>	<b>40</b>
<b>INCOME (LOSS) FROM CORE ACTIVITIES</b>	<b>\$(348)</b>	<b>\$508</b>	<b>160</b>	<b>\$(391)</b>	<b>\$488</b>	<b>97</b>	<b>63</b>
<b>OTHER NONOPERATING ACTIVITIES</b>							
Loss on disposal of capital assets, net of proceeds			(9)			(2)	(7)
<b>Income before other changes in net assets</b>			<b>151</b>			<b>95</b>	<b>56</b>
<b>OTHER CHANGES IN NET ASSETS</b>							
State capital appropriations			26			21	5
Capital gifts and grants			11			58	(47)
Intercampus transfers			(37)			(21)	(16)
<b>Increase in net assets</b>			<b>151</b>			<b>153</b>	<b>(2)</b>
<b>NET ASSETS</b>							
Net assets beginning of year			1,577			1,424	153
<b>NET ASSETS END OF YEAR</b>			<b>\$1,728</b>			<b>\$1,577</b>	<b>\$151</b>

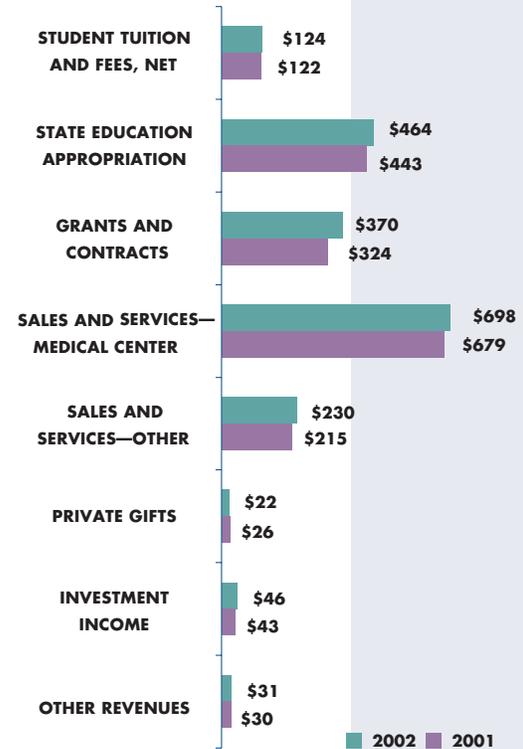
## REVENUES SUPPORTING CORE ACTIVITIES

The following chart provides a breakdown of revenues supporting core activities for the fiscal year ended June 30, 2002.



Revenues to support UC Davis' core activities of almost \$2 billion, including those classified as non-operating revenues, increased by \$103 million from 2001 to 2002. 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.

## REVENUES SUPPORTING CORE ACTIVITIES (DOLLARS IN MILLIONS)



Student tuition and fees revenue, net of scholarship allowances, grew by \$2 million in 2002 to \$124 million from \$122 million in 2001. These fees are net of scholarship allowances of \$36 million in 2002 and \$27 million in 2001. UC Davis enrollment grew by 4.7% in 2002. California resident mandatory systemwide undergraduate and graduate fees and professional school fees remained at 2001 levels as a result of additional educational appropriations from the state of California. In fact, additional appropriations from the state of California have resulted in no increase in California resident mandatory systemwide undergraduate and graduate fees for seven consecutive years. Tuition and fees for nonresident students were increased by 2.4% in 2002.

Educational appropriations from the state of California increased by \$21 million, from \$443 million in 2001 to \$464 million in 2002. This revenue was primarily used to support increased enrollment and increased employee salary and health benefit costs, to maintain affordable fees for students and to

expand summer instruction. The appropriations also provided revenue for clinical teaching support and to support specific research.

Revenue from federal, state, private and local grants and contracts of \$370 million increased by \$46 million or 14%. Federal grant and contract revenue, including facilities and administration cost recovery of \$36 million and direct expenditures of \$165 million, grew by \$25 million (13%) to \$202 million due to an increase in both award levels and number of awards granted. State grants (including special research appropriations) and contracts increased by \$16 million (20%); private contracts and grants increased by \$5 million (8%), highlighting the continued competitive and effective nature of UC Davis' research enterprise.

Revenue from the UC Davis Medical Center, educational activities and auxiliary enterprises of \$928 million increased by \$34 million, or 4%, from 2001. UC Davis Medical Center revenue grew by \$19 million over the prior year to \$698 million. The revenue growth is primarily due to a combination of rate increases and an increase in patient activity (a 2% increase in patient days and a 4% increase in hospital clinic visits). Sales from educational activities, primarily physicians' professional fees, grew by \$10 million, or 7%. Sales from auxiliary enterprises grew by \$5 million, or 6%, as a result of the demand associated with enrollment growth.

Private gifts for operating purposes declined by \$4 million, or 15%, in 2002 to \$22 million. Gifts are also received for capital purposes and recorded as capital gifts and grants in other changes in net assets. Capital gifts increased by \$2 million from 2001 to 2002 as a result of the collection and pledge of gifts for the Robert and Margrit Mondavi Center for the Performing Arts. UC Davis continues to be aggressive in developing private revenue sources, although the nation's economy and decline in the equity markets are having a substantial effect on charitable giving.

Investment income for the year of \$46 million, consisting of \$28 million from the University of California's Short Term Investment Pool (STIP) and \$18 million from endowments, increased by \$3 million from 2001 to 2002. The increase in investment

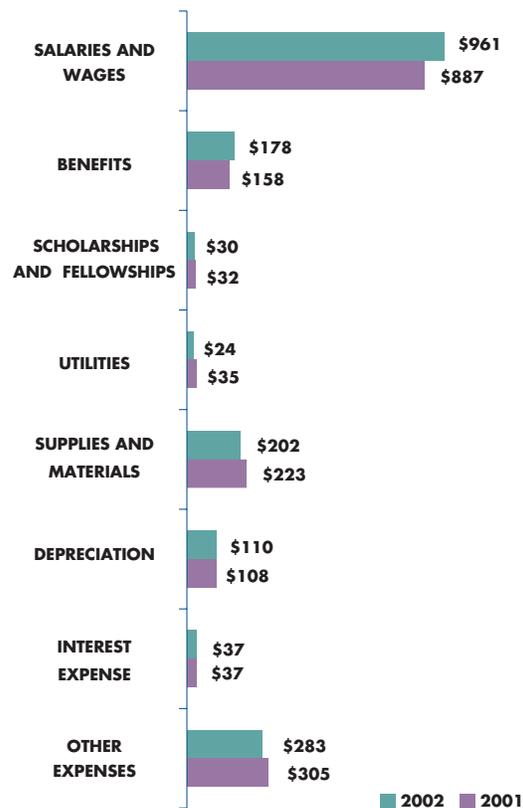
income was primarily due to an increase in the endowment portfolio of \$17 million and University of California's use of a 60-month rolling average share value to calculate the return.

