

UC DAVIS: A CENTURY OF DOING WHAT MATTERS



# FINANCIAL REPORT 2008

## **TABLE OF CONTENTS**

Management's Discussion and Analysis	<b>2</b>
Statement of Net Assets	<b>13</b>
Statement of Revenues, Expenses and Changes in Net Assets	<b>14</b>
Statement of Cash Flows	<b>15</b>
Notes to Financial Statements	<b>16</b>

# 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, 2008.

UC Davis' financial position remains 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 almost \$2.7 billion in 2008 while revenues supporting those activities were over \$2.7 billion. Capital assets increased by \$216 million in 2008, a reflection of the campus' continuing commitment to provide the facilities necessary to accommodate current and future enrollment growth and for patient care. UC Davis' net assets increased to \$2.2 billion as of June 30, 2008.

The UC Davis Financial Statements are not individually audited, but rather are audited as part of the Consolidated Annual Financial Report of the University of California by the firm of PricewaterhouseCoopers LLP, who has issued an unqualified opinion thereon dated October 10, 2008 that has been transmitted to the UC Board of Regents.

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

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



Stan Nosek  
Vice Chancellor for Administration



J. Michael Allred  
Associate Vice Chancellor for Finance/Controller

# MANAGEMENT'S DISCUSSION AND ANALYSIS

**THE OBJECTIVE** of Management's Discussion and Analysis (MD&A) is to give readers an overview of the financial position and operating activities of the University of California, Davis (UC Davis) for the year ended June 30, 2008, with selected comparative information for the year ended June 30, 2007. This discussion should be read in conjunction with the financial statements and the notes to the financial statements.

UC Davis' Financial Report, while not separately audited, is prepared from the official University of California records and accounts which are maintained in accordance with the standards prescribed by the Governmental Accounting Standards Board. The three primary statements—the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows—encompass the UC Davis campus and its discretely presented component, the UC Davis Foundation. However, the MD&A and the notes to the financial statements focus only on the campus. Information relating to the UC Davis Foundation can be found in their separately issued financial statements.

## UNIVERSITY OF CALIFORNIA, DAVIS

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

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

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

## ADOPTION OF NEW ACCOUNTING STANDARDS

UC Davis' financial statements are prepared in accordance with the accounting principles established by the Governmental Accounting Standards Board (GASB).

During 2008, the University of California adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability. GASB Statement No. 45 was implemented only at the University of California consolidated level resulting in an operating expense that decreased the university's changes in net assets and total net assets by \$1.36 billion for the year ended June 30, 2008 and had no effect on the financial statements for the year ended June 30, 2007. There was no impact on UC Davis' campus financial statements for the years ended June 30, 2008 or 2007.

UC Davis also adopted GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, during the year ended June 30, 2008. Statement No. 52 requires endowments to report land and other real estate investments at fair value. The implementation of GASB Statement No. 52 had no effect on the UC Davis' net assets or changes in net assets for the years ended June 30, 2008 and 2007.

During 2007, UC Davis adopted GASB Statement No. 48, *Sales and Pledges of Receivables and Intra-Entity Transfers of Assets*, and Statement No. 50, *Pension Disclosures*. Statement No. 48 establishes criteria to ascertain whether certain transactions should be recorded as sales or collateralized borrowings. Statement No. 50 enhances pension information disclosed in financial statements or presented as required supplementary information. The implementation of these Statements had no effect on UC Davis' net assets or changes in net assets in 2007 or in 2006.

## UC DAVIS FINANCIAL POSITION

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

At June 30, 2008, UC Davis' assets were almost \$4.1 billion, liabilities were \$1.8 billion and net assets were over \$2.2 billion, with an increase of \$199 million from 2007.

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

	JUNE 30, 2008	JUNE 30, 2007	CHANGE
<b>ASSETS</b>			
Cash	\$903	\$783	\$120
Accounts receivable, net	393	320	73
Capital assets, net	2,636	2,420	216
Other assets	145	141	4
<b>TOTAL ASSETS</b>	<b>4,077</b>	<b>3,664</b>	<b>413</b>
<b>LIABILITIES</b>			
Debt	1,194	1,134	60
Other liabilities	647	493	154
<b>TOTAL LIABILITIES</b>	<b>1,841</b>	<b>1,627</b>	<b>214</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	1,445	1,289	156
Restricted: expendable	113	108	5
Unrestricted	678	640	38
<b>TOTAL NET ASSETS</b>	<b>\$2,236</b>	<b>\$2,037</b>	<b>\$199</b>

### UC DAVIS ASSETS

UC Davis' total assets have grown by \$413 million in 2008 to almost \$4.1 billion primarily from increases in capital assets reflecting the campus' continuing commitment to provide the facilities necessary to accommodate current and future enrollment growth and for patient care.

Accounts receivable increased by \$73 million from \$320 million in 2007 to \$393 million in 2008. Accounts receivable include those from the state and federal government, local and private grants and contracts, receivables associated with the Medical Center related to patient care and from others. Accounts receivable from the federal and state government increased by \$12 million associated with the increased revenue for agreements with state and federal grants. Receivables are reported net of bad debt allowances.

Capital assets include land, infrastructure, buildings and improvements, equipment, libraries, collections and construction in progress. As has been the case in recent years, the required spending for capital assets continues to increase. The original cost of capital assets increased by \$338 million in 2008, consisting of capital expenditures of \$389 million offset by \$51 million of capital assets disposed of during the year in the normal course of doing business. Capital expenditures in 2007 were \$342 million and disposals were \$44 million. During 2008, capitalized costs for completed projects were \$147 million. Capitalized buildings and improvements included the Mondavi Institute for Wine & Food for \$65 million. Projects under construction, net of the cost of those projects completed and reclassified during 2008 to buildings and improvements or equipment, totaled \$441 million.

Accumulated depreciation increased from \$1.7 billion in 2007 to \$1.8 billion in 2008. Depreciation expense for the year was \$167 million and the accumulated depreciation on assets sold or disposed of during the year was almost \$46 million. Generally all of the disposals were for equipment that was fully depreciated or had reached the end of its useful life.

Other assets include investments held by trustees, deferred charges, pledges receivable, notes and mortgages receivable and inventories and totaled \$145 million for 2008 and \$141 for 2007.

### UC DAVIS LIABILITIES

UC Davis' total liabilities increased by \$214 million to over \$1.8 billion in 2008, principally due to an increase in accrued salaries and benefits, deferred revenue and as a result of debt issued to finance capital expenditures. Capital expenditures are financed from a variety of sources including equity contributions, federal and state support, revenue bonds and leases. UC Davis' debt to finance capital assets grew to \$1,194 million in 2008, an increase of \$60 million from \$1,134 in 2007.

General Revenue Bonds totaling \$248.9 million with a weighted average interest rate of 4.8 percent were issued in January 2007 to finance and refinance certain facilities and projects of the university. UC Davis' portion was \$49 million and was used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper and bank loans.

In April 2008, Medical Center Pooled Revenue Bonds totaling \$323 million with a weighted average interest rate

of 4.9 percent were issued to refinance certain improvements to the medical center. Proceeds, including a bond premium of \$10.6 million, were used to refund \$324 million of Medical Center Revenue Bonds and for a swap termination payment of \$7 million.

Other newly originated borrowings in 2008 totaled \$68 million, \$43 million in loans from the state to provide interim financing and \$25 million for equipment.

Reductions to outstanding debt in 2008 were \$379 million primarily consisting of \$336 million for one-time principal payments for the refinancing or refunding of previously outstanding revenue bonds and capital leases, \$45 million for principal payments associated with scheduled debt service on revenue bonds, capital lease obligations and other borrowings, net of \$2 million of deferred financing costs.

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

In 2007, UC Davis' total debt increased by \$70 million to over \$493 million.

General Revenue Bonds totaling \$1.37 billion were issued in January and June 2007 to refinance certain facilities and projects of the university. Combined proceeds of \$117 million for UC Davis were used to refund \$64 million of outstanding Multiple Purpose Projects Revenue Bonds and \$49 million of Research Facilities Revenue Bonds in addition to the repayment of interim financing.

Medical Center Pooled Revenue Bonds totaling \$441 million, plus a bond premium of \$4 million, were issued in January 2007 to finance or refinance certain improvements for each of the five medical centers. The UC Davis Medical Center portion of the obligation of \$65 million was used to finance a part of the Surgery and Emergency Services Pavilion.

