

Financial Overview

46 Management's Discussion and Analysis 50 Statement of Net Position
 51 Statement of Revenues, Expenses, and Changes in Net Position
 52 Statement of Cash Flows 53 Notes to the Financial Statements

Management's Discussion and Analysis (unaudited)

The objective of Management's Discussion and Analysis is to help readers of the University of California, San Diego's financial statements better understand the financial position and operating activities for the fiscal year ended June 30, 2014, with selected comparative information for the year ended June 30, 2013. UC San Diego's financial report communicates financial information for the university through three primary financial statements. The statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows present the financial position, changes in financial position, and cash flows for the university. The financial statements should be read in conjunction with the management's discussion and the notes to the financial statements to gain a more complete understanding of the university's financial information.

The financial statements of the San Diego campus are subject to limited-scope procedures as part of the annual audit of the financial statements of the entire University of California. The audited, consolidated financial statements of the University of California are available at <http://www.ucop.edu/financial-accounting/financial-reports/annual-financial-reports.html>.

The University's Financial Position

The statement of net position presents the financial position of the university at the end of each fiscal year. At June 30, 2014, the university's net position was \$1.31 billion, with assets and deferred outflows of resources of \$6.50 billion and liabilities and deferred inflows of resources of \$5.19 billion. The major components of the assets, liabilities, and net position as of 2014 and 2013 are as follows (in thousands).

	2014	2013	CHANGE
ASSETS			
Cash and equity in			
treasurer's investments	\$ 1,675,288	\$ 1,561,527	\$ 113,761
Receivables	497,531	453,260	44,271
Inventories	27,857	28,310	(453)
Capital assets, net	3,760,215	3,480,376	279,839
Other assets	90,493	107,191	(16,698)
Total assets	\$ 6,051,384	\$ 5,630,664	\$ 420,720
LIABILITIES			
Debt	\$ 2,182,267	\$ 1,734,465	\$ 447,802
Other liabilities	2,103,438	828,428	1,275,010
Total liabilities	\$ 4,285,705	\$ 2,562,893	\$ 1,722,812
NET POSITION			
Reserved for minority			
interests	\$ 43,343	\$ 46,654	\$ (3,311)
Invested in capital assets,			
net of related debt	1,577,582	1,745,545	(167,963)
Restricted			
Expendable	123,816	113,953	9,863
Unrestricted	(431,765)	1,161,619	(1,593,384)
Total net position	\$ 1,312,976	\$ 3,067,771	\$ (1,754,795)

The University's Assets

UC San Diego's total assets and deferred outflows of resources increased by \$871.89 million to \$6.50 billion in 2014, compared to \$5.63 billion in 2013. The primary reasons are noted below.

Cash and equity in treasurer's investments—The university's cash and equity in treasurer's investments totaled \$1.68 billion at the end of 2014 and \$1.56 billion at the end of 2013. The net increase of \$114.85 million is primarily due to an increase in the short-term investments component of \$114.06 million.

Accounts receivable, net—Accounts receivable in total increased by \$44.27 million to \$497.53 million in 2014 from \$453.26 million in 2013. An increase in the Medical Centers account receivables contributed to the majority of the increase. The increase is offset slightly by a decrease in the state and federal government account receivables, reflecting the lower level of federal grant and contract activity in the fiscal period.

Capital assets, net—Investments in capital assets continue to increase in order to provide the facilities necessary to support UC San Diego's teaching, research, and public service mission and for patient care. These facilities include core academic buildings, libraries, student services, housing and auxiliary enterprises, health science centers, utility plants, and infrastructure. Capital assets, net of accumulated depreciation, increased by \$279.84 million to \$3.76 billion in 2014. The increase reflects current year capitalizations for new structures: Jacobs Medical Center, \$222.35 million; Clinical and Translational Research Institute, \$55.79 million; and Health Sciences Biomedical Research Facility—Phase 2, \$16.28 million.

Investments—Investments classified as current assets are generally fixed or variable income securities in the Short-Term Investment Pool (STIP) and Total Return Investment Pool (TRIP) with a maturity date within one year. Noncurrent investments include securities in the General Endowment Pool (GEP) or other pools, in addition to fixed or variable income securities in STIP and TRIP with a maturity date beyond one year. The TRIP investment pool, established in 2009, is managed to a total return objective and is intended to supplement STIP. The financial markets, both domestically and internationally, have been volatile in recent times and this has affected the valuation of investments. The Board of Regents utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with their investment objectives, while maintaining an acceptable level of risk. The GEP portfolio return was a positive return of 16.5 percent in 2014 and a positive return of 12 percent in 2013. TRIP had positive returns of 13.9 percent in 2014 and 8.3 percent in 2013. STIP had positive returns of 1.6 percent and 2.1 percent in 2014 and 2013, respectively.

Deferred outflows of resources—As result of the July 1, 2013, adoption of GASB Statements No. 65, Items Previously Reported as Assets and Liabilities, and No. 68, Accounting and Financial Reporting for Pensions, \$451.17 million in deferred outflows associated with the pension liability was recorded in 2014. As with the pension liability and deferred inflows of resources, 2014 is the first year that deferred outflows have been reported. Fiscal year 2013 has not been adjusted.

The University's Liabilities

The university's liabilities and deferred inflows of resources totaled \$5.19 billion in 2014, an increase of 102.5 percent over 2013. This total includes liabilities of \$1.41 billion for capital projects accounted for centrally at the UC Office of the President (UCOP). These UCOP recorded liabilities represent the San Diego campus's obligation for bonds that provide financing for projects on more than one campus.

The total also includes pension liabilities and pension related deferred inflows of resources for both the campus and the Medical Center of \$1.52 billion.