Other revenues for 2002 of \$31 million include \$13 million of state financing appropriations reported as nonoperating revenue and \$18 million 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, 2002 and 2001.

**EXPENSES ASSOCIATED WITH CORE ACTIVITIES  
(DOLLARS IN MILLIONS)**



UC Davis' expenses associated with core activities for 2002, including those classified as nonoperating expenses, were nearly \$2 billion, an increase of \$40 million, or 2%, from 2001. More than half of UC Davis' expenses are related to salaries and benefits.

Salaries of \$961 million in 2002 grew by \$74 million from 2001, an increase of 8%. There are over 19,000 full-time-equivalent employees at UC Davis. More than half of the increase was related to new academic and administrative employees necessary to support the increase in enrollment and other academic, research and public service programs. In addition to a 2% increase in overall salaries, \$8 million went toward one-time retroactive payments to five different bargaining units. Benefits of \$178 million increased by \$20 million, or 13%, from 2001, primarily due to increases in health insurance costs. There were also substantial increases in UC Davis' share of payroll taxes and workers' compensation costs.

Scholarships and fellowships, payments of financial aid made directly to students and reported as operating expense, were \$30 million in 2002, a decrease of \$2 million, or 6%, from 2001. Scholarship allowances, financial aid and fee waivers by UC Davis are also a form of scholarship and fellowship cost that increased in 2002 by \$8 million, or 29%, to \$36 million. However, scholarship allowances are reported as an offset to revenue, not as an operating expense. On a combined basis, financial aid to students in all forms grew from \$60 million in 2001 to \$66 million in 2002, an increase of \$6 million or 10%.

Utility costs dropped by 31% to \$24 million in 2002. The decrease was primarily due to the decrease in the use of natural gas for electricity production by the UC Davis Medical Center and the drop in natural gas costs from 2001 to 2002. Supplies and materials costs fell by \$21 million, or 9%, to \$202 million, primarily due to lower costs for computer equipment. Higher capital spending over the past several years necessary to upgrade facilities and support the enrollment growth resulted in depreciation expense increasing to \$110 million in 2002 from \$108 million in 2001. Interest expense, reported as a nonoperating expense, remained at \$37 million from 2001 to 2002. Other expenses declined by \$22 million, or 7%, to \$283 million in 2002 from \$305 million in 2001.

In 2002, the operating loss of \$348 million was more than offset by \$508 million of net revenues classified as nonoperating. Revenue to support core activities exceeded the associated expenses by \$160 million in 2002 and \$97 million in 2001. This income is restricted by either legal or fiduciary obligations, allocated for academic and research initiatives or programs, necessary for debt service or required for capital purposes.

### **OTHER NONOPERATING ACTIVITIES**

UC Davis' nonoperating activities are generally non-cash transactions and therefore are not available to be used to support operating expenses and include the gain or loss on the disposal of capital assets. Disposals and write-offs of capital assets resulted in a loss of \$9 million in 2002 compared to \$2 million in 2001.

### **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.

UC Davis' enrollment growth requires new facilities in addition to continuing needs for renewal, modernization and seismic correction of existing facilities. Capital appropriations from the state of California increased by \$5 million from \$21 million in 2001 to \$26 million in 2002. This represents the final appropriation from the state of California's general obligation bond measure passed in 1998.

### **TRANSFERS TO OTHER CAMPUSES**

As one of 10 campuses in the University of California, UC Davis transfers funds to and receives funds from the University of California Office of the President, including the transfer of facilities and administration cost recoveries, University of California Housing System net revenues and intermediate funding for UC Davis capital projects. In addition, funds are transferred to and from the other campuses of the University of California as part of multi-campus agreements and intercampus charges.

## 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 five 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. The fifth section reconciles the net cash used to the operating income or loss reflected on the statement of revenues, expenses and changes in net assets.

A summary comparison of cash flows for 2002 and 2001 is as follows (in millions of dollars):

	JUNE 30 2002	JUNE 30 2001	CHANGE
<b>CASH PROVIDED (USED) BY:</b>			
Operating activities	\$(130)	\$(236)	\$106
Noncapital financing activities	449	448	1
Capital and related financing activities	(159)	(172)	13
Investing activities	46	43	3
<b>Net increase (decrease) in cash</b>	<b>206</b>	<b>83</b>	<b>123</b>
<b>CASH, BEGINNING OF THE YEAR</b>			
	819	736	83
<b>CASH, END OF THE YEAR</b>			
	<b>\$1,025</b>	<b>\$819</b>	<b>\$206</b>

UC Davis' cash increased by \$206 million, from \$819 million in 2001 to \$1,025 million in 2002. Substantially all of UC Davis' cash is invested in a

short-term investment pool ("STIP") managed by the treasurer of the regents and is considered as demand deposits.

Cash used by operating activities decreased by \$106 million from the prior year. This was due in part to increases in receipts from grants and contracts (29%) and receipts from the UC Davis Medical Center (17%) as well as decreases in payments to suppliers and utilities (12%). Major sources of funds came from medical center receipts (\$707 million), receipts from grants and contracts (\$391 million), receipts from educational activities (\$169 million) and student tuition and fees (\$123 million).

State educational appropriations increased by \$21 million during the current year, which resulted in the increase in noncapital financing sources.

Cash used by capital and related financing activities amounted to \$159 million, primarily the result of capital assets acquired during the year (\$220 million) and principal and interest paid on debt and capital leases (\$53 million), offset by state capital and financing appropriations (\$46 million) and proceeds from debt of \$62 million.

Cash used by investing activities, primarily the interest earned on endowments and UC Davis cash invested in the short-term investment pool, totaled \$46 million in 2002, a 7% increase from 2001.

## ECONOMIC OUTLOOK

UC Davis' financial position is strong and the campus is well positioned to meet any short-term obstacles. Major financial strengths of UC Davis 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.

The projected enrollment growth for 2003 is 1,800 students. It is expected that enrollment will continue to grow by 2.2% per year over the remainder of the decade. By 2011, UC Davis will reach its planned target of between 30,000 and 31,000 students. This dramatic growth over a sustained period of time will present UC Davis with both opportunities and challenges.