In April 2007, the state of California issued \$337 million of lease revenue refunding bonds to refinance certain facilities leased to the university. Proceeds were used to refund \$34 million of UC Davis' outstanding lease revenue bonds.

Other newly originated borrowings in 2007 totaled \$30 million, \$15 million in loans from the state to provide interim financing and \$15 million for equipment.

Reductions to outstanding debt in 2007 were \$185 million primarily consisting of \$146 million for one-time principal payments for the refinancing or refunding of previously outstanding revenue bonds and capital leases, \$39 million for principal payments associated with scheduled debt service on revenue bonds and capital lease obligations, net of \$2 million of deferred financing costs, and \$6 million for scheduled payments on other borrowings.

Other liabilities, including accounts payable, accrued salaries and benefits, deferred revenue, and federal refundable loans increased from \$493 million in 2007 to \$647 million in 2008, primarily due to a timing difference in the payment of June salaries and benefits and an increase in deferred revenue primarily as a result of the receipt of a \$20 million award from the California Institute for Regenerative Medicine.

## 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 2008 were \$2.2 billion, with an increase of \$199 million from 2007. 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 outstanding debt used to finance the acquisition, construction or improvement of these capital assets increased by \$156 million from \$1,289 million in 2007 to \$1,445 million in 2008.

Restricted nonexpendable net assets would normally include the corpus of a university's permanent endowments and the estimated value of charitable remainder trusts. At 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, 2008 the total value, at cost, of UC Davis' endowments and other restricted nonexpendable net assets was \$218 million. The total market value of UC Davis' endowments and other restricted nonexpendable net assets as of June 30, 2008 was \$478 million. At June 30, 2007 the total value, at cost, of UC Davis' endowments and other restricted nonexpendable net assets was \$208 million. The total market value of UC Davis' endowments and other restricted nonexpendable net assets as of June 30, 2007 was \$484 million.

Restricted expendable net assets of \$113 million, at June 30, 2008, 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. Unrestricted net assets increased by \$38 million in 2008, from \$640 million in 2007 to \$678 million in 2008, primarily due to the retention of student housing net revenues on campus and an increase in the medical center's net revenue.

## **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 UC Davis' operating results for the year and the increase or decrease in the financial condition of the university.

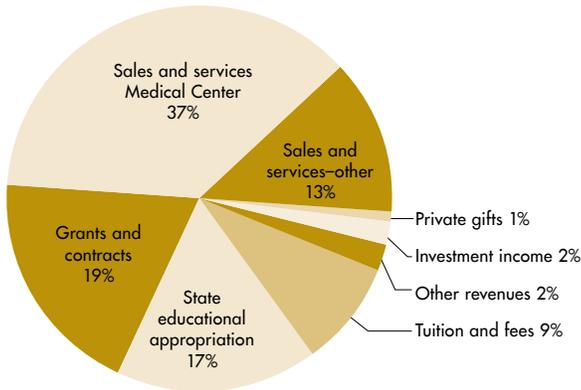
Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. In accordance with Governmental Accounting Standards Board (GASB) requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the university are mandated to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income. A summarized comparison of the operating results for 2008 and 2007, arranged in an informative format that matches the revenues supporting the core activities of UC Davis with the expenses associated with core activities is as follows:

## OPERATING RESULTS FOR 2007 AND 2008 (DOLLARS IN MILLIONS)

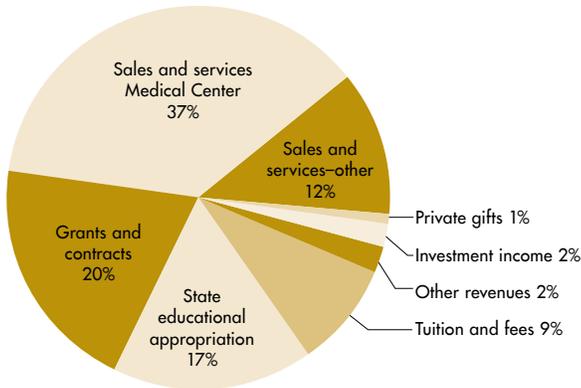
	YEAR ENDED JUNE 30, 2008			YEAR ENDED JUNE 30, 2007			CHANGE
	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL	
<b>REVENUES</b>							
Student tuition and fees, net	\$246		\$246	\$226		\$226	\$20
State educational appropriations		\$453	453		\$425	425	28
Grants and contracts	535		535	508		508	27
Sales and services:							
Medical center	1,021		1,021	936		936	85
Other	351		351	318		318	33
Private gifts		38	38		36	36	2
Investment income		47	47		50	50	(3)
Other revenues	29	33	62	26	21	47	15
<b>REVENUES SUPPORTING CORE ACTIVITIES</b>	<b>2,182</b>	<b>571</b>	<b>2,753</b>	<b>2,014</b>	<b>532</b>	<b>2,546</b>	<b>207</b>
<b>EXPENSES</b>							
Salaries and benefits	1,754		1,754	1,621		1,621	133
Scholarships and fellowships	45		45	43		43	2
Utilities	49		49	44		44	5
Supplies and materials	335		335	326		326	9
Depreciation	167		167	164		164	3
Interest expense		56	56		44	44	12
Other expenses	283		283	263		263	20
<b>EXPENSES ASSOCIATED WITH CORE ACTIVITIES</b>	<b>2,633</b>	<b>56</b>	<b>2,689</b>	<b>2,461</b>	<b>44</b>	<b>2,505</b>	<b>184</b>
<b>INCOME (LOSS) FROM CORE ACTIVITIES</b>	<b>\$(451)</b>	<b>\$515</b>	<b>64</b>	<b>\$(447)</b>	<b>\$488</b>	<b>41</b>	<b>23</b>
<b>OTHER NONOPERATING ACTIVITIES</b>							
Loss on disposal of capital assets, net of proceeds			(4)			(2)	(2)
<b>INCOME BEFORE OTHER CHANGES IN NET ASSETS</b>			<b>60</b>			<b>39</b>	<b>21</b>
<b>OTHER CHANGES IN NET ASSETS</b>							
State capital appropriations			36			38	(2)
Capital gifts and grants			15			15	
Intercampus transfers			88			(65)	153
<b>INCREASE (DECREASE) IN NET ASSETS</b>			<b>199</b>			<b>27</b>	<b>172</b>
<b>NET ASSETS</b>							
Net assets beginning of year			2,037			2,010	27
<b>NET ASSETS END OF YEAR</b>			<b>\$2,236</b>			<b>\$2,037</b>	<b>\$199</b>

## REVENUES SUPPORTING CORE ACTIVITIES

The following chart provides a breakdown of revenues supporting core activities for the fiscal year ended June 30, 2008.



The following chart provides a breakdown of revenues supporting core activities for the fiscal year ended June 30, 2007.



Revenues to support UC Davis' core activities of over \$2.7 billion, including those classified as nonoperating revenues, increased by \$207 million from 2007 to 2008. UC Davis has very diversified sources of revenue. State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of the university. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country. Gifts to UC Davis allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Sales and service revenue includes the medical center, educational activities and auxiliary enterprises such as student housing, the bookstore, food service operations and parking.

Student tuition and fees revenue grew from \$226 million in 2007 to \$246 million in 2008, an increase of \$20 million. These fees are net of scholarship allowances of \$66 million in 2008 and \$60 million in 2007. The new fee revenue over the past several years has generally replaced state educational appropriations and also reflects the increase in fees associated with the building and expansion of student facilities such as the activities and recreation center and the student health center. Consistent with past practices, one-third of the revenue generated from these fee increases is used for financial aid to mitigate the impact on needy students.

In 2008, undergraduate, graduate and professional student enrollment increased by 1 percent, tuition for resident undergraduate and graduate students increased by 7 percent, professional school fees increased by 2 percent and nonresident student tuition increased by 6 percent.

In 2007, undergraduate, graduate and professional student enrollment increased by 3 percent, tuition for resident undergraduate and graduate students increased by 2 percent, professional school fees increased by 5 percent and nonresident student tuition increased by 4 percent.

State of California educational appropriations to UC Davis increased by \$28 million, from \$425 in 2007 to \$453 million in 2008.

