

# FINANCIAL OVERVIEW

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## 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 to understand better the financial position and operating activities for the fiscal year ended June 30, 2010, with selected comparative information for the year ended June 30, 2009. UC San Diego's financial report communicates financial information for the university through three primary financial statements. The statement of net assets; the statement of revenues, expenses, and changes in net assets; 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 audited, consolidated financial statements of the University of California are available at <http://www.ucop.edu/ucophome/busfin/reports.html>.

### THE UNIVERSITY'S FINANCIAL POSITION

The statement of net assets presents the financial position of the university at the end of each fiscal year. At June 30, 2010, the university's net assets were \$2.05 billion, with assets of \$4.32 billion and liabilities of \$2.27 billion. The major components of the assets, liabilities, and net assets as of 2010 and 2009 are as follows (in thousands).

	2010	2009	CHANGE
<b>ASSETS</b>			
Cash and equity in treasurer's investments	\$ 1,139,382	\$ 878,737	\$ 260,645
Receivables	305,744	282,728	23,016
Inventories	24,347	24,098	249
Capital assets, net	2,677,751	2,440,284	237,467
Other assets	172,498	88,086	84,412
<b>Total assets</b>	<b>\$4,319,722</b>	<b>\$3,713,933</b>	<b>\$ 605,789</b>
<b>LIABILITIES</b>			
Debt	\$1,687,923	\$1,268,130	\$ 419,793
Other liabilities	584,595	471,037	113,558
<b>Total liabilities</b>	<b>\$2,272,518</b>	<b>\$ 1,739,167</b>	<b>\$ 533,351</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$1,037,675	\$ 1,171,515	\$ (133,840)
Restricted			
Expendable	140,788	106,158	34,630
Unrestricted	868,741	697,094	171,647
<b>Total net assets</b>	<b>\$2,047,204</b>	<b>\$1,974,767</b>	<b>\$ 72,437</b>

### ASSETS

UC San Diego's total assets increased by \$605.79 million to \$4.32 billion in 2010, compared to \$3.71 billion in 2009, primarily due to increases in cash and equity in treasurer's investments of \$0.26 billion and capital assets net of depreciation, \$0.24 billion.

*Cash and equity in treasurer's investments*—The university's cash and equity in treasurer's investments totaled \$1.14 billion at the end of 2010 and \$878.74 million at the end of 2009. The increase in the short-term investments component is primarily due to cash from operations and investing exceeding cash used for operations, capital investments, and noncapital financing.

*Accounts receivable, net*—Accounts receivable in total increased by \$23.02 million to \$305.74 million in 2010 from \$282.73 million in 2009. The increase is primarily in the Medical Center category, where patient receivables net of uncollectibles increased \$15.27 million due to increased patient activity.

*Capital assets, net*—Capital assets, net of accumulated depreciation, increased by \$237.47 million to \$2.68 billion in 2010. The major asset capitalized in 2010 was the north campus housing, \$109.13 million. Construction in progress of \$149.09 million accounted for the balance.

### LIABILITIES

The university's liabilities totaled \$2.27 billion in 2010. This total includes the liabilities of \$1.39 billion for capital projects that provide financing for projects on more than one campus and are accounted for centrally at the UC Office of the President (UCOP).

*Long-term debt*—This debt, principally recorded at the Office of the President, increased by \$419.79 million to \$1.69 billion in 2010. The major additional increase in 2010 was for revenue bonds: \$123.72 million for the cardio center at Thornton Hospital.

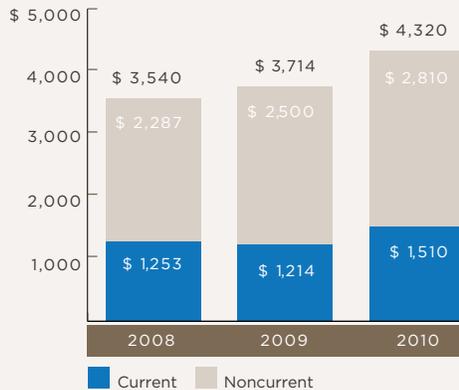
*Other liabilities*—Other liabilities increased by \$113.56 million to \$584.60 million in 2010 from \$471.04 million in 2009. This increase is principally the result of accrued salaries and benefits, \$74.56 million, due to the timing of the June 30 payroll expense.