For the first time in eight years, mandatory systemwide student fees for California residents will increase by \$135 per quarter starting spring quarter 2003. Professional school fees will also increase by \$350 to \$400 in spring 2003. In addition, starting in the spring quarter 2003, there is an 8.7% increase for nonresident undergraduates and a 2.7% increase for nonresident graduate students. In November 2002, the Associated Students of UC Davis (ASUCD) voted to increase student fees to fund the construction of a new student health center and the expansion of the ASUCD Coffee House and to support a more competitive athletic division consistent with a campus decision to move to NCAA Division I. The fees resulting from this vote will add \$20 per quarter starting in fall 2003, increasing to \$132 per quarter by 2006–07 and \$173 per quarter by 2008–09.

The economic position of the University of California is closely tied to that of the state. Because of the downturn in the California economy and the projected state deficit for 2002–03, the University of California faces budget cuts of \$74 million under mid-year state of California budget reduction proposals. The mid-year cuts, which are in addition to substantial cuts included in the final 2002–03 state budget act, target areas including administration, K–12 outreach programs, public service programs and state-funded research. UC Davis' share of the mid-year cuts totals \$6 million and will include a \$2.7 million reduction in campus administration (institutional support, academic support, libraries and clinical teaching support) and a \$2 million reduction in the M.I.N.D. Institute's state-funded research program. In addition, the governor's proposed budget for 2003–2004 will create a \$1 billion shortfall in state support to the University of California. The Davis campus share of systemwide cuts is generally 15%, although no official amounts have been set.

UC Davis remains highly competitive in terms of attracting federal grant and contract revenue. Between 1998 and 2002, federal research revenue has increased on an annual basis from 6% to 14%. The outcome of the federal budget process has important ramifications for UC Davis' research budget.

The UC Davis Medical Center faces financial challenges in a price-sensitive managed-care environment.

The demand for health-care services and the cost of providing them are increasing significantly while the revenues to support these services are diminishing. In addition to cost increases faced by hospitals across the state, such as rising salary and benefit costs, UC Davis and the other University of California medical centers also face 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. In recent years, federal legislation has been enacted to slow future rate increases in Medicare and Medicaid and reduce medical education and disproportionate share funding. In addition, as a result of state legislation, the UC Davis Medical Center faces capital requirements to ensure that its facilities can maintain uninterrupted operations following a major earthquake.

The continuing financial success of UC Davis Medical Center is dependent upon dedicated and sustained financial support for medical education and care for the poor. 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.

The UC Davis Medical Center remains competitive by reducing costs and by expanding its presence in the market. Short-term and long-range solutions to address financial challenges continue to be pursued at both the state and federal level.

UC Davis' achievement in recent years in obtaining private support is a testament to the high regard in which the university is held. The level of private support underscores the continued confidence among donors in the quality of UC Davis' programs and the importance of its mission. At the same time, private support is beginning to reflect the changes in the economy and financial markets, the effect of which is likely to be more pronounced in 2003.

Affordable, accessible student housing will be required in order to satisfy the demand associated with increased enrollment growth. UC Davis residence halls continue to be occupied at 100% of design capacity. UC Davis is responding to the

demand by building student housing in the traditional manner, with housing fees set to generate sufficient revenue to cover direct and indirect operating costs and debt service, and by seeking development opportunities for privately owned housing on campus.

UC Davis 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 UC Davis' capital program will be provided from a combination of sources, including the state of California, external financing, gifts and other sources.

In the spring of 2002, the state Legislature and the governor agreed on a new general obligation bond package for education, including both K-12 schools and higher education. This package proposes two Public Education Facilities Bond Acts, one for 2002 and one for 2004, authorizing a total of \$27 billion in general education bond funding over four years to support K-12 and higher education facility needs. The first bond measure was on the November 2002 ballot and was approved by the California voters. The amount of general obligation bond funding available to the University of California system from the 2002 bond measure will be approximately \$408 million over the two-year period covered by the measure. At UC Davis, the bond will help fund a new home for the departments of Viticulture and Enology and Food Science and Technology, and \$66 million for the construction of the Veterinary Medicine 3A facility.

If the second bond measure is approved by the California voters in 2004, the University of California will receive another \$690 million for its capital program for the two-year period 2005 and 2006.

There are also plans for additional capital projects that are traditionally not considered to be state supportable. This is a continuing process that is amended as required to include projects when gifts or other supplemental resources are obtained or financing plans are developed.

## **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.

# FINANCIAL STATEMENTS

	2002	2001
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$1,025,800	\$819,470
Investments held by trustees	16,360	16,022
Accounts receivable, net		
State and federal government	48,322	56,495
Medical center	106,886	119,302
Other	54,836	50,799
Current portion of notes and mortgages receivable, net	10,817	11,557
Inventories	11,184	10,992
Deferred charges	8,867	6,603
Other current assets	7,781	2,340
<b>Total current assets</b>	<b>1,290,853</b>	<b>1,093,580</b>
<b>Noncurrent Assets</b>		
Investments held by trustees	424	424
Notes receivable	48,845	47,762
Mortgages receivable	89	41
Land, buildings, equipment, libraries and collections	2,833,551	2,644,452
Less: Accumulated depreciation	(1,247,434)	(1,168,115)
Other noncurrent assets	11,402	11,147
<b>Total noncurrent assets</b>	<b>1,646,877</b>	<b>1,535,711</b>
<b>Total assets</b>	<b>2,937,730</b>	<b>2,629,291</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	142,391	116,770
Accrued salaries and benefits	106,699	49,073
Deferred revenue	77,016	52,030
Current portion of long-term debt	17,457	16,367
Other current liabilities	51,342	47,777
<b>Total current liabilities</b>	<b>394,905</b>	<b>282,017</b>
<b>Noncurrent Liabilities</b>		
Refundable federal loans	44,480	47,078
Long term debt:		
Revenue bonds	586,282	535,884
Certificates of participation	3,831	4,221
Capital lease obligations	125,197	130,336
Other noncurrent liabilities	55,060	52,605
<b>Total noncurrent liabilities</b>	<b>814,850</b>	<b>770,124</b>
<b>Total liabilities</b>	<b>1,209,755</b>	<b>1,052,141</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	894,545	791,336
Restricted:		
Expendable:		
Gifts	50,220	51,767
Loans	6,188	5,880
Capital projects	11,549	38,187
Debt service	13,199	11,589
Appropriations	11,675	3,041
Other	24,262	20,375
Unrestricted	716,337	654,975
<b>Total net assets</b>	<b>\$1,727,975</b>	<b>\$1,577,150</b>

See accompanying Notes to Financial Statements

UNIVERSITY OF  
CALIFORNIA,  
DAVIS

STATEMENT OF  
NET ASSETS

JUNE 30, 2002  
AND 2001  
(IN THOUSANDS  
OF DOLLARS)