Revenue from federal, state, private and local grants and contracts of \$535 million increased by \$27 million or 5 percent from 2007. Federal grant and contract revenue, including facilities and administration cost recovery of \$66 million and direct expenditures of \$249 million, grew by \$5 million (2 percent) to \$315 million due to an increase in both award levels and number of awards granted. This revenue represents support from a variety of agencies including the Department of Health and Human Services, \$169 million; the National Science Foundation, \$42 million; the Department of Education, \$37 million; and the Department of Agriculture, \$26 million. State grants (including special research appropriations) and contracts increased by \$7.6 million (8 percent) primarily due to increases in award levels in various state agencies. Private contracts and grants increased by almost \$11 million (12 percent) reflecting an increase in the number of private grants and contracts.

Revenue from the UC Davis Medical Center, educational activities and auxiliary enterprises of over \$1.3 billion increased by \$118 million, or 9 percent, from 2007. UC Davis Medical Center revenue increased by \$85 million over the prior year to over \$1 billion in 2008. The

revenue growth is primarily due to renegotiated contracts, rate adjustments and an increase in patient activity. Sales from educational activities, primarily physicians' professional fees, and auxiliary enterprises grew by \$33 million or 10 percent and were generally associated with an increase in activities, an expanded patient base and higher rates.

Gifts may be made directly to UC Davis or through the UC Davis Foundation. UC Davis' private gifts for operating purposes increased by \$2 million in 2008 to \$38 million, primarily due to increased numbers of gifts. UC Davis continues to be aggressive in developing private revenue sources, and when gifts to the UC Davis Foundation are included with those given directly to UC Davis, gifts have generally increased over the past several years.

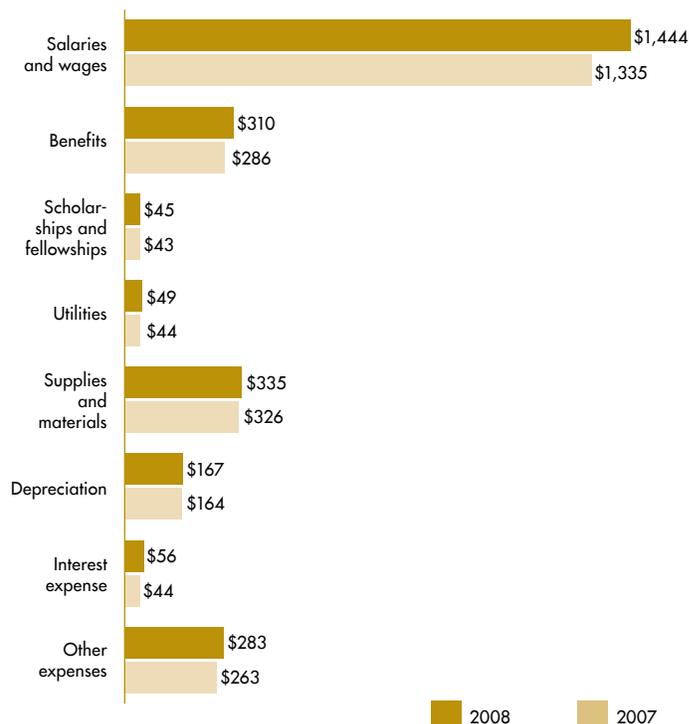
Investment income for the year of \$47 million consisted of \$29 million from the University of California's short term investment pool (STIP) and \$18 million from endowments. Investment income in 2007 totaled \$50 million consisting of \$31 million from STIP and \$19 million from endowments. The 2008 investment returns were 3.9 percent for STIP (4.3 percent in 2007).

Other revenues for 2008 of \$62 million, including \$30 million of state financing appropriations reported as nonoperating revenue and \$29 million of other revenue reported as operating revenue, increased by \$15 million from 2007. 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, 2008 and 2007.

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



UC Davis' expenses associated with core activities for 2008, including those classified as nonoperating expenses were almost \$2.7 billion, an increase of \$184 million, or 7 percent, from 2007. More than half of UC Davis' expenses are related to salaries and benefits for the over 20,000 full time equivalent employees of UC Davis.

Salaries of \$1,335 million in 2007 grew by \$109 million in 2008 to \$1,444 million, an increase of 8 percent. The increase was generally related to new academic and administrative employees necessary to directly support the increase in academic and research programs and higher wages and costs associated with patient care activities. Benefits increased by \$24 million, or 8 percent, from \$286 million in 2007, to \$310 million in 2008. The most prevalent increases were in health insurance costs of over \$15 million and the employer portion of payroll taxes of \$6 million.

Scholarships and fellowships, payments of financial aid made directly to students and reported as operating expenses were \$45 million in 2008, an increase of \$2 million, or 5 percent, from 2007. Scholarship allowances, fee waivers and other indirect payments by UC Davis are also forms of financial aid that increased from \$74 million in 2007 to \$81 million in 2008, a change of \$7 million. However, scholarship allowances are reported as an offset to revenue, not as operating expenses. On a combined basis, financial aid to students in all forms grew from \$117 million in 2007 to \$126 million in 2008, an increase of \$9 million or 8 percent.

Utility costs increased by 11 percent to \$49 million in 2008 from \$44 million in 2007. During 2008, supplies and materials costs increased by \$9 million, or 3 percent. There continues to be inflationary pressure on the cost of medical supplies and laboratory instruments and higher costs for the general supplies necessary to support expanded research activity and student enrollment. Other operating expenses increased by \$20 million, from \$263 million in 2007 to \$283 million in 2008, including an increase of \$7 million in patient care due to higher volume and a \$3 million increase in medical malpractice, general liability and other insurance premiums.

In accordance with GASB's reporting standards, operating losses were \$451 million in 2008 and \$447 million in 2007. However, these operating losses were more than offset by \$515 million and \$488 million of net revenues in 2008 and 2007, respectively, classified as nonoperating by GASB, but clearly supporting the operating activities of UC Davis. Therefore, revenue to support core activi-

ties exceeded the associated expenses by \$64 million in 2008 and \$41 million in 2007. This income is restricted by either legal or fiduciary obligations, allocated for academic and research initiatives or programs, required for debt service, or required for capital purposes.

## **OTHER NONOPERATING ACTIVITIES**

UC Davis' nonoperating activities include the gain or loss on the disposal of capital assets and are generally non-cash transactions not available to be used to support operating expenses. Disposals and write-offs of capital assets resulted in a loss of \$4 million in 2008 and \$2 million in 2007.

## **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' anticipated enrollment growth requires new facilities, in addition to increasing needs for renewal, modernization and seismic correction of existing facilities. State capital appropriations decreased by \$2 million in 2008.

## **TRANSFERS TO OTHER CAMPUSES**

As one of 10 campuses of 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 administrative cost recoveries 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 four parts. The first part deals with operating cash flows and shows the net cash used by the operating activities. The second section reflects cash flows from noncapital financing activities. This section includes the cash received and spent for state educational appropriations, gifts received for noncapital purposes, intercampus transfers and for activities other than those

for operating, investing and capital financing purposes. The third section reflects the cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities.

A summary comparison of cash flows for 2008 and 2007 is as follows (in millions of dollars):

	6/30/08	6/30/07	CHANGE
<b>CASH PROVIDED (USED) BY:</b>			
Operating activities	\$(191)	\$(291)	\$100
Noncapital financing activities	585	398	187
Capital and related financing activities	(320)	(226)	(94)
Investing activities	46	50	(4)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>120</b>	<b>(69)</b>	<b>189</b>
Cash, beginning of the year	783	852	(69)
<b>CASH, END OF THE YEAR</b>	<b>\$903</b>	<b>\$783</b>	<b>\$120</b>

UC Davis' cash increased to \$903 million in 2008 from \$783 million in 2007 primarily due to the timing of cash needs from one year to the next. 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 of \$191 million was used for operating activities, offset by \$585 million in cash provided by noncapital financing activities. Noncapital financing activities, as defined by GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operating activities.

Cash used by capital and related financing activities totaled \$320 million in 2008, primarily the result of capital assets acquired during the year and principal and interest paid on debt and capital leases, partially offset by state capital and financing appropriations and gifts for capital purposes.

Cash provided by investing activities, primarily the interest earned on endowments and UC Davis cash invested in the short-term investment pool, totaled \$46 million in 2008.

## LOOKING FORWARD

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

federal and private funding and promotes discovery of new knowledge that fuels economic growth.