### NET ASSETS

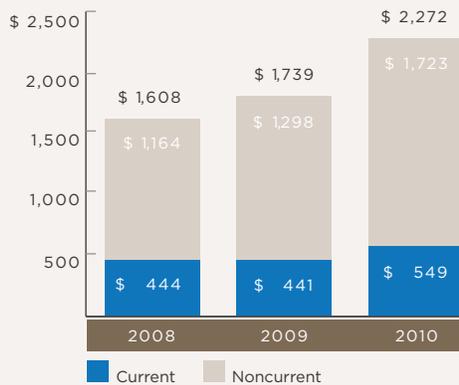
Net assets represent the residual interest in the university's assets after all liabilities are deducted. Net assets are reported in four major categories: invested in capital assets, net of related debt; restricted, nonexpendable; restricted expendable; and unrestricted. The university's net assets grew by \$72.44 million to \$2.05 billion in 2010.

*Invested in capital assets, net of related debt*—This category decreased to \$1.04 billion in 2010, compared to \$1.17 billion in 2009.

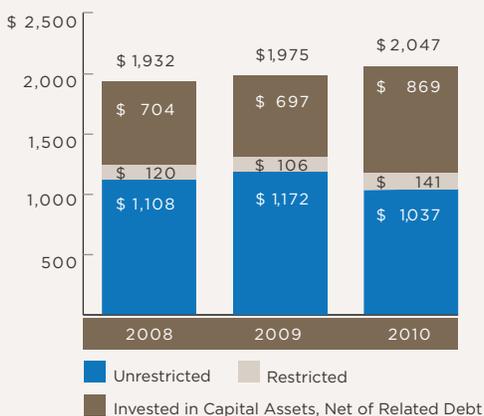
## ASSETS (in millions)



## LIABILITIES (in millions)



## NET ASSETS (in millions)



The decrease represents the university's continued investment in its physical facilities, despite the increase in the use of related financing and depreciation expense. Principal projects financed and capitalized in 2010 were the north campus housing and the cardio center at Thornton Hospital.

**Restricted expendable**—The increase of \$34.63 million in 2010 to \$140.79 million reflects an increase of \$18.11 million in capital projects, and an increase of \$14.25 million in gifts. The primary increase in gifts reflected the initial inclusion of the Sanford Consortium for Regenerative Medicine, a Governmental Accounting Standards Board (GASB) 14 entity.

**Unrestricted**—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. Unrestricted net assets increased \$171.65 million to \$868.74 million in 2010. The increase reflects a \$69.53 million increase in general funds. The prior year's balance reflected a one-time decrease due to a retroactive adjustment resulting from the California budget situation. Fiscal year 2010 principally reflected an increase in the UC San Diego Medical Center's reserves of \$33.84 million.

**GASB 14 entities**—For the period ended June 30, 2010, the initial inclusion of the Sanford Consortium for Regenerative Medicine included third-party debt of \$65.11 million, gift revenues of \$27.40 million, and construction in progress of \$33.17 million.

## THE UNIVERSITY'S RESULTS OF OPERATIONS

The statement of revenues, expenses, and changes in net assets is a presentation of the university's operating results. It indicates whether the financial condition has improved or deteriorated. In accordance with GASB requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the university are 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 \$2.95 billion and \$2.64 billion in 2010 and 2009, respectively. This diversified source of revenue increased by \$314.56 million in 2010. 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 the university allow crucial flexibility for support of its fundamental activities or new academic initiatives. Other significant revenues are from the Medical Center, educational activities, and auxiliary enterprises such as student housing, food service operations, parking, and the Bookstore.

**Student tuition and fees, net**—Student tuition and fees revenue, net of scholarship allowances, grew in 2010 by \$51.74 million to \$312.66 million. The increase is attributable to two separate increases in fees during the fiscal period for all categories of students.

**Grants and contracts**—Revenues from grants and contracts increased \$69.29 million in 2010 to \$882.11 million. This revenue represents support from a variety of federal, state, private, and local agencies, with funding from the American Recovery and Reinvestment Act (ARRA) being a major contributor in 2010. Funding from private corporations and local governments showed a 10 percent increase in fiscal 2010.