UNIVERSITY OF  
CALIFORNIA,  
DAVIS

STATEMENT OF  
REVENUES,  
EXPENSES AND  
CHANGES IN  
NET ASSETS

YEARS ENDED  
JUNE 30, 2002  
AND 2001  
(IN THOUSANDS  
OF DOLLARS)

	2002	2001
<b>OPERATING REVENUES</b>		
Student tuition and fees, net	\$123,907	\$121,705
Grants and contracts:		
Federal	201,541	176,232
State	96,644	80,476
Private	65,577	60,433
Local	6,067	6,514
Sales and services:		
Medical center	697,822	678,812
Educational activities	157,808	147,406
Auxiliary enterprises, net	72,769	68,346
Other operating revenues, net	17,692	16,583
<b>Total operating revenues</b>	<b>1,439,827</b>	<b>1,356,507</b>
<b>OPERATING EXPENSES</b>		
Salaries and wages	961,296	886,610
Benefits	177,953	158,460
Scholarships and fellowships	29,996	32,423
Utilities	24,047	35,378
Supplies and materials	201,668	223,235
Depreciation	109,736	107,613
Other operating expenses	283,227	304,508
<b>Total operating expenses</b>	<b>1,787,923</b>	<b>1,748,227</b>
<b>Operating loss</b>	<b>(348,096)</b>	<b>(391,720)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State educational appropriations	464,204	443,528
State financing appropriations	13,443	13,442
Private gifts	22,434	25,745
Investment income:		
Endowment fund income	17,931	13,257
Other	28,245	29,633
Interest expense	(36,663)	(37,240)
Gain (loss) on disposal of capital assets, net of proceeds	(9,213)	(2,210)
Other nonoperating revenues (expenses)	(251)	497
<b>Net nonoperating revenues (expenses)</b>	<b>500,130</b>	<b>486,652</b>
<b>Income before other changes in net assets</b>	<b>152,034</b>	<b>94,932</b>
<b>OTHER CHANGES IN NET ASSETS</b>		
State capital appropriations	25,883	20,913
Capital gifts and grants	10,753	57,953
Transfers to Office of the President and other campuses	(37,845)	(20,713)
<b>Other changes in net assets</b>	<b>(1,209)</b>	<b>58,153</b>
<b>Increase in net assets</b>	<b>150,825</b>	<b>153,085</b>
<b>NET ASSETS</b>		
Net assets, beginning of year	1,577,150	1,424,065
<b>Net assets, end of year</b>	<b>\$1,727,975</b>	<b>\$1,577,150</b>

See accompanying Notes to Financial Statements.

UNIVERSITY OF  
CALIFORNIA,  
DAVIS

STATEMENT OF  
CASH FLOWS  
YEARS ENDED  
JUNE 30, 2002  
AND 2001  
(IN THOUSANDS  
OF DOLLARS)

	2002	2001
<b>CASH FLOWS FROM OPERATIONAL ACTIVITIES</b>		
Student tuition and fees	\$122,879	\$120,660
Grants and contracts	390,906	303,415
Receipts from sales and services of:		
Medical centers	707,209	682,031
Educational activities	169,000	143,370
Auxiliary enterprises	71,246	68,225
Payments to employees	(909,706)	(896,168)
Payments to suppliers and utilities	(433,404)	(495,073)
Payments for benefits	(170,775)	(156,823)
Payments for scholarships and fellowships	(29,996)	(32,423)
Loans issued to students and employees	(17,632)	5,685
Collections of loans to students and employees	20,704	(5,204)
Other receipts (payments)	(50,369)	26,577
<b>Net cash provided (used) by operating activities</b>	<b>(129,938)</b>	<b>(235,727)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State educational appropriations	464,204	443,528
Gifts received for other than capital purposes	23,308	25,044
Other receipts (payments)	(249)	497
Intercampus transfers	(37,845)	(20,713)
<b>Net cash flows provided by noncapital financing activities</b>	<b>449,418</b>	<b>448,356</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
State capital appropriations	32,982	21,960
State financing appropriations	13,424	13,442
Capital gifts and grants	5,921	2,663
Proceeds from debt issuance	61,255	25,160
Proceeds from the sale of capital assets	741	341
Purchases of capital assets	(220,498)	(177,872)
Principal paid on debt and capital leases	(16,621)	(15,479)
Interest paid on debt and capital leases	(36,587)	(41,835)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(159,383)</b>	<b>(171,620)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income, net of investment expense	46,233	42,727
<b>Net cash provided (used) by investing activities</b>	<b>46,233</b>	<b>42,727</b>
<b>Net increase in cash</b>	<b>206,330</b>	<b>83,736</b>
Cash—beginning of year	819,470	735,734
<b>Cash—end of year</b>	<b>\$1,025,800</b>	<b>\$819,470</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	\$(348,097)	\$(391,720)
Depreciation and amortization expense	109,736	107,613
Allowance for doubtful accounts	2,017	(2,052)
Change in assets and liabilities:		
Receivables, net	13,079	(19,511)
Investments held by trustees	(659)	-
Inventories	(192)	(218)
Deferred charges	(2,264)	6,692
Other assets	458	13,808
Accounts payable	15,957	54,537
Accrued salaries and benefits	57,626	(13,048)
Deferred revenue	18,757	1,433
Other liabilities	3,644	6,739
<b>Net cash used by operating activities</b>	<b>\$(129,938)</b>	<b>\$(235,727)</b>

See accompanying Notes to Financial Statements.

## 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, law and management.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of UC Davis have been prepared in accordance with generally accepted accounting principles, including all applicable effective statements of the Governmental Accounting Standards Board (GASB), using the economic resources measurement focus and the accrual basis of accounting.

GASB Statement No. 35, "Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities," an amendment of Statement No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments," was adopted by the university on July 1, 2001. Statement

No. 35 establishes a fundamentally new financial reporting model for all public colleges and universities. Financial reporting requirements include a management's discussion and analysis; basic financial statements consisting of a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows; and notes to the financial statements.

Statement No. 35 requires recording depreciation on capital assets, accrual or deferral of receipts or expenses associated with certain grants and contracts, accrual of interest expense, accounting for certain scholarship allowances as a reduction of revenue, classifying federal refundable loans as a liability, capitalization and depreciation of equipment with a sponsor reversionary interest and recording UC Davis' obligation on systemwide debt as a liability. Previously, capital assets were not depreciated but maintained at original cost; excess restricted receipts were included in net assets when received; interest expense was recorded on a cash basis; all scholarship allowances were classified as an operating expense; federal refundable loans were included in net assets; and equipment with a sponsor reversionary interest was expensed. Previously, the liability of bonds and obligations issued specifically to the UC Davis campus and the medical center was recorded at the individual campus level and the liability of systemwide debt obligations was recorded and administered centrally at the Office of the President and not recorded at the individual campus level.