Major financial strengths of the campus include a diverse source of revenues, including those from the state of California, student fees, federally sponsored grants and contracts, the medical center, private support and self-supporting enterprises.

The variety of fund sources has become increasingly important over the past several years given the effects of the state fiscal crisis that required reductions in both instructional and non-instructional programs. Student fee increases have been necessary to address the reductions in state educational appropriations. The state is continuing its work to resolve its financial situation in which expenditures have continued to exceed revenues. Four years ago, the University of California and the Governor agreed on a compact to provide guidance and financial commitments to a long-term resource plan for the university. The compact was to address fundamental financial support, enrollment, student fees and other key program elements for 2007 through 2011 and to provide a financial foundation for the campus and the ability to plan for student fee levels over the next several years. In exchange for this long-term stability, the university commits to focus its resources to address long-term accountability goals for enrollment, student fees, financial aid and program quality, among other areas. The state's support of the campus in 2009 is less than anticipated under the Compact and roughly equivalent to the 2008 levels. Unless the state's economy and fiscal condition improve, state support for the University in 2010 may also be limited.

In 2009, resident undergraduate fees, graduate student fees and most professional school fees will increase by approximately 7 percent. In addition to the resident student fees, nonresident undergraduate and graduate students pay tuition. Tuition will increase by 5 percent for undergraduate students. Consistent with past practice, a portion of the fee increases will be used for financial aid.

UC Davis remains highly competitive in attracting federal grants and contracts revenue, with fluctuations in the awards received closely paralleling trends in the budgets of federal research granting agencies. Over two-thirds of the campus' federal research revenue comes from two agencies, the Department of Health and Human Services, primarily through the National Institutes of Health, and the National Science Foundation. Other agencies that figure prominently in UC Davis' awards are the Department of Education, Department of Defense, the Department of

Agriculture and the Department of Energy. While the federal government is under tight fiscal constraints, there is a bi-partisan effort underway to focus on innovation and competitiveness for the nation. As part of the university, UC Davis is a unique national resource for helping the nation address competitiveness and economic initiatives.

UC Davis' medical center has demonstrated very positive financial results, although it continues to face financial challenges in a price-sensitive, managed care environment, along with the added costs and responsibilities related to its function as an academic institution. The demand for health care services and the cost of providing them are increasing significantly. In addition to the rising costs of salaries, benefits and medical supplies faced by hospitals across the state, the medical center also faces additional costs associated with new technologies, biomedical research, the education and training of health care professionals and the care for a disproportionate share of the medically underserved in California. Other than Medicare and Medi-Cal (California's Medicaid program), health insurance payments do not recognize the added cost of teaching in their payment to academic medical centers. Over the last few years, Medicare margins have declined as a result of payment reductions. Recent changes to the Medi-Cal program will likely limit or reduce the rates of payment growth to the medical center in future years. Also, as a result of state legislation, the medical center faces capital requirements to ensure that facilities can maintain uninterrupted operations following a major earthquake. While the state has provided additional capital to meet these requirements, the level of support provided will not cover the full cost to the medical center which will require other sources of capital.

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

UC Davis' private support is a testament to its distinction as a leader in philanthropy among the nation's col-

leges and universities and the high regard in which its alumni, corporations, foundations and other supporters hold the campus. 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 in 2009 will likely reflect the changes in the economy and financial markets, the effect of which is not determinable at this time.

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 November 2006, a general obligation bond package for education was approved by the California voters. As a result, UC Davis will receive a portion of the \$690 million from the bond package for its capital program for the two-year period 2008 and 2009. In addition, the UC Davis medical center will receive funds over the same period for expansion and for the delivery of health care through telemedicine. The state budget also includes an additional \$204 million in lease-revenue bond financing to support the University of California including a variety of UC Davis' projects. This level of support from the state will not meet all of UC Davis' capital needs and institutional resources will continue to be necessary to address many critical projects. 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.

**UNIVERSITY OF CALIFORNIA, DAVIS**  
**STATEMENT OF NET ASSETS**

AT JUNE 30, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	UC DAVIS		UC DAVIS FOUNDATION	
	2008	2007	2008	2007
<b>ASSETS</b>				
Current Assets				
Cash	\$903,382	\$782,596	\$54,578	\$43,482
Investments held by trustees	831	2,556		
Accounts receivable, net	393,130	319,766	25	
Pledges receivable, net	1,785	1,465	3,810	3,070
Current portion of notes & mortgages receivable, net	5,984	5,969		
Inventories	24,896	21,426		
Other current assets	25,429	27,534	9	10
<b>TOTAL CURRENT ASSETS</b>	<b>1,355,437</b>	<b>1,161,312</b>	<b>58,422</b>	<b>46,562</b>
Noncurrent Assets				
Investments			197,789	185,349
Investments held by trustees	3,672	3,741		
Pledges receivable, net	2,110	2,351	9,811	6,148
Notes and mortgages receivable, net	60,509	56,443		
Land, buildings, equipment, libraries and collections, net	2,636,413	2,420,125		
Other noncurrent assets	19,062	20,184		
<b>TOTAL NONCURRENT ASSETS</b>	<b>2,721,766</b>	<b>2,502,844</b>	<b>207,600</b>	<b>191,497</b>
<b>TOTAL ASSETS</b>	<b>4,077,203</b>	<b>3,664,156</b>	<b>266,022</b>	<b>238,059</b>
<b>LIABILITIES</b>				
Current Liabilities				
Accounts payable	141,745	136,788		2
Accrued salaries and benefits	159,907	67,134		
Deferred revenue	122,726	78,118		
Current portion of long-term debt	43,846	43,504		
Funds held for others			1,655	1,723
Other current liabilities	112,605	116,199		
<b>TOTAL CURRENT LIABILITIES</b>	<b>580,829</b>	<b>441,743</b>	<b>1,655</b>	<b>1,725</b>
Noncurrent Liabilities				
Refundable federal loans	51,016	48,768		
Obligations under life income agreements			9,203	9,911
Long term debt	1,150,180	1,090,150		
Other noncurrent liabilities	59,376	46,072	4,923	4,949
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>1,260,572</b>	<b>1,184,990</b>	<b>14,126</b>	<b>14,860</b>
<b>TOTAL LIABILITIES</b>	<b>1,841,401</b>	<b>1,626,733</b>	<b>15,781</b>	<b>16,585</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	1,444,872	1,288,833		
Restricted:				
Nonexpendable:				
Endowments			95,471	84,489
Annuity and life income funds			10,194	11,418
Expendable:				
Endowments			42,818	48,449
Annuity and life income funds			15,321	14,985
Funds functioning as endowments			18,715	7,729
Endowment Income	25,525	27,316		
Gifts	67,394	64,450	61,471	48,450
Loans	8,365	7,914		
Capital projects	6,523	1,228		
Debt service	(4,347)	(2,164)		
Appropriations	9,149	9,709		
Unrestricted	678,321	640,138	6,251	5,954
<b>TOTAL NET ASSETS</b>	<b>\$2,235,802</b>	<b>\$2,037,424</b>	<b>\$250,241</b>	<b>\$221,474</b>

See accompanying Notes to Financial Statements.