Debt—Capital assets are financed from a variety of sources, including university equity contributions, federal and state support, revenue bonds, bank loans, leases, or structures that involve separate legal entities. Total debt increased by \$446.21 million to \$2.12 billion in 2014. The major increase in 2014 is the addition of a \$500.15 million revenue bond partially financing the construction of the Jacobs Medical Center. This is offset by a \$35.63 million reduction in capital lease obligations. This reduction is a result of a refinancing of State Public Works Board capital leases and the recording of the new liabilities at UCOF rather than at the campus.

Other liabilities—Other liabilities increased by \$48.08 million to \$876.51 million in 2014 from \$828.43 million in 2013. This is the result of an increase in accrued salaries of \$5.92 million (timing related) and accounts payable \$31.66 million (increased purchasing activity, coupled with inflation related price increases).

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

Pension expense is recognized for benefits earned during the period, interest on the unfunded liability, and changes to benefit terms. The

differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for pension benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

The University's Net Position

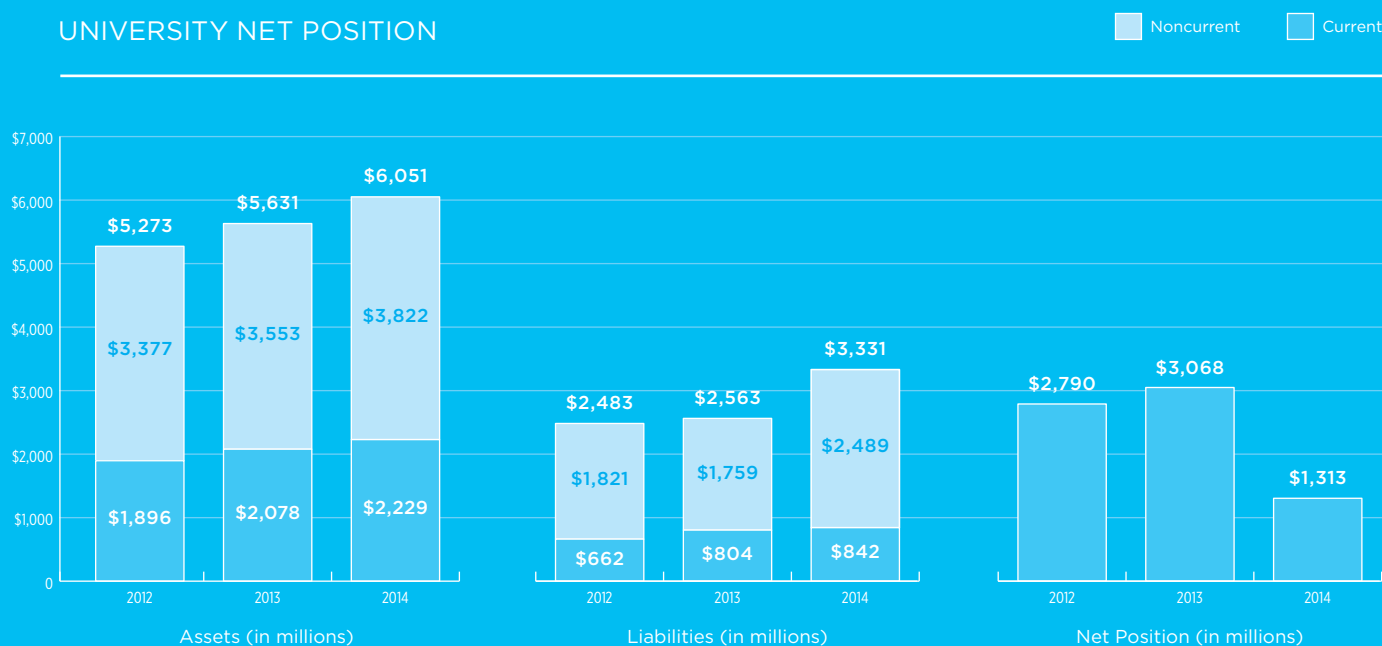
Net position represents the residual interest in the university's assets after all liabilities are deducted. Net position is reported in four major categories: reserved for minority interests; invested in capital assets, net of related debt; restricted expendable; and unrestricted. The university's net position decreased by \$1.75 billion to \$1.31 billion in 2014.

Invested in capital assets, net of related debt—The portion of net position invested in capital assets, net of accumulated depreciation, and the related outstanding debt used to finance the acquisition, construction, or improvement of these capital assets is \$1.58 billion in 2014, compared to \$1.75 billion in 2013.

Restricted expendable—Restricted, expendable net position is subject to externally imposed restrictions governing the funds' use. Net position may be spent only in accordance with the restrictions placed upon them and may include endowment income and gains, subject to the university's spending policy; support received from gifts, state appropriations, or capital projects; or other third-party receipts. In 2014, the increase of \$9.86 million in restricted, expendable funds principally reflects an increase of \$11.68 million in gift funding.

Unrestricted—Under generally accepted accounting principles, net position that is not subject to externally imposed restrictions governing its use must be classified as unrestricted for financial reporting purposes. Although unrestricted net position is not subject to externally imposed restrictions, substantially all of the net position is allocated for academic research and health-care initiatives or programs, for capital purposes, and for other purposes. Unrestricted net position decreased \$1.59 billion to \$(431.77) million in 2014. The decrease

UNIVERSITY NET POSITION



primarily reflects a \$368.28 million decrease in the Medical Center's reserves and the recording of the pension liability and pension related deferred outflows and inflow of resources. Fiscal year 2014 is the first year the pension related items have been reported. Fiscal year 2013 statements have not been adjusted to reflect these items.

The University's Results of Operations

The statement of revenues, expenses, and changes in net position is a presentation of the university's operating results. It indicates whether the financial condition has improved or deteriorated in the current fiscal year. 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 required to be recorded as nonoperating revenues, including state educational appropriations, private gifts, and investment income.