In accordance with Statement No. 35, the cumulative effect of the accounting changes described above on June 30, 2000, net assets is as follows (in thousands of dollars):

<b>JUNE 30, 2000 FUND BALANCES, AS PREVIOUSLY REPORTED</b>	<b>\$ 2,881,725</b>
Cumulative effect of:	
Accumulated depreciation	(1,086,267)
Deferral of restricted receipts in excess of expenditures	(25,924)
Accrued interest	(5,236)
Reclassification of federal refundable loans	(44,846)
Equipment with a sponsor reversionary interest	16,199
UC Davis systemwide debt obligation	(311,586)
<b>Reduction in net assets</b>	<b>(1,457,660)</b>
<b>JUNE 30, 2000, NET ASSETS, RESTATED</b>	<b>\$ 1,424,065</b>

Statement No. 35 also requires UC Davis' net assets to be classified into net asset categories rather than by fund group. The effect of reclassifying the June 30, 2000, fund balances into net asset categories, including the cumulative effect of the accounting changes described above, is as follows (in thousands of dollars):

	JUNE 30, 2000, FUND BALANCES, AS PREVIOUSLY REPORTED	CUMULATIVE EFFECT OF ACCOUNTING CHANGES	RECLASSIFICATION	JUNE 30, 2000, NET ASSETS, RESTATED		
				INVESTMENT IN CAPITAL ASSETS, NET	RESTRICTED EXPENDABLE	UNRESTRICTED
Current						
Unrestricted	\$501,225		(\$4,640)			\$496,585
Restricted	105,063	(\$25,924)			\$79,139	
Loan	71,165	(44,846)			13,793	12,526
Plant	2,204,272	(1,386,890)	4,640	691,647	6,794	123,581
<b>Total</b>	<b>\$2,881,725</b>	<b>(\$1,457,660)</b>	<b>\$0</b>	<b>\$691,647</b>	<b>\$99,726</b>	<b>\$632,692</b>

UC Davis has also restated prior periods for purposes of presenting comparative information for the year ended June 30, 2002. The effect of changes from the adoption of Statement No. 35 on UC Davis' financial statements for the year ended June 30, 2001, is as follows (in thousands of dollars):

	OPERATING		NONOPERATING	
	REVENUES	(EXPENSES)	REVENUES (EXPENSES)	INCREASE (DECREASE) IN NET ASSETS
<b>For the year ended June 30, 2001:</b>				
<b>Current year effect of:</b>				
Depreciation expense		(\$107,613)		(\$107,613)
Accumulated depreciation on asset disposals			\$25,755	25,755
Scholarship allowances reclassification	(\$27,376)	27,376		-
Other, net	(11,246)		(10,574)	(21,820)
<b>Total</b>	<b>(\$38,622)</b>	<b>(\$80,237)</b>	<b>\$15,181</b>	<b>(\$103,678)</b>

GASB Statement No. 37, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus," and Statement No. 38, "Certain Financial Statement Note Disclosures," were also adopted by UC Davis on July 1, 2001. Statement No. 37 clarifies guidance to be used in preparing management's discussion and analysis and Statement No. 38 modifies, adds and deletes various note disclosure requirements. The implementation of these two statements had no effect on the campus's net assets or changes in net assets for the year ended June 30, 2002.

The significant accounting policies of UC Davis are summarized below.

## 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 these organizations. Organizations that are not financially accountable to UC Davis, such as campus foundations and booster and alumni organizations, are not included in the reporting entity.

## 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 generally 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. External mutual funds are valued daily by the registered investment companies based upon the net asset value of those companies.

**ACCOUNTS RECEIVABLE.** Accounts receivable include reimbursements due from sponsors of externally funded research, patient billings, accrued income on investments, amounts due from students, employees and faculty for services and other miscellaneous receivables.

**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 weighted average method, which is not in excess of net realizable value.

**CAPITAL ASSETS.** 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. Capital leases are stated at the lower of the fair market value of the asset or the present value of future minimal lease payments. Significant additions, replacements, major repairs and renovations are capitalized if the cost exceeds \$1,500 and if they have a useful life of more than one year. Minor renovations are charged to operations.

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
Library books and materials	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.

**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.

**NET ASSETS.** Net assets are 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. Substantially all unrestricted net assets are allocated for academic and research initiatives or programs or for capital programs.

**REVENUES AND EXPENSES.** Operating revenue includes receipts from student tuition and fees, grants and contracts for specific operating activities, and sales and services from medical centers, 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.

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.

In accordance with GASB Statement No. 34, certain significant revenues relied upon for fundamental operational support of the core instructional mission of UC Davis are mandated to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income.

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 the university. A portion of the student fees is required for debt service associated with the UC Davis Memorial Union. 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 as the related expenses are incurred to support either educational operations or specific purposes. State appropriations for capital projects are recorded as revenue when the related expenditures are incurred.

**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, 2002, the facilities and administrative cost recovery totaled \$48 million, \$36 million from federally sponsored programs and \$12 million from other sponsors. For the year ended June 30, 2001, the facilities and administrative cost recovery totaled \$40 million, \$30 million from federally sponsored programs and \$10 million from other sponsors. The campus is required to transfer all facilities and administration cost recoveries, except clinical trials, received from performance under contracts and grants to the Office of the President. Subject to cost-sharing agreements with the state of California, a portion of the recoveries is returned to the campus in the annual budgetary allocation from the Office of the President.

**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):

	2002	2001
Student tuition and fees	\$29,585	\$21,895
Sales and service of auxiliary enterprises	5,890	5,163
Other operating revenues	342	318
<b>Scholarship allowance</b>	<b>\$35,817</b>	<b>\$27,376</b>

**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.

**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.

**COMPARATIVE INFORMATION.** Certain reclassifications have been made to the 2001 summarized financial information in order to conform to the 2002 presentation.

**NEW ACCOUNTING PRONOUNCEMENTS.** The GASB has issued Statement No. 39, "Determining Whether Certain Organizations are Component Units", effective for the year beginning July 1, 2003. Statement No. 39 will require UC Davis' legally separate, tax-exempt foundation to be presented discretely in UC Davis' financial statements. At June 30, 2002, the date of the most recently available financial statements, UC Davis Foundation's net assets exceeded \$82 million.