The table that follows details awarded grants and contracts for fiscal year 2010 and 2009 (in thousands). Awarded grants and contracts 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	2010	2009
General Campus	\$ 303,888	\$ 260,915
Health Sciences	597,428	494,279
Scripps Institution of Oceanography	158,010	126,430
<b>Total</b>	<b>\$1,059,326</b>	<b>\$ 881,624</b>

**Medical Center**—Revenues of \$854.76 million in 2010 reflect an increase of \$49.21 million from 2009. Net patient service revenue for 2010 increased by \$49.43 million over 2009. The increase in 2010 over 2009 in this category was due to outpatient volumes, contract price increases, and improved collections. Net patient service revenue is reported net of estimated allowances under contractual arrangements with Medicare, Medi-Cal, the county of San Diego, and other third-party payors 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 grew to \$260.26 million in 2010 compared to \$227.43 million in 2009. The increase is primarily due to the medical group's patient services activities.

**State educational appropriations**—Educational appropriations from the state of California increased by \$37.73 million to \$282.35 million in 2010, principally as a result of a one-time federal grant to the state of California. The state's fiscal crisis in 2009 and 2010 necessitated special-session actions by the legislature and the governor that led to midyear budget reductions, both one-time and permanent, that took place over an eighteen-month period. Because of the complexity and timing of these actions, it is important to look at year-over-year changes over a two-year—rather than one-year—period. While the one-year change between 2009 and 2010 appears to reflect an increase in state educational appropriations when compared to 2008, there was actually a decline of \$18.95 million over the two-year period.

**PRIVATE GIFTS**

UC San Diego recorded \$27.45 million for the Sanford Consortium for Regenerative Medicine to comply with GASB 14 requirements. This gift was for the construction of the building to house the consortium. Additionally a \$3.43 million gift to the Green Foundation was recorded. This is also a GASB 14 reporting entity.

**EXPENSES ASSOCIATED WITH CORE ACTIVITIES**

Expenses associated with the university's core activities, including those classified as nonoperating expenses, increased by \$166.76 million, from \$2.59 billion to \$2.75 billion in 2010.

**Salaries and benefits**—More than 60 percent of the university's expenses are related to salaries and benefits. During 2010, salaries and benefits increased to \$1.71 billion. The increase of \$109.22 million was net of a \$23.50 million reduction in the fiscal year due to the mandatory furlough program. This was more than offset by programmed faculty merits, necessary new hiring, and benefit cost increases.

**UCRP benefits**—Beginning on April 15, 2010, the University of California Retirement Program (UCRP) employer contribution of 2 percent of covered salary/wages was reinstated. In May 2010 and for subsequent months, the employer contribution was increased to 4 percent of covered salary and wages. In the previous several years, no contributions were made to UCRP. This change resulted in a \$8.96 million increase in 2010 over 2009.

**Utilities**—During 2010, utility expenses were \$47.08 million, a decrease of \$0.92 million from fiscal 2009, primarily as a result of an aggressive solar panel installation program and other energy-saving steps taken by the university.

**Scholarships and fellowships**—Despite significant increases in student tuition and fees in 2010, the university places a high priority on student financial aid as a part of a commitment to affordability. Scholarships and fellowships (gross) increased in 2010 by \$32.30 million to \$90.27 million, or 55.73 percent.

**Other expenses**—Other expenses consist of a variety of expense categories, including travel, rent, insurance, legal settlements, and repairs and maintenance, plus any gain or loss on disposals of capital assets and other nonoperating expenses. Expenses in this category were \$328.31 million in 2010, or an increase of less than 1 percent over 2009.

**OTHER CHANGES IN NET ASSETS**

A \$3.17 million decrease occurred in the state capital appropriations, which decreased to \$17.62 million in 2010. Capital appropriations are from bond measures approved by the California voters.

In accordance with GASB reporting standards, operating losses were \$252.52 million in 2010 and \$285.94 million in 2009. 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: \$447.34 million in 2010 and \$332.87 million in 2009. 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 2010, net cash inflow from operating activities was \$7.14 million, and an additional \$404.96 million was provided by noncapital financing activities. By comparison, in 2009 the net cash outflow from operating activities was \$99.74 million, offset by \$290.12 million of cash provided by noncapital financing activities.

The net cash outflow from capital and related financing activities was \$249.12 million in 2010 and \$324.10 million in 2009. 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.