Revenues Supporting Core Activities

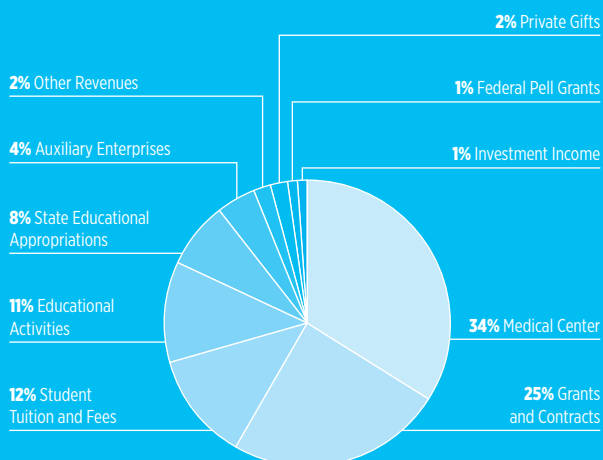
Revenues to support the university's core activities, including those classified as nonoperating revenues, were \$3.77 billion and \$3.56 billion in 2014 and 2013, respectively. This diversified source of revenue increased by \$215 million in 2014. Student tuition and fees, in conjunction with State of California educational appropriations, 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 the university allow crucial flexibility for support of its fundamental activities or new academic initiatives. Sales and service revenues are from the Medical Center, the Medical Group, and auxiliary enterprises such as student housing, food service operations, parking, and the UC San Diego Bookstore.

A major financial strength of UC San Diego is its diverse source of revenues, including those from the State of California, student fees, sponsored grants and contracts, medical centers, 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's financial challenges that required reductions in both instructional and noninstructional programs.

The following chart displays the categories of both operating and non-operating revenues that support core activities as of June 2014:

TOTAL REVENUE: \$3,774

FY 2013-14 (in millions of dollars)



Student tuition and fees, net—Student enrollment decreased 1 percent on a year-over-year basis with enrolled students of 30,310 and 29,052 in the fall of 2013 and 2012, respectively. Net student tuition and fees were \$463.46 million and \$414.53 million in 2014 and 2013, respectively. Student tuition and fees, net of scholarship allowances, increased by \$2.90 million and \$2.97 million in 2014 and 2013, respectively. The increases in student tuition and fees revenue in the current period reflected the goal of the university to increase the proportion of foreign and out-of-state students, as most tuition and fees remained unchanged in the period. Consistent with past practices, approximately one-third of the revenue generated from these fee increases was used for financial aid to mitigate the impact on low-income students.

Grants and contracts—Revenues from grants and contracts decreased \$40.75 million in 2014 to \$920.2 million. This revenue represents support from a variety of federal, state, private, and local agencies, with funding from the federal government and private corporations being the major contributors. The decrease in 2014 reflected a \$1.21 million decrease in the State of California category, coupled with a \$40.75 million decrease from federal contracts and grants in the period.

The following table details awarded grants and contracts for fiscal year 2014 and 2013 (in thousands). Awarded grants and contract revenue may be reflected in the current fiscal year or in future periods as work is completed and billed.

NEW AWARDS RECEIVED (in thousands)

CAMPUS AREA	2014	2013
General campus	\$ 286,715	\$ 283,116
Health Sciences	625,983	547,604
Scripps Institution of Oceanography	144,368	154,203
Total	\$ 1,057,066	\$ 984,923

Sales and Services net—represents revenue from UC San Diego Health System, educational activities, and auxiliary enterprises.

SALES AND SERVICES (in millions)

	2014	2013	CHANGE
UC San Diego Health System	\$ 1,288	\$ 1,133	\$ 154
Educational activities	422	402	20
Auxiliary enterprises net	164	157	7
Total	\$ 1,874	\$ 1,692	\$ 181

Medical Center—Revenues of \$1.29 billion in 2014 reflect an increase of \$154.34 million from 2013. Net patient service revenue of \$1.23 billion for 2014 increased by \$140.50 million over 2013. The increase in 2014 over 2013 in this category was due to patient volumes, contract price increases, and improved collections. Net patient service revenue is reported net of estimated allowances under contractual arrangements with Medicare, Medi-Cal, and the County of San Diego, as well as other third-party payers, and has been estimated based upon the principles of reimbursements, and terms of the contracts currently in effect.

Sales and services, educational activities—Revenues from educational activities increased by \$19.9 million to \$422.13 million in 2014 compared to \$402.23 million in 2013. The increase in this category reflects the Medical Group's activities.

State educational appropriations—Educational appropriations from the State of California increased by \$34.74 million to \$287.21 million in 2014.

Private Gifts

Private gifts revenue, which is considered nonoperating revenue, either comes directly from the donor or is held by the UC San Diego Foundation until transferred to the campus for use.

These funds generally are restricted to uses designated by the donor. In 2014 this category increased by \$21 million to \$74.71 million. While no single gift accounts for the increase, the revenue is somewhat unpredictable in nature.

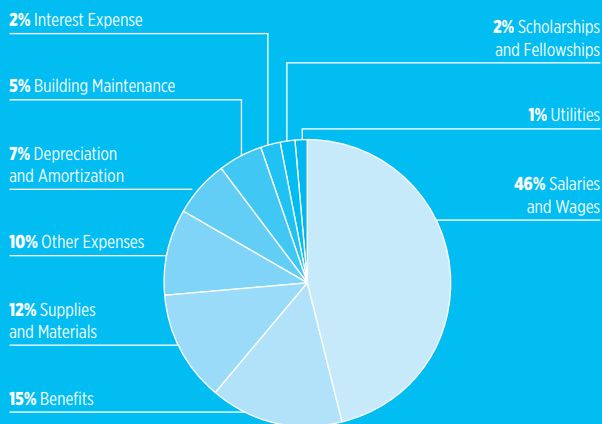
Expenses Associated with Core Activities

Expenses associated with the university's core activities, including those classified as nonoperational expenses, increased by \$196.52 million, from \$3.51 billion to \$3.71 billion in 2014.