## 1. CASH

All university operating entities invest surplus cash balances in a short-term investment pool ("STIP") managed by the treasurer of the regents. The regents 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 the STIP are considered demand deposits. Unrealized gains and losses associated with the fluctuation in the fair value of the investments included in the STIP (and predominately held to maturity) are not recorded by each operating entity but are absorbed by the university, as the manager of the pool. At June 30, 2002 and 2001, the carrying value of UC Davis' demand deposits was \$1.026 billion and \$820 million, respectively.

## 2. INVESTMENTS HELD BY TRUSTEES

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

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

Investments held by trustees for the future payment of principal and interest are in accordance with various indenture and other long-term debt requirements. The fair value

of these investments associated with UC Davis indenture and other long-term debt requirements was \$16 million at June 30, 2002.

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 less than \$1 million at June 30, 2002.

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 an operating activity. 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.

### 3. ACCOUNTS RECEIVABLE

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

	STATE AND FEDERAL GOVERNMENT	MEDICAL CENTER	OTHER	TOTAL
<b>At June 30, 2002:</b>				
Accounts receivable	\$48,322	\$139,946	\$72,620	\$260,888
Allowance for uncollectible amounts		(33,060)	(17,784)	(50,844)
<b>Accounts receivable, net</b>	<b>\$48,322</b>	<b>\$106,886</b>	<b>\$54,836</b>	<b>\$210,044</b>
<b>At June 30, 2001:</b>				
Accounts receivable	\$56,495	\$148,891	\$75,022	\$280,408
Allowance for uncollectible amounts		(29,589)	(24,223)	(53,812)
<b>Accounts receivable, net</b>	<b>\$56,495</b>	<b>\$119,302</b>	<b>\$50,799</b>	<b>\$226,596</b>

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

### 4. NOTES AND MORTGAGES RECEIVABLE

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

	CURRENT PORTION	NONCURRENT PORTION		TOTAL
		NOTES	MORTGAGES	
<b>At June 30, 2002:</b>				
Notes and mortgages receivable	\$11,807	\$52,840	\$89	\$64,736
Allowance for uncollectible amounts	(990)	(3,995)		(4,985)
<b>Notes and mortgages receivable, net</b>	<b>\$10,817</b>	<b>\$48,845</b>	<b>\$89</b>	<b>\$59,751</b>
<b>At June 30, 2001:</b>				
Notes and mortgages receivable	\$11,557	\$47,762	\$41	\$59,360

## 5. LAND, INFRASTRUCTURE, BUILDINGS, EQUIPMENT, LIBRARIES AND COLLECTIONS

UC Davis' capital asset activity for the years ended June 30, 2002, and June 30, 2001, is as follows (in thousands of dollars):

ORIGINAL COST	2000	ADDITIONS	DISPOSALS	2001	ADDITIONS	DISPOSALS	2002
Land	\$39,738	\$10,359	(\$31)	\$50,066	\$593	(\$630)	\$50,029
Infrastructure	71,935	2,639	(6)	74,568	637	(18)	75,187
Buildings and improvements	1,382,531	68,998	(1,200)	1,450,329	75,970	(832)	1,525,467
Equipment	603,260	84,671	(27,271)	660,660	60,424	(39,144)	681,940
Libraries and collections	236,074	13,305		249,379	13,212		262,591
Special collections	16,721	2,561		19,282	1,307		20,589
Construction in progress	93,515	46,653		140,168	77,580		217,748
<b>Capital assets, at original cost</b>	<b>\$2,443,774</b>	<b>\$229,186</b>	<b>(\$28,508)</b>	<b>\$2,644,452</b>	<b>\$229,723</b>	<b>(\$40,624)</b>	<b>\$2,833,551</b>

ACCUMULATED DEPRECIATION	2000	DEPRECIATION & AMORTIZATION	DISPOSALS	2001	DEPRECIATION & AMORTIZATION	DISPOSALS	2002
Infrastructure	\$29,781	\$2,318	(\$6)	\$32,093	\$2,350	(\$20)	\$34,423
Buildings & improvements	492,701	48,021	(698)	540,024	49,128	(763)	588,389
Equipment	414,247	46,586	(25,062)	435,771	47,472	(29,635)	453,608
Libraries & collections	149,539	10,688		160,227	10,787		171,014
<b>Accumulated depreciation</b>	<b>1,086,268</b>	<b>107,613</b>	<b>(25,766)</b>	<b>1,168,115</b>	<b>109,737</b>	<b>(30,418)</b>	<b>1,247,434</b>
<b>Capital assets, net</b>	<b>\$1,357,506</b>	<b>\$121,573</b>	<b>(\$2,742)</b>	<b>\$1,476,337</b>	<b>\$119,986</b>	<b>(\$10,206)</b>	<b>\$1,586,117</b>

## 6. 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 and other borrowings and capital lease obligations.

UC Davis' portion of the University of California's outstanding debt at June 30, 2002 and 2001 is as follows (in thousands of dollars):

	INTEREST RATES	MATURITY YEARS	2002	2001
The Regents of the University of California:				
Multi-purpose projects revenue bonds	3.5-12.0%	2002-2030	\$165,662	\$169,345
Housing system revenue bonds	5.0-8.0%	2002-2018	25,378	26,290
Hospital revenue bonds	5.4-10.0%	2023	332,805	337,585
Research facilities revenue bonds	4.1-10.0%	2002-2031	72,564	11,486
Bond for Memorial Union	5.7-5.8%	2007	730	840
Revenue bonds			597,139	545,546
Certificates of participation	3.3-10.0%	2002-2011	4,221	4,587
Capital leases	3.8-7.4%	2002-2023	131,407	136,675
<b>Total outstanding debt</b>			<b>732,767</b>	<b>686,808</b>
Current portion of long-term debt			(17,457)	(16,367)
<b>Total long-term debt</b>			<b>\$715,310</b>	<b>\$670,441</b>

Total interest expense during the years ended June 30, 2002 and 2001, was \$37 million each year. Interest expense of \$9,000 and \$53,000 associated with financing projects during the construction phase was capitalized during the year ended June 30, 2002 and 2001.