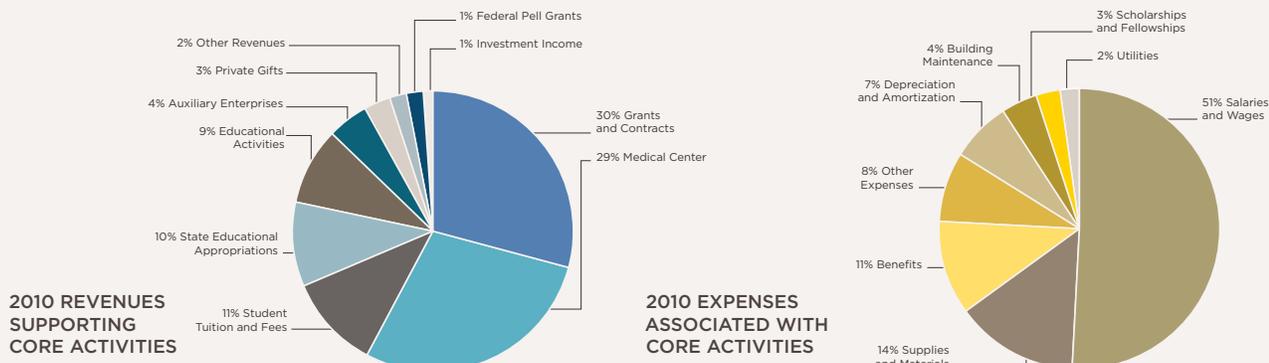
# STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

FOR THE FISCAL YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009 (IN THOUSANDS)

	CAMPUS		FOUNDATION	
	2010 <sup>1</sup>	2009	2010	2009
<b>OPERATING REVENUES</b>				
Student tuition and fees, net	\$ 312,657	\$ 260,915	\$ —	\$ —
Grants and contracts				
Federal	635,847	584,294	—	—
State	41,848	42,115	—	—
Private	193,337	175,215	—	—
Local	11,082	11,201	—	—
Sales and services				
Medical Center	854,759	805,547	—	—
Educational activities	260,264	227,425	—	—
Auxiliary enterprises, net	133,842	134,575	—	—
Contributions revenue	—	—	39,937	32,409
Other operating revenues, net	54,395	56,752	—	—
<b>Total operating revenues</b>	<b>2,498,031</b>	<b>2,298,039</b>	<b>39,937</b>	<b>32,409</b>
<b>OPERATING EXPENSES</b>				
Salaries and wages	1,394,308	1,319,900	—	—
Benefits	313,095	278,283	—	—
Scholarships and fellowships	90,265	57,962	—	—
Utilities	47,082	47,997	—	—
Supplies and materials	388,839	379,893	—	—
Depreciation and amortization	188,641	174,200	—	—
Grants to campus	—	—	52,117	47,107
Other operating expenses				
Building maintenance	113,523	108,280	—	—
Travel	33,460	33,963	—	—
Telecommunications	29,579	30,098	—	—
Other	151,754	153,398	—	29
<b>Total operating expenses</b>	<b>2,750,546</b>	<b>2,583,974</b>	<b>52,117</b>	<b>47,136</b>
<b>Operating income (loss)</b>	<b>(252,515)</b>	<b>(285,935)</b>	<b>(12,180)</b>	<b>(14,727)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State educational appropriations	282,346	244,612	—	—
State financing appropriations	15,639	13,030	—	—
Federal financing appropriations	4,325	—	—	—
Federal Pell Grants <sup>1</sup>	44,385	—	—	—
Private gifts	85,608	55,791	—	—
Investment income	20,306	24,613	7,353	7,702
Realized gain on sale of investments	—	—	(1,853)	1,620
Unrealized appreciation/depreciation on investments	—	—	33,205	(84,377)
Interest expense	(3,104)	(336)	—	—
Change in value of annuity and life income liabilities	—	—	832	(2,613)
Loss on disposal of capital assets, net	(2,265)	(3,626)	—	—
Other nonoperating revenues (expenses)	102	(1,215)	20	126
<b>Total net nonoperating revenues (expenses)</b>	<b>447,342</b>	<b>332,869</b>	<b>39,557</b>	<b>(77,542)</b>
Income before other changes in net assets	194,827	46,934	27,377	(92,269)
<b>OTHER CHANGES IN NET ASSETS</b>				
State capital appropriations	17,624	20,797	—	—
Capital gifts and grants	10,915	10,894	—	—
Permanent endowments	—	—	10,520	12,616
Transfers	(150,929)	(34,998)	—	—
<b>Total other changes in net assets</b>	<b>(122,390)</b>	<b>(3,307)</b>	<b>10,520</b>	<b>12,616</b>
<b>Increase in net assets</b>	<b>72,437</b>	<b>43,627</b>	<b>37,897</b>	<b>(79,653)</b>
<b>NET ASSETS</b>				
Net assets, beginning of year	1,974,767	1,931,902	417,135	496,788
Cummulative effect of a change in accounting principle	—	(762)	—	—
<b>Net assets, end of year</b>	<b>\$ 2,047,204</b>	<b>\$ 1,974,767</b>	<b>\$ 455,032</b>	<b>\$ 417,135</b>