**UNIVERSITY OF CALIFORNIA, DAVIS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

IN YEARS ENDED JUNE 30, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	UC DAVIS		UC DAVIS FOUNDATION	
	2008	2007	2008	2007
<b>OPERATING REVENUES</b>				
Student tuition and fees, net	\$246,200	\$226,264		
Grants and contracts:				
Federal	315,272	310,154		
State	100,671	93,013		
Private	100,217	89,428		
Local	18,933	15,193		
Sales and services:				
Medical center	1,021,387	935,843		
Educational activities	256,986	225,167		
Auxiliary enterprises, net	93,319	93,179		
Campus foundation private gifts			\$32,146	\$9,875
Other operating revenues, net	29,427	25,977	47	63
<b>TOTAL OPERATING REVENUES</b>	<b>2,182,412</b>	<b>2,014,218</b>	<b>32,193</b>	<b>9,938</b>
<b>OPERATING EXPENSES</b>				
Salaries and wages	1,443,681	1,334,596		
Benefits	310,039	286,185		
Scholarships and fellowships	45,459	42,627		
Utilities	49,142	44,323		
Supplies and materials	334,957	326,432		
Depreciation	167,299	163,744		
Campus foundation grants			14,013	11,027
Other operating expenses	283,402	262,870	204	277
<b>TOTAL OPERATING EXPENSES</b>	<b>2,633,979</b>	<b>2,460,777</b>	<b>14,217</b>	<b>11,304</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(451,567)</b>	<b>(446,559)</b>	<b>17,976</b>	<b>(1,366)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State educational appropriations	452,733	425,131		
State financing appropriations	30,016	18,385		
Private gifts	38,364	36,437		
Investment income	46,768	50,121	5,893	5,067
Net appreciation (depreciation) in fair value of investments	(4)	4	(6,927)	20,317
Interest expense	(55,846)	(44,495)		
Loss on disposal of capital assets, net of proceeds	(4,199)	(2,042)		
Other nonoperating revenues	3,670	2,163	389	1,052
<b>NET NONOPERATING REVENUES (EXPENSES)</b>	<b>511,502</b>	<b>485,704</b>	<b>(645)</b>	<b>26,436</b>
<b>INCOME BEFORE OTHER CHANGES IN NET ASSETS</b>	<b>59,935</b>	<b>39,145</b>	<b>17,331</b>	<b>25,070</b>
<b>OTHER CHANGES IN NET ASSETS</b>				
State capital appropriations	36,128	38,576		
Capital gifts and grants	14,581	14,940		
Permanent endowments			11,436	7,183
Transfers to Office of the President & other campuses	87,734	(65,179)		
<b>OTHER CHANGES IN NET ASSETS</b>	<b>138,443</b>	<b>(11,663)</b>	<b>11,436</b>	<b>7,183</b>
<b>INCREASE IN NET ASSETS</b>	<b>198,378</b>	<b>27,482</b>	<b>28,767</b>	<b>32,253</b>
<b>NET ASSETS</b>				
Net assets, beginning of year	2,037,424	2,009,942	221,474	189,221
<b>NET ASSETS, END OF YEAR</b>	<b>\$2,235,802</b>	<b>\$2,037,424</b>	<b>\$250,241</b>	<b>\$221,474</b>

See accompanying Notes to Financial Statements.

**UNIVERSITY OF CALIFORNIA, DAVIS**  
**STATEMENT OF CASH FLOWS**

YEARS ENDED JUNE 30, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	UC DAVIS		UC DAVIS FOUNDATION	
	2008	2007	2008	2007
<b>CASH FLOWS FROM OPERATIONAL ACTIVITIES</b>				
Student tuition and fees	\$246,602	\$227,511		
Grants and contracts	561,872	484,247		
Medical centers	985,383	936,168		
Educational activities	248,615	227,989		
Auxiliary enterprises	93,943	92,053		
Collections of loans to students and employees	9,668	14,692		
Private gifts			\$21,882	\$8,806
Payments to employees	(1,346,697)	(1,318,861)		
Payments to suppliers and utilities	(636,146)	(626,336)		
Payments for benefits	(310,624)	(283,973)		
Payments for scholarships and fellowships	(45,459)	(42,627)		
Loans issued to students and employees	(13,780)	(17,392)		
Payments to campus and beneficiaries			(15,861)	(12,740)
Other receipts	15,985	15,570	911	752
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>(190,638)</b>	<b>(290,959)</b>	<b>6,932</b>	<b>(3,182)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
State educational appropriations	452,733	425,131		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes			6,648	6,502
Other private gifts	38,130	35,739		
Other receipts (payments)	(1,731)	2,329		
Intercampus transfers	96,019	(65,179)		
<b>NET CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>585,151</b>	<b>398,020</b>	<b>6,648</b>	<b>6,502</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
State capital appropriations	35,269	30,569		
State financing appropriations	9,466	14,863		
Capital gifts and grants	8,316	2,718		
Proceeds from debt issuance	446,178	59,371		
Proceeds from the sale of capital assets	290	463		
Purchases of capital assets	(385,251)	(406,356)		
Refinancing/prepayment outstanding debt	(335,610)	146,341		
Principal paid on debt and capital leases	(43,181)	(37,345)		
Interest paid on debt and capital leases	(55,779)	(36,817)		
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(320,302)</b>	<b>(226,193)</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sale and maturities of investments	(4)	4	17,985	31,210
Purchases of investments			(26,362)	(8,717)
Investment income, net of investment expense	46,579	49,913	5,893	5,067
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>46,575</b>	<b>49,917</b>	<b>(2,484)</b>	<b>27,560</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>120,786</b>	<b>(69,215)</b>	<b>11,096</b>	<b>30,880</b>
Cash - beginning of year	782,596	851,811	43,482	12,602
<b>CASH - END OF YEAR</b>	<b>\$903,382</b>	<b>\$782,596</b>	<b>\$54,578</b>	<b>\$43,482</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$(451,565)	\$(446,559)	\$17,976	\$(1,366)
Depreciation and amortization expense	167,299	163,744		
Noncash gifts			(5,861)	(812)
Allowance for doubtful accounts	10,605	10,937	341	105
Change in assets and liabilities:				
Investments			(754)	(762)
Receivables, net	(76,276)	(35,755)	(4,769)	(343)
Investments held by trustees	(23)	(36)		
Inventories	(3,470)	(5,741)		
Deferred charges	1,889	(1,874)	1	1
Other assets	(2,244)	(2,215)	(2)	(5)
Accounts payable	18,538	(4,184)		
Accrued salaries and benefits	92,773	5,503		
Deferred revenue	42,452	6,695		
Other liabilities	9,384	18,526		
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<b>\$(190,638)</b>	<b>\$(290,959)</b>	<b>\$6,932</b>	<b>\$(3,182)</b>

See accompanying Notes to Financial Statements.

# UNIVERSITY OF CALIFORNIA, DAVIS

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

### ORGANIZATION

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

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires accrual-based measurement, recognition and disclosure of other postemployment benefits expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability. GASB Statement No. 45 was implemented only at the University of California consolidated level. There was no impact on UC Davis' financial statements for the years ended June 30, 2008 or 2007.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, requires endowments to report land and other real estate investments at fair value.

The implementation of GASB Statement No. 52 had no effect on the UC Davis' net assets or changes in net assets for the years ended June 30, 2008 and 2007.

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 this organization. Organizations that are not significant or financially accountable to UC Davis, such as the alumni organization are not included in the reporting entity.

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

### OTHER ACCOUNTING POLICIES

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

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

discounted at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value.

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

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

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

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

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

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

economic life of the asset.

Estimated economic lives are generally as follows:

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

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

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

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

**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 per-

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

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

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

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

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

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

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

**STUDENT TUITION AND FEES.** Substantially all of the student tuition and fees provide for current operations of UC Davis. A portion of the student fees is required for debt service associated with the UC Davis Memorial Union and the Activities and Recreation Center. 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 financing appropriations provide for principal and interest payments associated with lease-purchase agreements with the State Public Works Board and are also reported as nonoperating revenue. State appropriations for capital projects are recorded as revenue when the related expenditures are incurred. Special state appropriations for AIDS, tobacco, and breast cancer research are reported as grant revenue.

**GRANT AND CONTRACT REVENUE.** UC Davis receives grant and contract revenue from governmental and private sources. Revenue associated with the direct costs of sponsored programs is recognized as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs is at cost reimbursement rates negotiated with UC Davis' federal cognizant agency, the Department of Health and Human Services. For the fiscal year ended June 30, 2008, the facilities and administrative cost recovery totaled \$89 million, \$66 million from federally sponsored programs and \$23 million from other sponsors. For the fiscal year ended June 30, 2007, the facilities and administrative cost recovery totaled \$83 million, \$62 million from federally sponsored programs and \$21 million from other sponsors. The campus is required to transfer all facilities and administrative 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):

	2008	2007
Student tuition and fees	\$66,243	\$60,087
Auxiliary enterprises	14,632	13,382
Other operating revenues	434	439
<b>SCHOLARSHIP ALLOWANCES</b>	<b>\$81,309</b>	<b>\$73,908</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.

**NEW ACCOUNTING PRONOUNCEMENTS.** In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for UC Davis' fiscal year beginning July 1, 2008. This Statement establishes criteria to ascertain whether certain events result in a requirement for the campus to estimate the components of any expected pollution remediation costs and determine

whether these costs should be accrued as a liability or, if appropriate, capitalized.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for UC Davis' fiscal year beginning July 1, 2009. This Statement requires capitalization of identifiable intangible assets in the statement of net assets and provides guidance for amortization of intangible assets unless they are considered to have an indefinite useful life.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, also effective for the UC Davis' fiscal year beginning July 1, 2009. This Statement requires the campus to report its derivative instruments at fair value. Changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferrals in the statement of net assets. Derivative instruments that either do not meet the criteria for an effective hedge or are associated with investments that are already reported at fair value are to be classified as investment derivative instruments. Changes in fair value of those derivative instruments are to be reported as investment revenue.

