UC DAVIS

2011 FINANCIAL REPORT

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A MESSAGE TO
Chancellor Linda P.B. Katehi

THIS REPORT SETS FORTH the financial position and results of operations of the University of California, Davis for the fiscal year ended June 30, 2011.

As California struggles through the worst economic downturn since the 1930s, state support for higher education continues to decline. UC Davis continues to take actions to protect the quality of our academic programs and to implement measures to make the campus a more efficient and effective enterprise in support of the academic mission. Through this period of fiscal uncertainty, we remain determined to preserve the high quality of a UC Davis education.

In 2011, the entire UC Davis community joined together to support a Vision of Excellence to help us reach our goals: to be an engine of innovation, to create more sustainable technologies, to address pressing global problems, to foster learning and scholarship of the highest quality, to advance a culture of organizational excellence and to be rightfully recognized as one of the world's top public research universities.

The financial strengths of the campus continue to include a diverse source of revenues, including those from student fees, the state of California, federally sponsored grants and contracts, the medical center, private support and self-supporting enterprises. Expenses for UC Davis' core activities were $3.0 billion in 2011 compared to $2.8 billion in 2010 while revenues supporting those activities were $3.3 billion in 2011 compared to $3.0 billion in 2010. Capital assets increased by $77 million in 2011, a reflection of the campus' continuing commitment to provide the facilities necessary to support the campus' mission and for patient care. UC Davis' net assets increased to $3.2 billion as of June 30, 2011.

The UC Davis Financial Statements are not individually audited, but rather are audited as part of the Consolidated Annual Financial Report of the University of California by the firm of PricewaterhouseCoopers LLP, who has issued an unqualified opinion thereon dated October 12, 2011 that has been transmitted to the UC Board of Regents.

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

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

John Meyer
Vice Chancellor for Administration and Resource Management

J. Michael Allred
Associate Vice Chancellor for Finance/Controller

MANAGEMENT'S DISCUSSION
and Analysis

The objective of Management's Discussion and Analysis (MD&A) is to give readers an overview of the financial position and operating activities of the University of California, Davis (UC Davis) for the year ended June 30, 2011, with selected comparative information for the year ended June 30, 2010. This discussion should be read in conjunction with the financial statements and the notes to the financial statements.

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

UNIVERSITY OF CALIFORNIA, DAVIS

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

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

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

UC DAVIS FINANCIAL POSITION

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

At June 30, 2011, UC Davis' assets were $5.3 billion, liabilities were almost $2.1 billion and net assets were $3.2 billion, with an increase of $317 million from 2010.

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

	JUNE 30, 2011	JUNE 30, 2010	CHANGE
ASSETS			
Investments	$1,619	$1,408	$211
Accounts receivable, net	439	402	37
Capital assets, net	3,079	3,002	77
Other assets	170	158	12
TOTAL ASSETS	**5,307**	**4,970**	**337**
LIABILITIES			
Debt	1,404	1,425	(21)
Other liabilities	698	657	41
TOTAL LIABILITIES	**2,102**	**2,082**	**20**
NET ASSETS			
Investment in capital assets, net of related debt	1,675	1,577	98
Restricted: nonexpendable	108	97	11
Restricted: expendable	537	465	72
Unrestricted	885	749	136
TOTAL NET ASSETS	**$3,205**	**$2,888**	**$317**

UC DAVIS ASSETS

UC Davis' total assets have grown by $337 million in 2011 to $5.3 billion. Generally, over the past two years, capital assets have increased while investments have increased or decreased consistent with market performance.

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, 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 have affected the valuation of investments. The Regents of the University of California (the regents) utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. The GEP portfolio return was up 20.2 percent in 2011 and 11.3 percent in 2010. TRIP had a positive return of 11.2 percent in 2011 and 14.0 percent in 2010. STIP had positive returns of 2.5 percent and 2.7 percent in 2011 and 2010, respectively.

Accounts receivable increased by $37 million from $402 million in 2010 to $439 million in 2011 reflecting an increase in patient accounts receivables. The increase is primarily due to a decrease in patient collections and delays in state Medi-Cal payments reflecting the continued impact of the economic recession. Accounts receivable include those from the state and federal government, local and private grants and contracts, receivables associated with the Medical Center related to patient care and from others. Receivables are reported net of bad debt allowances.

Capital assets include land, infrastructure, buildings and improvements, equipment, libraries, collections and construction in progress. As has been the case in recent years, the required spending for capital assets continues to increase. The original cost of capital assets increased by almost $251 million in 2011 compared to $283 million in 2010, consisting of capital expenditures of $297 million offset by $46 million of capital assets disposed of during the year in the normal course of doing business. Capital expenditures in 2010 were $331 million and disposals were $49 million. During 2011, capitalized costs for completed projects were $107 million. Capitalized buildings and improvements included the Surgery and Emergency Services Pavilion for $38 million and various other buildings. Projects under construction, net of the cost of those projects completed and reclassified during 2011 to buildings and improvements or equipment, totaled $218 million.