## OUTSTANDING DEBT ACTIVITY

The activity with respect to UC Davis' outstanding debt for the year ended June 30, 2002 and 2001, is as follows (in thousands of dollars):

	REVENUE BONDS	CERTIFICATES OF PARTICIPATION	CAPITAL LEASE OBLIGATIONS	TOTAL
<b>YEAR ENDED JUNE 30, 2002</b>				
Current portion at June 30, 2001	\$9,662	\$366	\$6,339	\$16,367
Reclassification from noncurrent	10,857	390	6,433	17,680
Principal payments	(9,662)	(366)	(6,562)	(16,590)
<b>Current portion at June 30, 2002</b>	<b>\$10,857</b>	<b>\$390</b>	<b>\$6,210</b>	<b>\$17,457</b>
Noncurrent portion at June 30, 2001	\$535,884	\$4,221	\$130,336	\$670,441
New obligations	61,255		1,294	62,549
Reclassification to current	(10,857)	(390)	(6,433)	(17,680)
<b>Noncurrent portion at June 30, 2002</b>	<b>\$586,282</b>	<b>\$3,831</b>	<b>\$125,197</b>	<b>\$715,310</b>
<b>YEAR ENDED JUNE 30, 2001</b>				
Current portion at June 30, 2000	\$8,335	\$341	\$6,707	\$15,383
Reclassification from noncurrent	9,662	366	6,434	16,462
Principal payments	(8,335)	(341)	(6,802)	(15,478)
<b>Current portion at June 30, 2001</b>	<b>\$9,662</b>	<b>\$366</b>	<b>\$6,339</b>	<b>\$16,367</b>
Noncurrent portion at June 30, 2000	\$520,386	\$4,587	\$135,928	\$660,901
New obligations	25,160		842	26,002
Reclassification to current	(9,662)	(366)	(6,434)	(16,462)
<b>Noncurrent portion at June 30, 2001</b>	<b>\$535,884</b>	<b>\$4,221</b>	<b>\$130,336</b>	<b>\$670,441</b>

## 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.

Revenue bonds for the UC Davis Medical Center and auxiliary enterprises are collateralized by a pledge of the net revenues generated by the enterprises. Revenue bonds for research facilities and certain revenue bonds for administrative and academic facilities are collateralized by a pledge of UC Davis' share of facilities and administrative recoveries received on federal research grants and contracts performed by UC Davis. Revenue bonds are not collateralized by any encumbrance, mortgage or other pledge of property except pledged revenues and do not constitute general obligations of UC Davis or the regents.

The Multiple Purpose Projects Revenue Bond indentures require UC Davis to achieve net revenues after expenses and requirements for senior lien indentures equal to 1.25 times debt service and maintain certain other financial covenants. The Hospital Revenue Bonds require UC Davis 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. The Multiple Purpose Projects Revenue Bond and Hospital Revenue Bond indentures require UC Davis to use the facilities in a way that will not cause the interest on the bonds to be included in the gross income of the holders of the bonds for federal tax purposes.

In July 2002, Multiple Purpose Projects Revenue Bonds totaling \$366 million were issued to finance and refinance the acquisition, construction, renovation and improvement of certain facilities of the University of California.

UC Davis' obligation totaled \$23 million to finance and refinance the acquisition, construction, renovation and improvement of the Center for Performing Arts and certain telecommunication facilities. The UC Davis obligation of the bonds maturing at various dates through 2034 totals \$15 million and has a weighted average interest rate of 5.0%. The UC Davis obligation of the bonds maturing at various dates through 2019 totals \$8 million and has a weighted average interest rate of 4.4%.

In December 2001, the University of California issued \$122.8 million of Research Facility Revenue Bonds with a weighted average interest rate of 4.9% to finance and refinance the acquisition, construction and equipping of certain research facilities. UC Davis' obligation of this debt is \$62 million. Proceeds are available to pay for project construction and issuance costs and to repay interim financing incurred prior to the issuance of the bonds.

In September 2000, Multiple Purpose Projects Revenue Bonds totaling \$359.3 million were issued by the University of California to finance and refinance the acquisition, construction, renovation and improvement of certain facilities of the university, including student housing and parking facilities. UC Davis' obligation of this debt is \$25 million. The bonds mature at various dates through 2029 and have a weighted average interest rate of 5.1%.

#### **CERTIFICATES OF PARTICIPATION**

Certificates of participation have been issued to finance buildings and equipment under lease agreements. The certificates are collateralized by buildings and equipment. A portion of the rental payments is provided to UC Davis by a state of California financing appropriation totaling \$13 million per year for the years ended June 30, 2002 and 2001. All rental payments have been pledged and assigned to a trustee by the lessor.

#### **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. 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.

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 revenues, expenses and changes in net assets, for the years ended June 30, 2002 and 2001, was \$13 million each year. The principal and interest, including accrued interest, reported in UC Davis' financial statements for the years ended June 30, 2002 and 2001, contain amounts related to these lease-purchase agreements with the state of California as follows (in thousands of dollars):

	<b>2002</b>	<b>2001</b>
Capital lease principal	\$ 4,137	\$ 4,239
Capital lease interest	8,194	7,484
	<b>\$12,331</b>	<b>\$11,723</b>

Capital leases entered into with other lessors, primarily for equipment, totaled \$1 million each year for the years ended June 30, 2002 and 2001.

## FUTURE DEBT SERVICE

Future debt service payments for each of the five fiscal years subsequent to June 30, 2002, and thereafter are as follows (in thousands of dollars):

YEAR ENDED JUNE 30	REVENUE BONDS	CERTIFICATES OF PARTICIPATION	CAPITAL LEASES		TOTAL PAYMENTS	PRINCIPAL	INTEREST
			STATE	OTHER			
2003	\$39,376	\$610	\$12,335	\$2,528	\$54,849	\$16,502	\$38,347
2004	39,306	591	12,323	1,773	53,993	16,749	37,244
2005	41,257	594	12,326	880	55,057	16,892	38,165
2006	43,382	595	11,978	634	56,589	18,745	37,844
2007	43,328	594	12,202	519	56,643	19,786	36,857
2008–2012	216,629	2,366	61,803	2,467	283,265	127,702	155,563
2013–2017	214,171		49,807	1,820	265,798	151,848	113,950
2018–2022	192,685		27,840		220,525	150,701	69,824
2023–2027	171,118		4,491		175,609	148,014	27,595
2028–2032	28,808				28,808	25,770	3,038
<b>Total future debt service</b>	<b>1,030,060</b>	<b>5,350</b>	<b>205,105</b>	<b>10,621</b>	<b>\$1,251,136</b>	<b>\$692,709</b>	<b>\$558,427</b>
Less: Interest component of future payments	472,979	1,129	81,510	2,809			
<b>Principal portion of future payments</b>	<b>\$557,081</b>	<b>\$4,221</b>	<b>\$123,595</b>	<b>\$7,812</b>			

## 7. OTHER NONCURRENT LIABILITIES

The activity with respect to other noncurrent liabilities for the years ended June 30, 2002 and 2001, is as follows (in thousands of dollars):

	2002		2001	
	CURRENT	NONCURRENT	CURRENT	NONCURRENT
Compensated absences	\$34,678	\$35,178	\$30,835	\$34,631
Accrued interest	16,175		16,363	
McClellan closure		17,593		17,583
Landfill closure		1,930		
Other noncurrent liabilities	488	359	576	391
<b>Total other liabilities</b>	<b>\$51,341</b>	<b>\$55,060</b>	<b>\$47,774</b>	<b>\$52,605</b>

Payments are generally made from a variety of revenue sources, including state educational appropriations, grants and contracts, auxiliary enterprises, endowment income, or other revenue sources that support the employee's salary.