The following chart displays the categories of both operating and nonoperating expenses that support core activities as of June 2014:

TOTAL EXPENSES: \$3,707

FY 2013-14 (in millions of dollars)



Salaries and wages—More than 63 percent of the university's expenses are related to salaries and wages and cover 29,295 employees, a 2 percent increase over prior years. During 2014, salaries and wages increased by \$84.10 million. This increase reflected programmed faculty merits, necessary new hiring, and union contract wage implementations.

Benefits—These costs comprise 14 percent of the university's expenses, and increased by \$64.40 million to \$558.98 million in 2014, principally due to a 2 percent increase in the employer contribution to the UC Retirement Plan (UCRP). Beginning in May 2010 and for subsequent years, the employer and employee contributions to UCRP have been set to incrementally increase as a percent of covered salary and wages. Prior to 2010, either no contribution or a limited contribution was made to UCRP, resulting in the current underfunded position. The current period 25.7 percent increase resulted in a \$30.30 million increase in 2014 over 2013.

Utilities—In the 2014 period, utility expenses were \$43.3 million, level with fiscal year 2013, primarily as a result of ongoing energy-saving steps taken by the university, despite the added facilities that came online in the period.

Scholarships and fellowships—The university places a high priority on student financial aid as a part of a commitment to affordability. Scholarships and fellowships, representing payments for financial aid made directly to students, are reported as an operating expense and totaled \$79.96 million, an increase of \$2.90 million over 2013.

However, scholarship allowances, representing financial aid and fee waivers awarded by the university, also forms of scholarship and fellowship costs, increased by \$1.14 million to \$162.52 million in 2014 as opposed to \$161.38 million in 2013. Scholarship allowances are reported as an offset to revenue, not as an operating expense. On a combined basis, as the university continues its commitment to provide financial support for low-income students. The university's financial aid, in all forms, grew to \$236.30 million in 2014 from \$228.53 million in 2013, an increase of 3 percent.

Supplies and materials—These expenses increased by \$13.28 million or 3 percent during 2014, primarily due to increased purchasing activity by the Medical Center and increased patient volumes.

Other operating expenses—Other operating expenses consist of a variety of expense categories, including travel, rent, insurance, legal settlements, and repairs and maintenance. Expenses in this category were \$550.04 million in 2014, or an increase of \$37.21 million over 2013. The key contributor was funding for the Office of the President by the campus, primarily related to a multiyear project to replace the university's payroll system.

Other nonoperating activities—UC San Diego's other nonoperating activities are noncash transactions and are therefore not available to be used to support operating expenses. They include any gain or loss on disposals of capital assets and other nonoperating expenses. In 2014 UC San Diego realized a loss on the disposal of capital assets net of \$8.06 million, a 38 percent increase from 2013.

Other Changes in Net Position

Similar to other nonoperating activities discussed above, these amounts are also not available to support the university's operating expenses in the current year. State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital assets. Only income earned from gifts of permanent endowments is available in future years to support the specified program.

In accordance with GASB reporting standards, operating losses were \$308.91 million in 2014 and \$293.16 million in 2013. These operating losses were more than offset by net revenues and expenses that are required by GASB to be classified as nonoperating, but which remain available to support operating activities of the university: \$375.01 million in 2014 and \$341.02 million in 2013. This income is restricted by either legal or fiduciary obligations, allocated for academic and research initiatives or programs, necessary for debt service, or required for capital purposes.

The University's Cash Flows

In 2014, there was a net cash inflow from operating activities of \$164.62 million, which is coupled with a net cash inflow of \$442.58 million that was provided by noncapital financing activities. By comparison, in 2013 the net cash outflow from operating activities was \$63.63 million, with \$365.31 million of cash inflow provided by noncapital financing activities.

The net cash outflow from capital and related financing activities was \$87.60 million in 2014 and \$386.70 million in 2013. The primary uses of cash were payments to employees, suppliers, utilities, and capital asset purchases. Cash sources include grants and contracts, receipts from the Medical Center, and student tuition.

Statement of Net Position (Unaudited)

For the Fiscal Years Ended June 30, 2014, and June 30, 2013 (in thousands)