Financial statements for the University of California, San Diego are unaudited. Financial statements for the UC San Diego Foundation are audited. See accompanying "Notes to the Financial Statements."

<sup>1</sup> Federal Pell Grants shown as nonoperating revenue in FY2010 per GASB guidelines (formerly shown as part of contracts and grants-federal). No restatement for FY2009.



**STATEMENT OF NET ASSETS** FOR THE FISCAL YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009 (IN THOUSANDS)

	CAMPUS		FOUNDATION	
	2010	2009	2010	2009
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and equity in treasurer's investments	\$ 1,139,382	\$ 878,737	\$ 980	\$ 3,024
Investments held by trustees	—	676	73,422	72,437
Accounts receivable, net				
State and federal government	58,130	57,307	—	—
Medical Center	165,126	149,857	—	—
Other	82,488	75,563	70	65
Pledges receivable, net	6,668	4,629	5,297	7,028
Notes receivable, net	3,039	2,476	—	—
Inventories	24,347	24,098	—	—
Other current assets	30,957	20,623	99	380
<b>Total current assets</b>	<b>1,510,137</b>	<b>1,213,966</b>	<b>79,868</b>	<b>82,934</b>
<b>Noncurrent Assets</b>				
Investments held by trustees	76,402	18,164	356,866	313,738
Pledges receivable	10,049	4,373	35,561	37,935
Notes and mortgages	30,252	28,169	—	—
Land, buildings, equipment, Libraries, and special collections	4,960,879	4,551,051	—	—
Less: Accumulated depreciation	(2,283,130)	(2,110,767)	—	—
Other noncurrent assets	15,133	8,977	1,330	1,507
<b>Total noncurrent assets</b>	<b>2,809,585</b>	<b>2,499,967</b>	<b>393,757</b>	<b>353,180</b>
<b>Total assets</b>	<b>\$ 4,319,722</b>	<b>\$ 3,713,933</b>	<b>\$ 473,625</b>	<b>\$ 436,114</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 161,124	\$ 139,797	\$ 1,250	\$ 758
Accrued salaries and benefits	139,353	64,790	—	—
Deferred revenue	114,017	110,262	—	—
Current portion of long-term debt	50,563	46,556	—	—
Funds held for others	1,677	1,780	123	150
Annuities payable	—	—	1,104	1,200
Liabilities to life beneficiaries	—	—	1,205	1,059
Other current liabilities	82,592	77,991	—	—
<b>Total current liabilities</b>	<b>549,326</b>	<b>441,176</b>	<b>3,682</b>	<b>3,167</b>
<b>Noncurrent Liabilities</b>				
Federal refundable loans	24,635	23,177	—	—
Annuities payable	—	—	6,785	7,729
Liabilities to life beneficiaries	—	—	8,143	8,084
Long-term debt				
Revenue bonds	1,297,389	953,116	—	—
Certificates of participation	—	—	—	—
Mortgages and other borrowings	21,955	39,638	—	—
Capital lease obligations	253,155	228,820	—	—
Third-party debt	64,862	—	—	—
Other noncurrent liabilities	61,197	53,240	—	—
<b>Total noncurrent liabilities</b>	<b>1,723,193</b>	<b>1,297,991</b>	<b>14,928</b>	<b>15,813</b>
<b>Total liabilities</b>	<b>\$ 2,272,519</b>	<b>\$ 1,739,167</b>	<b>\$ 18,610</b>	<b>\$ 18,980</b>
<b>NET ASSETS</b>				
<b>Invested in capital assets, net of related debt</b>	<b>\$ 1,037,675</b>	<b>\$ 1,171,515</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Restricted</b>				
<b>Nonexpendable</b>				
Endowments	—	—	254,220	230,999
Annuity and life income funds	—	—	3,862	3,167
<b>Expendable</b>				
Endowments	—	—	66,858	58,360
Endowment income	12,743	10,636	—	—
Annuity and life income funds	—	—	5,104	4,989
Funds functioning as endowments	—	—	10,650	10,497
Loans	3,700	3,540	—	—
Gifts	94,624	80,343	110,327	105,879
Capital projects	24,809	6,703	—	—
Debt service	4,787	4,843	—	—
Other	125	93	—	—
<b>Unrestricted</b>	<b>868,741</b>	<b>697,094</b>	<b>3,994</b>	<b>3,243</b>
<b>Total net assets</b>	<b>\$ 2,047,204</b>	<b>\$ 1,974,767</b>	<b>\$ 455,015</b>	<b>\$ 417,134</b>