### MCCLELLAN NUCLEAR RADIATION CENTER 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 420 thousand cubic yards and was closed in June 2001. Unit II is made up of 8 cells with a combined capacity of 477 thousand cubic yards and will be opened one cell at a time.

State laws and regulations require UC Davis to perform certain maintenance and monitoring functions at each landfill site for 30 years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, UC Davis reports a portion of these closure and postclosure care costs as an operating expense in each period based on the landfill capacity used as of each balance sheet date. The \$1.9 million reported as landfill closure liability at June 30, 2002, represents the cumulative amount reported to date based on the use of 52% of the estimated capacity of the landfill. UC Davis will recognize the remaining estimated cost of closure and postclosure care of \$1.6 million as the remaining estimated capacity is filled.

UC Davis is required by state laws and regulations to make annual contributions to a trust to finance closure and post-closure care. UC Davis is in compliance with these requirements and, at June 30, 2002, investments of \$424,000 are held for these purposes. UC Davis expects that future inflation costs will be paid from the interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users.

## 8. ENDOWMENT FUNDS

Endowment funds consist of monies gifted to the university for which the donor has specified that only the earnings from investment of the principal may be expended. Expenditures of these funds are typically restricted to a specific purpose. Funds donated to UC Davis, like those donated to the nine other University of California campuses, are managed by the treasurer of the regents of the University of California. All endowment funds participate in the General Endowment Pool (GEP), unless payout needs by the donors require otherwise. Investments are made to generate growth of principal and a growing payout stream to ensure that future funding for endowment-supported activities can be maintained, while assuming appropriate levels of risk. Income from the investment of endowment funds is periodically transferred to the campus.

At June, 30, 2002, the total value, at cost, of UC Davis'

endowments, funds functioning as endowments and other restricted nonexpendable net assets was \$159 million. The total market value of UC Davis' endowments and other restricted nonexpendable net assets as of June 30, 2002, was \$331 million.

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 \$18 million for the year ended June 30, 2002.

## 9. OPERATING EXPENSES BY FUNCTION

Operating expenses, by functional classification, for the years ended June 30, 2002, and June 30, 2001, are as follows (in thousands of dollars):

	2002	2001
Instruction	\$348,090	\$338,690
Research	308,106	289,282
Public service	51,545	45,346
Academic support	105,674	106,523
Student services	42,157	39,325
Institutional support	69,487	66,359
Operations and maintenance of plant	71,079	69,479
Student financial aid	29,289	31,697
Medical center	590,782	573,329
Auxiliary enterprises	66,622	77,731
Depreciation	109,736	107,613
Other	(4,644)	2,853
<b>Total operating expenses</b>	<b>\$1,787,923</b>	<b>\$1,748,227</b>

## 10. SEGMENT INFORMATION

UC Davis' significant identifiable activities for which revenue bonds are outstanding that have separate accounting and reporting requirements specified in bond indentures 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 UC Davis Medical Center for the year ended June 30, 2002, is as follows (in thousands of dollars):

	<b>2002</b>	<b>2001</b>
Bonds outstanding	\$349,070	\$354,253
Bonds due serially through	2027	2027
<b>CONDENSED STATEMENT OF NET ASSETS</b>		
<b>Assets</b>		
Current assets	\$329,733	\$294,013
Capital assets, net	610,753	611,160
Other assets	10,001	9,924
<b>Total assets</b>	<b>950,487</b>	<b>915,097</b>
<b>Liabilities</b>		
Current liabilities	132,670	101,625
Long-term debt	343,501	349,591
<b>Total liabilities</b>	<b>476,171</b>	<b>451,216</b>
<b>Net assets</b>		
Invested in capital assets, net of debt	259,006	253,976
Restricted	15,523	15,468
Unrestricted	199,787	194,437
<b>Total net assets</b>	<b>\$474,316</b>	<b>\$463,881</b>
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b>		
Operating revenues	\$695,307	\$652,172
Operating expenses	(604,949)	(563,757)
Depreciation expense	(43,799)	(43,356)
<b>Operating income</b>	<b>46,559</b>	<b>45,059</b>
Nonoperating revenues (expenses)	(11,238)	(11,610)
<b>Income before changes in other assets</b>	<b>35,321</b>	<b>33,449</b>
Health systems support	(24,684)	(11,139)
Transfers to the University of California	(202)	
<b>Increase in net assets</b>	<b>10,435</b>	<b>22,310</b>
Net assets—June 30, 2001	463,881	441,571
<b>Net assets—June 30, 2002</b>	<b>\$474,316</b>	<b>\$463,881</b>
<b>CONDENSED STATEMENT OF CASH FLOWS</b>		
<b>Net cash provided (used) by:</b>		
Operating activities	131,931	99,914
Noncapital financing activities	(24,886)	(11,139)
Capital and related financing activities	(70,682)	(70,005)
Investing activities	10,213	10,365
<b>Net increase in cash</b>	<b>46,576</b>	<b>29,135</b>
Cash—June 30, 2001	151,215	122,080
<b>Cash—June 30, 2002</b>	<b>\$197,791</b>	<b>\$151,215</b>

Additional information on UC Davis Medical Center can be obtained from its separate June 30, 2002, audited financial statements.

## 11. UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

Most UC Davis employees participate in the University of California Retirement System (UCRS). UCRS includes a defined benefits plan (the Retirement Plan), in which eligible employees are required to participate; defined contribution plans, which include the Defined Contribution Plan–Pretax Account and the Defined Contribution Plan–After Tax Account; and a Tax-Deferred 403(b) plan. The Board of Regents is the trustee for all UCRS funds and PERS-Voluntary Early Retirement Incentive Program (PERS-VERIP) plan funds. Accordingly, these funds are separately identified in the University of California’s *Annual Financial Report*.

## 12. 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, 2002 and 2001, were \$11 million each year. The terms of operating leases extend through the year ending 2012.

Future minimum payments on operating leases with an initial or remaining non-cancelable term in excess of one year are as follows (in thousands of dollars):

YEAR ENDING JUNE 30	Minimum Annual Lease Payments
2003	\$9,263
2004	8,712
2005	7,679
2006	6,200
2007	17,329
2008–2012	10,704
<b>Total</b>	<b>\$59,887</b>

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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