UC Davis is evaluating the effect that Statements No. 49, 51, and 53 will have on its financial statements.

## 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, 2008 and 2007, the carrying value of UC Davis' demand deposits was \$903 million and \$783 million, respectively.

## 2. INVESTMENTS HELD BY TRUSTEES

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

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

Investments held by trustees for the future payment of principal and interest is 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 \$71 thousand at June 30, 2008.

The state financing appropriations to UC Davis are deposited in commingled U.C. bond funds managed by the state of California Treasurer's Office, as trustee, and used to satisfy the annual lease requirements under lease-purchase agreements with the state. The fair market value of these deposits was \$2 million in 2008.

Investments held by trustees to be used for capital projects totaled \$1 million as of June 30, 2008. Substantially all of these investments are of a highly liquid, short term nature.

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, 2008.

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

### 3. ACCOUNTS RECEIVABLE

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

	STATE AND FEDERAL GOVERNMENT	MEDICAL CENTER	OTHER	TOTAL
At June 30, 2008:				
Accounts receivable	\$110,056	\$523,562	\$99,856	\$733,474
Allowance for uncollectible amounts	(460)	(321,129)	(18,755)	(340,344)
<b>ACCOUNTS RECEIVABLE, NET</b>	<b>\$109,596</b>	<b>\$202,433</b>	<b>\$81,101</b>	<b>\$393,130</b>
At June 30, 2007:				
Accounts receivable	\$89,015	\$446,027	\$77,578	\$612,620
Allowance for uncollectible amounts	(71)	(279,758)	(13,025)	(292,854)
<b>ACCOUNTS RECEIVABLE, NET</b>	<b>\$88,944</b>	<b>\$166,269</b>	<b>\$64,553</b>	<b>\$319,766</b>

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

### 4. PLEDGES RECEIVABLE

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

	2008	2007
Total pledges receivable outstanding	\$4,097	\$4,192
Less: Unamortized discount to present value	(162)	(198)
Allowance for uncollectible pledges	(40)	(178)
<b>TOTAL PLEDGES RECEIVABLE, NET</b>	<b>3,895</b>	<b>3,816</b>
Less: Current portion of pledges receivable	(1,785)	(1,465)
<b>NONCURRENT PORTION OF PLEDGES RECEIVABLE</b>	<b>\$2,110</b>	<b>\$2,351</b>

Payments of pledges receivable for each of the five fiscal years subsequent to June 30, 2008 and thereafter are as follows (in thousands of dollars):

YEAR ENDING JUNE 30	
2009	\$1,805
2010	1,192
2011	875
2012	225
<b>TOTAL PAYMENTS ON PLEDGES RECEIVABLE</b>	<b>\$4,097</b>

## 5. NOTES AND MORTGAGES RECEIVABLE

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

	CURRENT PORTION	NONCURRENT PORTION		TOTAL
		NOTES	MORTGAGES	
At June 30, 2008				
Notes and mortgages receivable	\$6,364	\$63,554	\$380	\$70,298
Allowance for uncollectible amounts	(380)	(3,425)		(3,805)
<b>NOTES AND MORTGAGES RECEIVABLE, NET</b>	<b>\$5,984</b>	<b>\$60,129</b>	<b>\$380</b>	<b>\$66,493</b>
At June 30, 2007				
Notes and mortgages receivable	\$6,517	\$59,860	\$327	\$66,704
Allowance for uncollectible amounts	(548)	(3,744)		(4,292)
<b>NOTES AND MORTGAGES RECEIVABLE, NET</b>	<b>\$5,969</b>	<b>\$56,116</b>	<b>\$327</b>	<b>\$62,412</b>

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

UC Davis' capital asset activity for the years ended June 30, 2008, and June 30, 2007, is as follows (in thousands of dollars):

	2006	ADDITIONS	DISPOSALS	2007	ADDITIONS	DISPOSALS	2008
<b>ORIGINAL COST</b>							
Land	\$51,994	\$8,300		\$60,294	\$517	\$(1,000)	\$59,811
Infrastructure	110,499	4,577		115,076	14,290	(141)	129,225
Buildings & improvements	2,245,416	244,250	\$(234)	2,489,432	132,678	\$(2,031)	2,620,079
Equipment	760,513	83,044	(43,444)	800,113	81,499	(47,329)	834,283
Libraries & collections	311,059	13,920		324,979	15,477		340,456
Special collections	28,694	1,972		30,666	2,418		33,084
Construction in progress	313,547	(14,258)		299,289	141,669		440,958
<b>CAPITAL ASSETS, AT ORIGINAL COST</b>	<b>\$3,821,722</b>	<b>\$341,805</b>	<b>\$(43,678)</b>	<b>\$4,119,849</b>	<b>\$388,548</b>	<b>\$(50,501)</b>	<b>\$4,457,896</b>
	2006	DEPRECIATION & AMORTIZATION	DISPOSALS	2007	DEPRECIATION & AMORTIZATION	DISPOSALS	2008
<b>ACCUMULATED DEPRECIATION</b>							
Infrastructure	\$46,482	\$3,771		\$50,253	\$3,968	\$169	\$54,390
Buildings & improvements	825,158	76,534	\$(188)	901,504	82,551	\$(1,178)	982,877
Equipment	490,019	72,057	(40,925)	521,151	68,874	(44,531)	545,494
Libraries & collections	215,434	11,382		226,816	11,906		238,722
<b>ACCUMULATED DEPRECIATION</b>	<b>\$1,577,093</b>	<b>\$163,744</b>	<b>\$(41,113)</b>	<b>\$1,699,724</b>	<b>\$167,299</b>	<b>\$(45,540)</b>	<b>\$1,821,483</b>
<b>CAPITAL ASSETS, NET</b>	<b>\$2,244,629</b>	<b>\$178,061</b>	<b>\$(2,565)</b>	<b>\$2,420,125</b>	<b>\$221,249</b>	<b>\$(4,961)</b>	<b>\$2,636,413</b>

## 7. DEBT

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

UC Davis' portion of the University of California's outstanding debt at June 30, 2008 and 2007 is as follows (in thousands of dollars):

	INTEREST RATES	MATURITY YEARS	2008	2007
The Regents of the University of California:				
General Revenue Bonds	3.0–5.3%	2009–2040	\$388,313	\$346,153
Medical Center Revenue Bonds	2.8–5.5%	2008–2039		315,977
Medical Center Pooled Revenue Bonds	2.5–5.3%	2009–2047	368,851	65,538
Multi-Purpose Projects Revenue Bonds	3.0–5.8%	2008–2027	20,107	23,660
Research Facilities Revenue Bonds	4.0–5.0%	2008–2013	8,867	10,143
Limited Project Revenue Bond	2.5–5.0%	2009–2041	63,798	63,799
Revenue bonds			849,936	825,270
Capital leases	2.7–8.5%	2009–2019	297,572	278,601
Mortgages and other borrowings	Various	2009–2018	46,518	29,783
<b>TOTAL OUTSTANDING DEBT</b>			<b>1,194,026</b>	<b>1,133,654</b>
Current portion of long term debt			(43,846)	(43,504)
<b>TOTAL LONG-TERM DEBT</b>			<b>\$1,150,180</b>	<b>\$1,090,150</b>

Total interest expense during the years ended June 30, 2008, and 2007 was \$56 million and \$44 million, respectively.