	CAMPUS		FOUNDATION	
	2014	2013	2014	2013 (1)
ASSETS				
Current Assets				
Cash and equity in treasurer's investments	\$ 1,677,466	\$ 1,562,617	\$ 1,612	\$ 1,000
Investments held by trustees	(2,178)	(1,090)	71,674	103,286
Accounts receivable, net				
State and federal government	57,261	66,637	—	—
Medical Center	306,812	256,730	—	—
Other	133,459	129,893	—	—
Pledges receivable, net (1)	708	1,095	23,887	18,818
Notes receivable, net	9,242	3,746	—	470
Inventories	27,857	28,310	—	—
Other current assets	18,307	29,574	110	37
Total current assets	2,228,934	2,077,512	97,283	123,610
Noncurrent Assets				
Investments and investments held by trustees (1)	6,542	15,728	584,985	474,746
Pledges receivable (1)	259	650	48,039	55,354
Notes and mortgages receivable	34,312	35,895	282	—
Land, buildings, equipment, libraries, and special collections	6,655,662	6,260,419	—	—
Less: Accumulated depreciation	(2,895,447)	(2,780,043)	—	—
Other noncurrent assets	21,122	20,503	290	563
Total noncurrent assets	3,822,450	3,553,152	633,596	530,663
Total assets	\$ 6,051,384	\$ 5,630,664	\$ 730,879	\$ 654,273
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows from pension	\$ 451,172	\$ —	\$ —	\$ —
Total deferred outflows of resources	\$ 451,172	—	\$ —	\$ —
LIABILITIES				
Current Liabilities				
Accounts payable	\$ 213,619	\$ 181,957	\$ 1,361	\$ 920
Accrued salaries and benefits	172,924	170,365	—	—
Deferred revenue	166,064	166,557	—	—
Current portion of long-term debt	63,408	61,812	—	—
Funds held for others	2,175	2,331	177	47
Annuities payable	—	—	926	834
Liabilities to life beneficiaries	—	—	870	1,300
Other current liabilities	233,366	221,202	—	—
Total current liabilities	841,556	804,224	3,334	3,101
Noncurrent Liabilities				
Federal refundable loans	28,365	28,242	—	—
Annuities payable	—	—	6,410	6,030
Liabilities to life beneficiaries	—	—	5,922	7,736
Long-term debt				
Revenue bonds	2,031,938	1,216,481	—	—
Mortgages and other borrowings	—	158,885	—	—
Capital lease obligations	13,308	223,841	—	—
Third-party debt	73,613	73,446	—	—
Pension obligations	955,828	—	—	—
Pension payable to university	271,104	—	—	—
Other noncurrent liabilities	69,993	57,777	563	562
Total noncurrent liabilities	3,444,149	1,758,672	12,895	14,328
Total liabilities	\$ 4,285,705	\$ 2,562,896	\$ 16,229	\$ 17,429
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows pension	\$ 903,875	\$ —	\$ —	\$ —
Total deferred inflows of resources	\$ 903,875	\$ —	\$ —	\$ —
NET POSITION				
Reserved for minority interests	\$ 43,343	\$ 46,654	\$ —	\$ —
Invested in capital assets, net of related debt	1,577,582	1,745,545	—	—
Restricted				
Nonexpendable				
Endowments	—	—	326,261	312,617
Annuity and life income funds	—	—	6,374	5,061
Expendable				
Endowments	—	—	166,024	111,664
Endowment income	9,528	10,373	—	—
Annuity and life income funds	—	—	4,312	6,763
Funds functioning as endowments (1)	—	—	31,941	27,426
Loans	4,075	4,102	—	—
Gifts (1)	96,681	85,002	166,575	161,614
Capital projects	10,739	11,136	—	—
Debt service	2,781	2,809	—	—
Appropriations	—	531	—	—
Other	12	—	—	—
Unrestricted	(431,765)	1,161,619	13,163	11,699
Total net position	\$ 1,312,976	\$ 3,067,771	\$ 714,650	\$ 636,844

Financial statements for the University of California, San Diego are unaudited. Financial statements for the UC San Diego Foundation are audited.

Financial statements for the University of California, San Diego contain selected GASB 14 entities.

See accompanying Notes to the Financial Statements.

(1) UC San Diego Foundation 2013 restated

Statement of Revenues, Expenses, and Changes in Net Position (unaudited)

For the Fiscal Years Ended June 30, 2014, and June 30, 2013 (in thousands)

	CAMPUS		FOUNDATION	
	2014	2013	2014	2013 (1)
OPERATING REVENUES				
Student tuition and fees, net	\$ 463,455	\$ 414,526	\$ —	\$ —
Grants and contracts				
Federal	643,812	690,218	—	—
State	43,131	44,444	—	—
Private	221,518	215,758	—	—
Local	11,743	10,533	—	—
Sales and services				
Medical Center	1,287,734	1,133,397	—	—
Educational activities	422,129	402,229	—	—
Auxiliary enterprises, net	163,860	157,233	—	—
Contributions revenue (1)	—	—	61,126	47,976
Other operating revenues, net	69,814	64,875	—	—
Total operating revenues	3,327,196	3,133,213	61,126	47,976
OPERATING EXPENSES				
Salaries and wages	1,708,778	1,624,680	—	—
Benefits	558,976	494,574	—	—
Scholarships and fellowships	79,960	77,065	—	—
Utilities	43,296	43,282	—	—
Supplies and materials	454,580	441,303	—	—
Depreciation and amortization	240,473	232,636	—	—
Grants to campus	—	—	79,324	68,307
Other operating expenses				
Building maintenance	191,003	178,973	—	—
Travel	37,661	38,065	—	—
Telecommunications	34,719	34,362	—	—
Other	286,659	261,428	64	60
Total operating expenses	3,636,105	3,426,368	79,388	68,367
Operating income (loss)	(308,909)	(293,155)	(18,262)	(20,391)
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	287,207	252,469	—	—
State financing appropriations	66	22,414	—	—
Federal financing appropriations	6,327	7,144	—	—
Federal Pell Grants	43,571	43,945	—	—
Private gifts	74,707	53,791	—	—
Investment income	34,480	40,189	6,434	6,639
Net appreciation (depreciation) in fair value of investments	—	—	79,835	42,339
Interest expense	(61,750)	(78,641)	—	—
Change in value of annuity and life income liabilities	—	—	(1,138)	(729)
Loss on disposal of capital assets, net	(8,059)	(5,839)	—	—
Other nonoperating revenues (expenses)	(1,455)	5,547	1	1
Total net nonoperating revenues (expenses)	375,094	341,019	85,132	48,250
Income (Loss) before other changes in net position	66,185	47,864	66,870	27,859
OTHER CHANGES IN NET POSITION				
State capital appropriations	3,850	(6,079)	—	—
Capital gifts and grants	28,032	81,330	—	—
Permanent endowments	—	—	10,936	30,471
Changes in allocation for pension payable to university	5,035	—	—	—
Transfers	(179,970)	154,406	—	—
Total other changes in net position	(143,053)	229,657	10,936	30,471
Increase (Decrease) in net position	(76,868)	277,521	77,806	58,330
NET POSITION				
Net position, beginning of year	3,067,771	2,790,250	644,615	586,285
Restatement of beginning of year net position	(1,677,927)	—	(7,771)	—
Net position, end of year	\$ 1,312,976	\$ 3,067,771	\$ 714,650	\$ 644,615

Financial statements for the University of California, San Diego are unaudited. Financial statements for the UC San Diego Foundation are audited.

Financial statements for the University of California, San Diego contain several GASB 14 entities.