Financial statements for the University of California, San Diego are unaudited. Financial statements for the UC San Diego Foundation are audited. See accompanying "Notes to the Financial Statements."

# STATEMENT OF CASH FLOWS

FOR THE FISCAL YEARS ENDED JUNE 30, 2010, AND JUNE 30, 2009 (IN THOUSANDS)

	CAMPUS		FOUNDATION	
	2010	2009	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Student tuition and fees	\$ 311,457	\$ 265,523	\$ —	\$ —
Grants and contracts	874,895	826,008	—	—
Receipts from sales and services of				
Medical Center	839,095	815,155	—	—
Educational activities	262,786	223,545	—	—
Auxiliary enterprises	135,040	132,428	—	—
Receipts from contributions	—	—	36,086	32,343
Collections of loans to students and employees	2,788	3,008	—	—
Payments to employees	(1,316,520)	(1,316,526)	—	—
Payments to suppliers and utilities	(739,598)	(746,149)	—	—
Payments for benefits	(308,098)	(275,456)	—	—
Payments for scholarships and fellowships	(90,265)	(57,962)	—	—
Payments to campuses	—	—	(46,060)	(44,356)
Payments to beneficiaries	—	—	(2,303)	(2,536)
Loans issued to students and employees	(5,576)	(3,805)	—	—
Other receipts (payments)	41,136	34,489	(5,007)	(5,028)
<b>Net cash provided (used) by operating activities</b>	<b>7,140</b>	<b>(99,742)</b>	<b>(17,284)</b>	<b>(19,577)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
State educational appropriations	282,346	244,612	—	—
Federal Pell Grants	44,385	—	—	—
Private gifts for endowment purposes	—	—	9,914	11,802
Private gifts received for other than capital purposes	76,964	55,175	—	—
Other receipts (payments)	1,261	(9,668)	8	318
<b>Net cash flows from noncapital financing activities</b>	<b>404,956</b>	<b>290,119</b>	<b>14,291</b>	<b>12,121</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
State capital appropriations	15,408	19,007	—	—
State financing appropriations	13,676	17,301	—	—
Federal financing appropriations	4,325	—	—	—
Capital gifts and grants	11,496	6,874	—	—
Proceeds from debt issuance	253,417	48,899	—	—
Proceeds from the sale of capital assets	157	204	—	—
Proceeds from insurance recoveries	—	—	—	—
Purchases of capital assets	(525,810)	(395,216)	—	—
Refinancing/prepayment of outstanding debt	—	—	—	—
Principal paid on debt and capital leases	(11,926)	(18,563)	—	—
Interest paid on debt and capital leases	(9,859)	(2,609)	—	—
<b>Net cash provided (used) by capital and related activities</b>	<b>(249,116)</b>	<b>(324,103)</b>	<b>—</b>	<b>—</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sale and maturities of investments	42	(31)	45,945	51,944
Purchase of investments	—	—	(47,577)	(53,917)
Other receipts	5,073	4,492	6,950	9,962
<b>Net cash provided (used) by investing activities</b>	<b>5,115</b>	<b>4,461</b>	<b>5,318</b>	<b>7,989</b>
<b>CHANGE IN ACCOUNTING PRINCIPLES</b>				
Cumulative effect of change in accounting principles	—	(762)	—	—
<b>Net change due to GASB pronouncements</b>	<b>—</b>	<b>(762)</b>	<b>—</b>	<b>—</b>
<b>CASH FLOWS FROM TRANSFERS</b>				
Current				
Intercampus	352,242	280,929	—	—
Interfund	(118,926)	(93,212)	—	—
Net revenue of bonds and other indebtedness programs	—	973	—	—
Unexpended plant	121,852	144,723	—	—
Retirement of indebtedness	(71,107)	(71,031)	—	—
Investment in plant	62	2	—	—
Loan	69	71	—	—
Indirect cost recovery	(191,428)	(165,680)	—	—
<b>Net cash flows from transfers</b>	<b>92,764</b>	<b>96,775</b>	<b>—</b>	<b>—</b>
<b>Total net increase in cash</b>	<b>260,859</b>	<b>(33,252)</b>	<b>(2,044)</b>	<b>532</b>
Cash beginning of year	877,788	911,040	3,024	2,492
<b>Cash end of year</b>	<b>\$ 1,138,647</b>	<b>\$ 877,788</b>	<b>\$ 980</b>	<b>\$ 3,024</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ (252,515)	\$ (285,935)	\$ (12,197)	\$ (14,727)
Depreciation and amortization expense	188,641	174,200	—	—
Noncash gifts	—	—	(7,954)	(1,313)
Allowance for doubtful accounts	32,134	7,707	—	—
Allowance for uncollectible receivables	—	—	(206)	—
Loss on impairment of capital assets	—	—	—	—
Change in assets and liabilities				
Receivables, net	(59,242)	2,262	4,309	835
Inventories	(249)	2	—	—
Deferred charges	(10,279)	(3,302)	—	—
Other assets	(4,399)	126	—	412
Accounts payable	20,825	(6,161)	272	(1,930)
Accrued salaries and benefits	74,561	169	—	—
Deferred revenue	4,735	5,956	—	—
Annuities payable	—	—	(869)	(2,854)
Other liabilities	12,928	5,234	(638)	—
<b>Net cash used by operating activities</b>	<b>\$ 7,140</b>	<b>\$ (99,742)</b>	<b>\$ (17,283)</b>	<b>\$ (19,577)</b>