### OUTSTANDING DEBT ACTIVITY

Activity with respect to UC Davis' outstanding debt for the years ended June 30, 2008 and 2007 is as follows (in thousands of dollars):

	REVENUE BONDS	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASE OBLIGATIONS	TOTAL
<b>YEAR ENDED JUNE 30, 2008</b>				
Current portion at June 30, 2007	\$21,847	\$8,513	\$13,144	\$43,504
Reclassification from noncurrent	349,574	13,479	15,833	378,886
Principal payments	(23,574)	(8,224)	(12,903)	(44,701)
Refinancing or repayment of debt	(324,275)		(11,334)	(335,609)
Amortization of deferred financing costs	1,766			1,766
<b>CURRENT PORTION AT JUNE 30, 2008</b>	<b>\$25,338</b>	<b>\$13,768</b>	<b>\$4,740</b>	<b>\$43,846</b>
Noncurrent portion at June 30, 2007	\$803,423	\$21,270	\$265,457	\$1,090,150
New obligations	370,749	24,959	43,208	438,916
Reclassification to current	(349,574)	(13,479)	(15,833)	(378,886)
<b>NONCURRENT PORTION AT JUNE 30, 2008</b>	<b>\$824,598</b>	<b>\$32,750</b>	<b>\$292,832</b>	<b>\$1,150,180</b>
<b>YEAR ENDED JUNE 30, 2007</b>				
Current portion at June 30, 2006	\$20,094	\$5,546	\$10,015	\$35,655
Reclassification from noncurrent	134,702	8,507	48,024	191,233
Refinancing or repayment of debt	(111,954)		(34,388)	(146,342)
Principal payments	(22,777)	(5,540)	(10,507)	(38,824)
Amortization of deferred financing costs	1,782			1,782
<b>CURRENT PORTION AT JUNE 30, 2007</b>	<b>\$21,847</b>	<b>\$8,513</b>	<b>\$13,144</b>	<b>\$43,504</b>
Noncurrent portion at June 30, 2006	\$756,025	\$14,608	\$257,602	\$1,028,235
New obligations	182,100	15,169	55,879	253,148
Reclassification to current	(134,702)	(8,507)	(48,024)	(191,233)
<b>NONCURRENT PORTION AT JUNE 30, 2007</b>	<b>\$803,423</b>	<b>\$21,270</b>	<b>\$265,457</b>	<b>\$1,090,150</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.

General Revenue Bonds are collateralized solely by general revenues defined in the indenture as certain operating and nonoperating revenues consisting of gross student tuition and fees, facilities and administrative cost recovery from contracts and grants, revenues from educational, auxiliary, and other activities and other revenues, including unrestricted investment income. The General Revenue Bond indenture requires the university to set rates, charges, and fees each year sufficient for general revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. General revenues for UC Davis for the years ended June 30, 2008 and 2007 were \$812 million and \$742 million, respectively.

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

Multiple Purpose Projects Revenue Bonds are collateralized by a pledge of the net revenues generated by the enterprises. The Multiple Purpose 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.

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

Medical Center Revenue Bonds are collateralized by a pledge of the specific gross revenue associated with the UC Davis medical center. The Hospital Revenue Bonds

require the medical center to achieve debt service coverage of 1.1 times to 1.2 times (depending on the indenture), set limitations on encumbrances, indebtedness, disposition of assets and transfer services and maintain certain other financial covenants.

Research Facilities Revenue Bonds are collateralized by a pledge of UC Davis' share of facilities and administrative recoveries received on federal research grants and contracts. The Research Facilities Revenue Bond indentures require UC Davis to achieve debt service coverage of 1.25 times and maintain certain other financial covenants.

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

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

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

## 2008 ACTIVITY

In January 2008, General Revenue Bonds totaling \$248.9 million were issued to finance and refinance certain facilities and projects of the university. UC Davis' portion was \$49 million and was used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper and bank loans. The bonds mature at various dates through 2040 and have a weighted average interest rate of 4.8 percent.

In April 2008, Medical Center Pooled Revenue Bonds totaling \$323 million, plus a bond premium of \$10.6 million, were issued to refinance certain improvements to the medical center. Proceeds were used to refund \$324.3 million of Medical Center Revenue Bonds and for a swap termination payment of \$6.8 million. The bonds mature at various dates through 2027 and have a weighted average interest rate of 4.9 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. Additional deferred costs of financing totaling \$11.8 million will be amortized as interest expense over the term of the bonds.

#### 2007 ACTIVITY

In January 2007, General Revenue Bonds totaling \$1.12 billion were issued to refinance certain facilities and projects of the university. UC Davis' share of the proceeds was \$103 million and was used to refund \$50 million of outstanding Multiple Purpose Projects Revenue Bonds and \$49 million of Research Facilities Revenue Bonds in addition to repaying interim financing. The bonds mature at various dates through 2035 and have a weighted average interest rate of 4.6 percent.

Also in January 2007, Medical Center Pooled Revenue Bonds totaling \$441.2 million, plus a bond premium of \$4 million were issued to finance certain improvements to each of the five medical centers. UC Davis medical center proceeds totaled \$65 million and financed part of the Surgery and Emergency Services Pavilion. The bonds mature at various dates through 2047. The fixed rate bonds have a weighted average interest rate of 4.6 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In June 2007, General Revenue Bonds totaling \$241.6 million were issued to refinance certain facilities and projects of the university. UC Davis' portion of the proceeds was \$14 million and was used to refund outstanding Multiple Purpose Projects Revenue Bonds. The bonds mature at various dates through 2025 and have a weighted average interest rate of 4.8 percent.

#### CAPITAL LEASES

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

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

UC Davis entered into lease-purchase agreements with the state totaling \$43 million during the year ended June 30, 2008 to finance the construction of various campus projects.

In April 2007, the state of California issued \$337 million of lease revenue refunding bonds to refinance certain facilities leased to the university. Proceeds were used to refund \$34 million of UC Davis' outstanding lease revenue bonds.

The state of California financing appropriation to UC Davis under the terms of the lease-purchase agreements, recorded as nonoperating revenue in the statement of revenue, expenses and changes in net assets, for the years ended June 30, 2008, and 2007 was \$30 million and \$18 million, respectively. The principal and interest, including accrued interest, reported in UC Davis' financial statements for the years ended June 30, 2008, and 2007 contain amounts related to these lease-purchase agreements with the state of California as follows (in thousands of dollars):

	2008	2007
Capital lease principal	\$11,060	\$8,268
Capital lease interest	10,828	11,116
	<b>\$21,888</b>	<b>\$19,384</b>

## FUTURE DEBT SERVICE

Future debt service payments for each of the five fiscal years subsequent to June 30, 2008, and thereafter are as follows (in thousands of dollars):

YEAR ENDED JUNE 30	REVENUE BONDS	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASES		TOTAL PAYMENTS	PRINCIPAL	INTEREST
			STATE	OTHER			
2009	\$67,841	\$15,081	\$25,179	\$2,275	\$110,376	\$55,177	\$55,199
2010	67,376	11,531	79,922	2,527	161,356	101,508	59,848
2011	67,419	9,015	21,625	2,286	100,345	50,685	49,660
2012	67,636	8,716	21,622	2,236	100,210	52,731	47,479
2013	67,383	5,358	21,632	2,266	96,639	51,224	45,415
2014-2018	328,001		92,474	6,692	427,167	233,481	193,686
2019-2023	299,108		73,495	3,395	375,998	241,978	134,020
2024-2028	234,381		42,975	3,299	280,655	206,759	73,896
2029-2033	118,851		11,563		130,414	95,478	34,936
2034-2038	79,748				79,748	63,825	15,923
2039-2043	24,833				24,833	19,542	5,291
2044-2047	14,889				14,889	13,359	1,530
<b>TOTAL FUTURE DEBT SERVICE</b>	<b>1,437,466</b>	<b>49,701</b>	<b>390,487</b>	<b>24,976</b>	<b>\$1,902,630</b>	<b>\$1,185,747</b>	<b>\$716,883</b>
Less: Interest component of future payments	587,530	3,183	116,750	1,141			
<b>PRINCIPAL PORTION OF FUTURE PAYMENTS</b>	<b>\$849,936</b>	<b>\$46,518</b>	<b>\$273,737</b>	<b>\$23,835</b>			

## 8. OTHER NONCURRENT LIABILITIES

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

	2008		2007	
	CURRENT	NONCURRENT	CURRENT	NONCURRENT
Compensated absences	\$67,086	\$36,667	\$74,105	\$26,022
3rd party payer settlement liability	33,835		34,864	
Accrued interest	8,022		5,449	
McClellan closure		17,593		17,593
Pollution remediation		2,500		
Landfill closure		2,416		2,257
Other liabilities	3,662	200	1,781	200
<b>TOTAL OTHER LIABILITIES</b>	<b>\$112,605</b>	<b>\$59,376</b>	<b>\$116,199</b>	<b>\$46,072</b>