(1) UC San Diego Foundation 2013 restated contributions revenue

Statement of Cash Flows (unaudited)

For the Fiscal Years Ended June 30, 2014, and June 30, 2013 (in thousands)

	CAMPUS		FOUNDATION	
	2014	2013	2014	2013 (1)
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	\$ 463,596	\$ 403,739	\$ —	\$ —
Grants and contracts	920,512	990,124	—	—
Receipts from sales and services of				
Medical Center	1,237,842	1,133,460	—	—
Educational activities	419,658	401,123	—	—
Auxiliary enterprises	163,994	156,255	—	—
Receipts from contributions	—	—	53,982	53,352
Collections of loans to students and employees	4,709	4,830	—	—
Payments to employees	(1,695,954)	(1,555,757)	—	—
Payments to suppliers and utilities	(1,010,221)	(949,377)	—	—
Payments for benefits	(289,302)	(481,937)	—	—
Payments for scholarships and fellowships	(79,960)	(77,065)	—	—
Payments to campuses (1)	—	—	(78,794)	(67,450)
Payments to beneficiaries	—	—	(2,115)	(2,338)
Loans issued to students and employees	(7,456)	(5,640)	—	—
Other receipts (payments) (1)	37,203	43,879	557	767
Net cash provided (used) by operating activities	164,621	63,634	(26,370)	(15,669)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	287,207	252,469	—	—
Federal Pell Grants	43,612	44,015	—	—
Private gifts for endowment purposes (1)	—	—	8,207	11,925
Private gifts received for other than capital purposes	75,486	58,311	—	—
Other receipts (payments)	36,279	10,518	(8)	2
Net cash flows from noncapital financing activities	442,584	365,313	8,199	11,927
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
State capital appropriations	9,829	7,009	—	—
State financing appropriations	1,059	19,321	—	—
Federal financing appropriations	6,362	7,171	—	—
Capital gifts and grants	24,128	70,834	—	—
Proceeds from debt issuance	515,342	24,084	—	—
Proceeds from the sale of capital assets	560	465	—	—
Purchases of capital assets	(558,010)	(412,147)	—	—
Refinancing/prepayment outstanding debt	(2,124)	—	—	—
Principal paid on debt and capital leases	(18,744)	(18,481)	—	—
Interest paid on debt and capital leases	(66,004)	(84,952)	—	—
Net cash provided (used) by capital and related activities	(87,602)	(386,696)	—	—
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale and maturities of investments (1)	(87)	487	100,154	79,313
Purchase of investments	—	—	(87,738)	(84,270)
Other receipts	34,474	40,187	6,367	6,607
Net cash provided (used) by investing activities	34,387	40,674	18,783	1,650
CHANGE IN ACCOUNTING PRINCIPLES				
Cumulative effect of change in accounting principles	(264,715)	—	—	—
Net change due to GASB Pronouncements	(264,715)	—	—	—
CASH FLOWS FROM TRANSFERS				
Current				
Inter-campus	28,049	27,322	—	—
Interfund	—	(1)	—	—
Net adjustments	—	(35)	—	—
Unexpended plant	(191,785)	128,538	—	—
Retirement of indebtedness	(9,922)	(48,121)	—	—
Investment in plant	(466)	490	—	—
Net cash flows from transfers	(174,124)	108,193	—	—
Total net increase in cash	(115,151)	191,118	612	(2,094)
Cash beginning of year	1,560,604	1,369,486	1,000	3,094
Cash end of year	\$ 1,675,755	\$ 1,560,604	\$ 1,612	\$ 1,000
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating income (loss) (1)	\$ (309,908)	\$ (293,156)	\$ (18,262)	\$ (20,639)
Depreciation and amortization expense	240,473	232,636	—	—
Noncash gifts	—	—	(9,576)	(9,563)
Allowance for doubtful accounts	8,870	(12,833)	—	—
Allowance for uncollectible receivables (1)	—	—	(173)	(170)
Loss of impairment of capital assets	778	782	—	—
Change in assets and liabilities				
Receivables, net (1)	(63,287)	9,111	2,605	15,356
Inventories	453	(462)	—	—
Deferred charges	11,100	(1,235)	—	—
Other assets	(3,173)	(3,508)	—	—
Accounts payable	(5,442)	32,063	460	545
Accrued salaries and benefits	2,560	81,546	—	—
Unearned revenue	(506)	34,030	—	—
Annuities payable	—	—	—	—
Self-insurance	2,880	—	—	—
Obligations to retirement plan	271,458	—	—	—
Other liabilities (1)	7,365	(15,290)	(1,424)	(1,198)
Net cash used by operating activities	\$ 164,621	\$ 63,634	\$ (26,370)	\$ (15,669)

Financial statements for the University of California, San Diego are unaudited. Financial statements for the UC San Diego Foundation are audited.

Financial statements for the University of California, San Diego contain selected GASB 14 entities.

See accompanying Notes to the Financial Statements.

(1) UC San Diego Foundation 2013 restated

Notes to the Financial Statements (Unaudited)

Summary of Significant Accounting Policies

The accompanying financial statements of the University of California, San Diego campus, including the UC San Diego Medical Center, have been prepared in accordance with generally accepted accounting principles, including all applicable effective statements of the Financial Accounting Standards Board through November 30, 1989, and generally adhering to the statements of the Governmental Accounting Standards Board (GASB), using the accrual basis of accounting. The accounts of the San Diego campus are subject to limited-scope procedures as part of the annual audit of the financial statements of the entire University of California. The financial statements of the San Diego campus have not been individually audited. The significant accounting policies of the university, not including the UC San Diego Foundation, are summarized below.

The UC San Diego Foundation is a nonprofit, public-benefit corporation organized for the purpose of accepting and administering the full range of private contributions for the campus. It is qualified as a tax-exempt organization under the provision 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 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.

Cash and cash equivalent—The university considers all balances in demand-deposit accounts to be cash. The university classifies all other highly liquid cash equivalents as short-term investments. The University of California Office of the President (UCOP)/Treasurer's Office maintains centralized management for substantially all of the university's cash. Cash in demand-deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis.