Financial statements for the University of California, San Diego are unaudited. Financial statements for the UC San Diego Foundation are audited. See accompanying "Notes to the Financial Statements."

# 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 a 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.

## ADOPTION OF NEW ACCOUNTING STANDARDS

GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, was adopted by the university during the year ended June 30, 2010. 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.

GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, was also adopted during the year ended June 30, 2010. Statement No. 53 requires the university 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 net appreciation or depreciation in the fair value of investments. Upon adoption of Statement No. 53, retrospective application is required.

The implementation of Statements No. 51 and 53 had no effect on the university's net assets for the years ended June 30, 2010, and 2009.

*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 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 U.S. 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 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. 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 assets includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

*Pollution remediation obligations*—Upon an obligating event, 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, 2010, and 2009 is summarized as follows (in thousands of dollars).

	2010	2009
Total pledges receivable outstanding	\$ 17,820	\$ 9,395
Unamortized discount to present value	(808)	(276)
Allowance for uncollectible pledges	(295)	(117)
<b>Total pledges receivable, net</b>	<b>16,717</b>	<b>9,002</b>
Less: Current portion of pledges receivable	6,668	4,629
<b>Noncurrent portion of pledges receivable</b>	<b>\$ 10,049</b>	<b>\$ 4,373</b>

**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, 2010, and 2009, along with the allowance for uncollectible amounts, are as follows (in thousands of dollars).

	Current Portion	Noncurrent Portion	Total
<b>At June 30, 2010</b>			
Notes and mortgages receivable	\$ 4,102	\$ 31,590	\$ 35,692
Allowance for uncollectible amounts	(1,063)	(1,340)	(2,403)
<b>Notes receivable, net</b>	<b>\$ 3,039</b>	<b>\$ 30,250</b>	<b>\$ 33,290</b>
<b>At June 30, 2009</b>			
Notes and mortgages receivable	\$ 3,606	\$ 29,311	\$ 32,917
Allowance for uncollectible amounts	(1,130)	(1,142)	(2,272)
<b>Notes receivable, net</b>	<b>\$ 2,476</b>	<b>\$ 28,169</b>	<b>\$ 30,646</b>

**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 assets, 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 assets for 2010 has been adjusted by \$228.59 million, the change in UCOP-held debt from \$1.12 billion in 2009 to \$1.39 billion in 2010. 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 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 assets 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.