Changes in other noncurrent liabilities for the years ended June 30, 2008 and 2007 are as follows (in thousands of dollars):

	COMPENSATED ABSENCES	OTHER	TOTAL
<b>YEAR ENDED JUNE 30, 2008</b>			
Liabilities at June 30, 2007	\$26,022	\$20,050	\$46,072
New obligations	45,602	2,659	48,261
Reclassification to current	(34,957)		(34,957)
<b>LIABILITIES AT JUNE 30, 2008</b>	<b>\$36,667</b>	<b>\$22,709</b>	<b>\$59,376</b>
<b>YEAR ENDED JUNE 30, 2007</b>			
Liabilities at June 30, 2006			
New obligations	\$22,375	\$20,064	\$42,439
Reclassification to current	51,225	36	51,261
<b>LIABILITIES AT JUNE 30, 2007</b>	<b>(47,578)</b>	<b>(50)</b>	<b>(47,628)</b>
	<b>\$26,022</b>	<b>\$20,050</b>	<b>\$46,072</b>

### **MCCLELLAN CLOSURE LIABILITY**

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

### **LANDFILL CLOSURE**

UC Davis has two landfill units. Unit I had a total capacity of close to 252 thousand cubic yards and was closed in June 2001. Unit II is made up of 8 cells with a combined capacity of 703 thousand cubic yards and 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 post closure care costs as an operating expense in each period based on the landfill capacity used as of each balance sheet date. The \$2.4 million reported as landfill closure liability at June 30, 2008, represents the cumulative amount reported to date based on the use of 57% of the estimated capacity of the landfill. UC Davis will recognize the remaining estimated cost of closure and post closure care of \$2.6 million as the remaining estimated capacity is filled.

UC Davis is required by state laws and regulations to make contributions to a trust to finance closure care. UC Davis is in compliance with these requirements and, at June 30, 2008, investments of \$760,000 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 post closure 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.

## **9. ENDOWMENT FUNDS**

Endowment funds consist of monies gifted to UC Davis 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, 2008, the total value, at cost, of UC Davis' endowments, funds functioning as endowments and other restricted nonexpendable net assets was \$218 million. The total market value of UC Davis' endowments and other restricted nonexpendable net assets as of June 30, 2008, was \$478 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 \$19 million for the year ended June 30, 2008.

## 10. OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the years ended June 30, 2008, and June 30, 2007 are as follows (in thousands of dollars):

	2008	2007
Instruction	\$550,034	\$522,048
Research	419,303	395,234
Public service	62,772	63,842
Academic support	134,981	125,020
Student services	67,811	59,528
Institutional support	86,149	76,727
Operations and maintenance of plant	93,894	83,609
Student financial aid	40,933	40,090
Medical center	920,305	834,870
Auxiliary enterprises	86,381	88,741
Depreciation	167,299	163,744
Other	4,117	7,324
<b>TOTAL OPERATING EXPENSES</b>	<b>\$2,633,979</b>	<b>\$2,460,777</b>

## 11. SEGMENT INFORMATION

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

Condensed financial statement information related to UC Davis Medical Center for the years ended June 30, 2008, and 2007, follows (in thousands of dollars):

	2008	2007
Bonds outstanding	\$387,980	\$401,225
Related debt service payments	24,481	24,512
Bonds due serially through	2047	2047
<b>CONDENSED STATEMENT OF NET ASSETS</b>		
<i>Assets</i>		
Current assets	\$403,624	\$343,355
Capital assets, net	916,211	818,576
Other assets	19,192	85,446
<b>TOTAL ASSETS</b>	<b>1,339,027</b>	<b>1,247,377</b>
<i>Liabilities</i>		
Current liabilities	188,207	161,445
Long-term debt	402,501	405,632
<b>TOTAL LIABILITIES</b>	<b>590,708</b>	<b>567,077</b>
<i>Net assets</i>		
Invested in capital assets, net of debt	464,101	441,727
Restricted	848	1,819
Unrestricted	283,370	236,754
<b>TOTAL NET ASSETS</b>	<b>\$748,319</b>	<b>\$680,300</b>
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b>		
Operating revenues	\$1,029,175	\$943,632
Operating expenses	(919,204)	(826,126)
Depreciation expense	(57,562)	(55,377)
<b>OPERATING INCOME</b>	<b>52,409</b>	<b>62,129</b>
Nonoperating revenues (expenses)	(7,441)	(4,915)
<b>INCOME BEFORE CHANGES IN OTHER ASSETS</b>	<b>44,968</b>	<b>57,214</b>
Health systems support	(10,557)	(14,137)
Transfers to the University of California	33,608	16,073
Other, including donated assets		9,595
<b>INCREASE IN NET ASSETS</b>	<b>68,019</b>	<b>68,745</b>
Net assets—beginning balance	680,300	611,555
<b>NET ASSETS—ENDING BALANCE</b>	<b>\$748,319</b>	<b>\$680,300</b>
<b>CONDENSED STATEMENT OF CASH FLOWS</b>		
Net cash provided (used) by:		
Operating activities	\$90,778	\$113,184
Noncapital financing activities	(8,344)	(12,742)
Capital and related financing activities	(132,943)	(37,743)
Investing activities	73,677	(52,246)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>23,168</b>	<b>10,453</b>
Cash—beginning balance	153,305	142,852
<b>CASH—ENDING BALANCE</b>	<b>\$176,473</b>	<b>\$153,305</b>

Additional Information on UC Davis Medical Center can be obtained from its separate June 30, 2008, audited financial statements

## 12. UC DAVIS FOUNDATION

Under university policies approved by the regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the mission of the campus. Although independent boards govern the UC Davis Foundation, their assets are dedicated for the benefit of the campus. During the years ended June 30, 2008 and 2007, gifts of \$14 million and \$11 million, respectively were transferred to UC Davis from the UC Davis Foundation. At June 30, 2008 and 2007, UC Davis Foundation's net assets were \$250 million and \$221 million, respectively.

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

Most UC Davis employees participate in the University of California Retirement System (UCRS). The UCRS consists of a single-employer defined benefit plan (the Retirement Plan) funded by university and employee contributions, a defined benefit plan for university employees who elected early retirement under the Public Employees Retirement System Voluntary Early Retirement Incentive Program (PERS-VERIP) and 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 the PERS-VERIP plan funds. Accordingly, these funds are separately identified in the University of California's Annual Financial Report.

## 14. 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, 2008 and 2007, were \$21 million and \$20 million, respectively. The terms of operating leases extend through the year ending 2022. Future minimum payments on operating leases with an initial or remaining non-cancelable term in excess of one year are as follows (in thousands of dollars):

MINIMUM ANNUAL LEASE PAYMENTS	
YEAR ENDING JUNE 30	
2009	\$20,938
2010	19,224
2011	14,728
2012	111,522
2013	8,867
2014–2018	15,777
2019–2023	29
2024–2028	
<b>TOTAL</b>	<b>\$191,085</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.





Photography by Karin Higgins, UC Davis.

Design by Russ Thebaud, UC Davis.

The *UC Davis 2008 Financial Report* is produced by the UC Davis Office of University Communications in conjunction with the Office of Accounting and Financial Services. For additional copies, call Office of Accounting and Financial Services (530) 757-8501. Web site: [accounting.ucdavis.edu](http://accounting.ucdavis.edu)

© 2009 by the Regents of the University of California

In conformance with applicable law and university policy, the University of California does not discriminate in any of its policies, procedures, or practices on the basis of race, color, national origin, religion, sex, sexual orientation, handicap, age, veterans status, medical condition (cancer-related), ancestry or marital status; nor does the University discriminate on the basis of citizenship, within the limits imposed by law or university policy. The University of California is an affirmative action/equal opportunity employer.

Inquiries regarding the university's affirmative action/equal opportunity policies may be directed to the Office for Diversity and AA/EEO, 533 Mrak Hall, (530) 752-2071. Speech-or hearing- impaired persons may dial (530) 752-7320 (TDD).

# UC DAVIS

DISCOVER WHAT MATTERS



[ACCOUNTING.UCDAVIS.EDU](http://ACCOUNTING.UCDAVIS.EDU)

UNIVERSITY OF CALIFORNIA, DAVIS • ONE SHIELDS AVENUE, DAVIS, CA 95616 • (530) 757-8501 • [UCDAVIS.EDU](http://UCDAVIS.EDU)