Short-term investments—UC San Diego participates in a temporary investment pool that is administered by the Office of the President. This pool invests primarily in US Treasury securities, commercial paper, and short-term corporate notes with cost approximating market value. These temporary investments are considered cash equivalents for the purposes of the statement of cash flows.

Investments—Investments are recorded at fair market value. Securities, including derivative investments, are generally 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, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Certain securities may be valued on a basis of a price provided by a single source.

Endowments—The campus endowment funds are invested and administered by the Endowment and Investment Accounting unit at UCOP and are not included in these financial statements. The income from campus endowment funds is recorded at UCOP and transferred to the campus annually. The university's endowment income distribution policies are designed to preserve the value of the endowment and to generate a predictable stream of spendable income.

Investments held by trustees—All investments held by trustees are insured, registered, or held by the university's trustee or custodial bank, as fiduciary for the bondholder or as agent for the university.

Accounts receivable, net—Accounts receivable, net of allowance for uncollectible accounts, include reimbursements due from state and federal sponsors of externally funded research, patient billings, 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.

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.

Funds held for others—Funds held for others result from the university or the campus foundations acting as an agent, or fiduciary, on behalf of organizations that are not significant or financially accountable to the university or campus foundations.

Federal refundable loans—Certain loans to students are administered by the university with funding primarily supported by the federal government. The university's statement of net position includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

Pollution remediation obligations—Upon an obligating event, the university estimates the components of any expected pollution remediation costs and recoveries from third parties. The costs, estimated using the expected cash flow technique, are accrued as a liability.

Pledges receivable, net—Unconditional pledges of private gifts to the university or to the campus foundations in the future, net of allowance for uncollectible amounts, are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Conditional pledges, including all pledges of endowments and intentions to pledge, are recognized as receivables and revenues when the specified conditions are met. The composition of pledges receivable at June 30, 2014, and 2013 is summarized as follows (in thousands of dollars).

	2014	2013
Total pledges receivable outstanding	\$ 1,025	\$ 1,898
Unamortized discount to present value	(7)	(27)
Allowance for uncollectible pledges	(51)	(126)
Total pledges receivable, net	\$ 967	1,745
Less: Current portion of pledges receivable	708	1,095
Noncurrent portion of pledges receivable	\$ 259	\$ 650

Notes and mortgages receivable—Loans to students are provided from federal student loan programs and from university sources. Home mortgage loans, primarily for faculty, are provided by the Short-Term Investment Pool and from other university sources. Notes receivable at June 30, 2014, and 2013, along with the allowance for uncollectible amounts, are as follows (in thousands of dollars).

	CURRENT PORTION	NONCURRENT PORTION	TOTAL
AT JUNE 30, 2014			
Notes and mortgages receivable	\$ 10,438	\$ 35,911	\$ 46,349
Allowance for uncollectible amounts	(1,196)	(1,599)	(2,795)
Notes receivable, net	\$ 9,242	\$ 34,312	\$ 43,554
AT JUNE 30, 2013			
Notes and mortgages receivable	\$ 4,993	\$ 38,461	\$ 43,454
Allowance for uncollectible amounts	(1,247)	(2,566)	(3,813)
Notes receivable, net	\$ 3,746	\$ 35,895	\$ 39,641

Inventories—Inventories, consisting primarily of supplies and merchandise for resale, are valued at cost, typically determined using the weighted average method, which is not in excess of net realizable value.

Fixed assets—Land, infrastructure, buildings and improvements, equipment, libraries, and special collections are recorded at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Capital leases are recorded at the present value of future minimal lease payments. Significant additions, replacements, major repairs, and renovations 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. Equipment with a cost in excess of \$4,999 and a useful life of more than one year is capitalized.

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

Depreciation is calculated using the straight-line method over the estimated economic life of the asset.

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 or special collections that are protected, preserved, and held for public exhibition, education, or research, including art, museum, scientific, and rare book collections, are not depreciated.

Debt—Long-term financing includes bonds, certificates of participation, loans and other borrowings, and capital lease obligations. Some loans, bonds, and certificates of participation provide financing for projects on more than one campus and are accounted for centrally at UCOP. For financial statement presentation, selected statements have been adjusted to include long-term debt recorded at UCOP. In the statement of net position, the totals for long-term debt, including the current portion of long-term debt, and the total for invested in capital assets, net of related debt totals, have been adjusted to reflect the UCOP-held debt. Similarly, the transfers total in the statement of revenues, expenses, and changes in net position for 2014 has been adjusted by \$5.553 billion, the change in UCOP-held debt from \$1.40 billion in 2013 to \$1.41 billion in 2014. The statement of cash flows has not been adjusted.

Student tuition and fees—Substantially all of the student tuition and fees provide for current operations of the university. A small portion of the student fees, reported as capital gifts and grants, is required for debt service associated with the student union and student recreational centers. Certain waivers of student tuition and fees considered to be scholarship allowances are recorded as an offset to revenue.

State appropriations—The State of California provides appropriations to the university on an annual basis. State educational appropriations are recognized as nonoperating revenue; however, the related expenses are incurred to support either educational operations or other specific operating 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 under other changes in net position when the related expenditures are incurred. Special state appropriations for AIDS, tobacco, and breast cancer research are reported as grant operating revenue.

Commitments and contingencies—Substantial amounts are received and expended by the university, including its Medical Center, under federal and state programs, and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, Medical Center operations, and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the university's financial position.

Adoption of New Accounting Standards

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

In June 2012, GASB issued Statement No. 67, Financial Reporting for Pension Plans, effective for the university's fiscal year beginning July 1, 2013. This statement revises existing standards for financial reporting for pension plans by changing the approach to measuring the net pension liability. The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. Statement No. 67 had no effect on the UC San Diego financial statements, as prior to 2014, all UC pension data was reported by the University of California Retirement Plan (UCRP).

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions, effective for the university's fiscal year beginning July 1, 2014. The University has elected to early implement this statement, effective July 1, 2013. This statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the university to its employees. This statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end.

Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This statement requires that most changes in the net pension liability be included in pension expense in the period of the change.

To implement Statement No. 68, the university recorded the net pension liabilities for its defined benefit plans. The cumulative effect on the campus net position as of June 30, 2014, as a result of the adoption of Statement No. 68 was a reduction of \$1.68 billion.

Retiree Health Benefit Costs and Obligations

The University of California (university) administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental, and vision, to eligible retirees and their eligible family members (retirees) of the University of California and its affiliates. The Board of Regents has the authority to establish and amend the plans. Additional information can be obtained from the 2013–14 annual report of the University of California Retiree Health Benefit Trust. Membership in the University of California Retirement Plan (UCRP) is required to become eligible for retiree health benefits.

Contribution policy—The contribution requirements of the university and eligible retirees are established and may be amended by the university. The contribution requirements are based upon projected pay-as-you-go financing. University and retiree contributions toward premiums made under purchased plan arrangements are determined by applying the health plan contract rates across the number of participants in the respective plans. Premium rates for the self-insured plan contributions are set by the

university based upon a trend analysis of the historic cost, utilization, demographics, and administrative expenses to provide for the claims incurred and the actuarially determined level of incurred but not reported liability. Contributions toward medical and dental benefits are shared between the university and the retiree. Contributions toward wellness benefits are made by the university. The university does not contribute toward the cost of other benefits available to retirees.

Active employees do not make any contributions toward the retiree health benefit plans. Retirees pay the excess, if any, of the premium over the applicable portion of the university's contribution. In addition to the explicit university contribution provided to retirees, there is an "implicit subsidy." The gross premiums for members that are not currently eligible for Medicare benefits are the same for active employees and retirees, based on a blend of their health costs. This effect is called the implicit subsidy. The implicit subsidy associated with retiree health costs paid during the past year is also considered to be a contribution from the university.

Retiree health benefit expense and obligation for retiree health benefits—The university's retiree health benefit expense is independently calculated for the campuses and medical centers based upon the actuarially determined annual required contribution. The annual required contribution represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize unfunded actuarial liabilities over a period of up to thirty years.

The University of California Retirement System (UCRS)

Most University of California employees participate in the University of California Retirement System (UCRS). UCRS consists of the University of California Retirement Plan, a single employer, defined benefit plan funded with university and employee contributions; the University of California Retirement Savings Program that includes four defined contribution plans with options to participate in internally and externally managed investment portfolios generally funded with employee nonelective and elective contributions. The regents have the authority to establish and amend the benefit plans.

University of California Retirement Plan (UCRP)—The University of California Retirement Plan provides lifetime retirement income, disability protection, death benefits, and preretirement survivor benefits to eligible employees of the University of California. Membership in the retirement plan is required for all employees appointed to work at least 50 percent time for an indefinite period or for a definite period of a year or more. An employee may also become eligible by completing one thousand hours of service within a twelve-month period. Generally, five years of service are required for entitlement to plan benefits. The amount of the pension benefit is determined by salary rate, age, and years of service credit with certain cost-of-living adjustments. The maximum monthly benefit is 100 percent of the employee's highest average compensation over a consecutive thirty-six-month period, subject to certain limits imposed under the Internal Revenue Code.

Contribution policy—The regents' contribution funding policy is based on a percentage of payroll using the entry age normal actuarial cost method. In determining the funding policy contribution, all July 1, 2010, amortization bases were combined in a single amortization base and amortized over a thirty-year period as a level dollar amount.

The total funding policy contribution rates as of July 1, 2013, are based on all of the plan data, the actuarial assumptions, and the plan provisions adopted at the time of preparation of the actuarial valuation. University contributions were \$147.30 million during the year ended June 30, 2014.

UCRP benefits and obligation to UCRP—The university's annual UCRP benefit expense is independently calculated for the campuses and medical centers based upon the actuarially determined annual required

contributions. The annual required contribution represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize unfunded actuarial liabilities or surplus over a period of up to thirty years.

Funded status—Actuarial valuations represent a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. All UCRP assets are available to pay any member's benefit.

University of California Retirement Savings Program—The University of California Retirement Savings Program includes four defined contribution plans providing retirement savings incentives that are generally available to all university employees. Participants' interests in the plans are fully and immediately vested and are distributable at retirement, termination of employment, or death.

Defined Contribution Plans—The Defined Contribution Plan (DC Plan) accepts both after-tax and pretax employee contributions that are fully vested. Pretax contributions are mandatory for all employees who are members of UCRP. For UCRP members, monthly employee contributions range from approximately 2 percent to 4 percent of covered wages depending upon whether wages are below or above the Social Security wage base. For Safe Harbor participants, monthly employee contributions are 7.5 percent of covered wages.

Employer contributions are fully vested and there is no provision for employee contributions. There were no employer contributions to the SDC Plan for the years ended June 30, 2014.

Tax Deferred 403(b) Plan—The university's Tax-Deferred 403(b) Plan accepts pretax employee contributions. The university may also make contributions on behalf of certain members of management.

457(b) Deferred Compensation Plan—The university's 457(b) Deferred Compensation Plan accepts pretax employee contributions. The university may also make contributions on behalf of certain members of management. There were no employer contributions to the 457(b) Plan for the years ended June 30, 2014, and 2013. Participants in the DC Plan, the SDC Plan, the 403(b) Plan, and the 457(b) Plan may direct their elective and nonelective contributions to investment funds managed by the chief investment officer. They may also invest account balances in certain mutual funds. The participants' interests in mutual funds are shown separately in the statement of plans' fiduciary net position.

Compensated absences—The university 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.

Tax exemption—The Board of Regents of the University of California is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). Because the university is a state institution, related income received by the university is also exempt from federal tax under IRC Section 115(a). In addition, the university is exempt from state income taxes imposed under the California Revenue and Taxation Code.