**Retiree health plans**—The university administers single-employer health plans to provide health and welfare benefits, primarily medical, dental and vision benefits, to eligible retirees of the University of California and its affiliates. The Board of Regents has the authority to establish and amend the benefit plans.

The contribution requirements of the eligible retirees and the participating university locations, such as the University of California,

San Diego, are established and may be amended by the university. Membership in the University of California Retirement Program (UCRP) is required to become eligible for retiree health benefits. Contributions toward benefits are shared with the retiree. The university determines the employer's contribution. Retirees are required to pay the difference between the employer's contribution and the full cost of the health insurance. Retirees employed by the campus prior to 1990 are eligible for the maximum employer contribution if they retire before age fifty-five and have at least ten years of service, or if they retire at age fifty-five or later and have at least five years of service. Retirees employed by the campus after 1989 and not rehired after that date are subject to graduated eligibility provisions that generally require ten years of service before becoming eligible for 50 percent of the maximum employer contribution, increasing to 100 percent after twenty years of service.

Participating university locations, such as the UC San Diego campus, are required to contribute at a rate assessed each year by the University of California Retiree Health Benefit Trust. The contribution requirements are based upon projected pay-as-you-go financing requirements. The assessment rates were \$3.12 and \$3.09 per \$100 of UCRP covered payroll, resulting in campus contributions of \$9.1 million and \$1 million for the years ended June 30, 2010, and 2009, respectively.

The actuarial value of UCRHBT assets and the actuarial accrued liability associated with the university's campuses and medical centers using the entry-age normal cost method as of July 1, 2009, the date of the latest actuarial valuation, were \$76.9 million and \$14.5 billion, respectively. The net assets held in trust for pension benefits on the UCRHBT's Statement of Plan Fiduciary Net Assets were \$69.4 million at June 30, 2010. For the years ended June 30, 2010, and 2009, combined contributions from the university's campuses and medical centers were \$283.5 million and \$278.5 million, respectively, including an implicit subsidy of \$49.5 million and \$44.1 million, respectively. The university's annual retiree health benefit expense for its campuses and medical centers was \$1.6 billion and \$1.5 billion for the years ended June 30, 2010, and 2009, respectively. As a result of contributions that were less than the retiree health benefit expense, the university's obligation for retiree health benefits attributable to its campuses and medical centers totaling \$3.7 billion at June 30, 2010, increased by \$1.4 billion and \$1.2 billion for the years ended June 30, 2010, and 2009, respectively.

Information related to plan assets and liabilities as they relate to individual campuses and medical centers is not readily available. Additional information on the retiree health plans can be obtained from the 2009–10 annual reports of the University of California and the University of California Health and Welfare Program.

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

UCRP provides lifetime retirement income, disability protection, and survivor benefits to eligible employees. Benefits are based on

the average of the highest three years of compensation, age, and years of service and are subject to limited cost-of-living increases.

Contributions to UCRP may be made by the campus and the employees. The rates for contributions as a percentage of payroll are determined annually pursuant to the regents' funding policy and based upon recommendations of the consulting actuary. The regents determine the portion of the total contribution to be made by the campus and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements. As a result of the funded status of UCRP, during the year ended June 30, 2009, there were no required campus or employee contributions other than for service credit buybacks.

The actuarial value of UCRP assets and the actuarial accrued liability associated with the university's campuses and medical centers using the entry age normal cost method as of July 1, 2009, the date of the latest actuarial valuation, were \$34.8 billion and \$36.8 billion, respectively, resulting in a funded ratio of 94.8 percent. The net assets held in trust for pension benefits attributable to the campuses and medical centers included in the UCRP Statement of Plan's Fiduciary Net Assets were \$34.6 billion and \$32.3 billion at June 30, 2010, and June 30, 2009, respectively.

For the years ended June 30, 2010, and 2009, the university's campuses and medical centers contributed a combined \$64.8 million and \$0.4 million, respectively. The university's annual UCRP benefits expense for its campuses and medical centers was \$1.6 billion for the year ended June 30, 2010. As a result of contributions that were less than the UCRP benefits expense, the university's obligation for UCRP benefits attributable to its campuses and medical centers increased by \$1.5 billion for the year ended June 30, 2010.

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

Information related to plan assets and liabilities as they relate to campus employees is not readily available. Additional information on the retirement plans can be obtained from the 2009–10 annual reports of the University of California Retirement Plan, the University of California Retirement Savings Plan, and the University of California PERS–VERIP.

**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.