Accumulated depreciation increased from $2.1 billion in 2010 to $2.3 billion in 2011. Depreciation expense for the year was $217 million and the accumulated depreciation on assets sold or disposed of during the year was almost $42 million. Generally, all of the disposals were for equipment that was fully depreciated or had reached the end of its useful life.

Other assets include deferred charges, pledges receivable, notes and mortgages receivable and inventories and totaled $170 million for 2011 and $158 million for 2010.

UC DAVIS LIABILITIES

In 2011, UC Davis' total liabilities increased by $15 million to almost $2.1 billion in 2011, principally due to an increase in accrued salaries and benefits, deferred revenue and compensated absenses. Capital expenditures are financed from a variety of sources including equity contributions, federal and state support, revenue bonds and leases. UC Davis' debt to finance capital assets declined to $1,404 million in 2011, a decrease of $21 million from $1,425 million in 2010.

General revenue bonds totaling $396 million, Limited Project Revenue Bonds of $682 million and Medical Center Pooled Revenue Bonds of $757 million were issued to finance and refinance certain facilities and projects of the university. UC Davis' portion was $51 million and was used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper and bank loans.

Reductions to outstanding debt in 2011 were $65.3 million primarily consisting of principal payments associated with scheduled debt service on revenue bonds, capital lease obligations and other borrowings, net of $1.6 million of deferred financing costs.

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

In 2010, UC Davis' total debt increased by $162 million to $1,425 million.

In August 2009, general revenue bonds totaling $1.3 billion, including $1.0 billion of taxable "Build America Bonds" and $300.6 million of tax-exempt bonds, were issued to finance and refinance certain facilities and projects of the university. UC Davis' portion was $107.5 million and was used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper and bank loans.

In April 2010, general revenue bonds totaling $85.5 million, including $75.4 million of tax-exempt bonds and $10.1 million of taxable bonds, were issued to finance and refinance certain facilities and projects of the university. UC Davis' portion was $8 million and was used to pay for project construction and issuance costs and to repay interim financing incurred prior to the issuance of the bonds, including commercial paper.

The university entered into a lease-purchase agreement with the state in April 2010, recorded as a capital lease, totaling $271 million to finance the construction of certain university projects. The state provides financing appropriations to the university to satisfy the annual lease requirement. At the conclusion of the lease term, ownership transfers to the university. UC Davis' portion of the new lease-purchase agreement was $76 million. In addition to lease-purchase agreements with the state, new capital lease obligations entered into during 2010 for equipment totaled $15 million.

Reductions to outstanding debt in 2010 were $60 million primarily consisting of principal payments associated with scheduled debt service on revenue bonds, capital lease obligations and other borrowings, net of $2 million of deferred financing costs.

Other liabilities, including accounts payable, accrued salaries and benefits, deferred revenue, and federal refundable loans increased from $657 million in 2010 to $693 million in 2011.

UC DAVIS NET ASSETS

Net assets represent the residual interest in UC Davis' assets after all liabilities are deducted. UC Davis' net assets at the end of 2011 were $3.2 billion, with an increase of $317 million from 2010. Net assets are reported in four major categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted.

The portion of net assets invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of these capital assets increased by $98 million from $1,577 million in 2010 to $1,675 million in 2011.

Restricted nonexpendable net assets include the corpus of UC Davis' permanent endowments and the estimated value of charitable remainder trusts. At June 30, 2011 the total market value of UC Davis' endowments and other restricted nonexpendable net assets was $108 million. At June 30, 2010 the total market value of UC Davis' endowments and other restricted nonexpendable net assets was $97 million.

Restricted expendable net assets of $537 million, at June 30, 2011, are subject to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include endowment income and gains, subject to UC Davis' spending policy; support received from gifts, appropriations, grants or contracts for specific programs or capital projects; trustee held investments; or other third party receipts.

In 2011, the increase in restricted, expendable funds is principally related to restricted gifts and funds functioning as endowments net of unrealized appreciation in the fair value of the investments. In 2011, net unrealized appreciation in the fair value of investments related to restricted gifts and funds functioning as endowments totaled $66 million. In 2010, net unrealized appreciation in the fair value of investments related to restricted gifts and funds functioning as endowments totaled $25 million.

Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, substantially all of these net assets are designated for academic and research initiatives or programs, or for capital purposes. Unrestricted net assets increased by $136 million in 2011, from $749 million in 2010 to $885 million in 2011, primarily due to increases in medical center reserves.

UC DAVIS RESULTS OF OPERATIONS

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

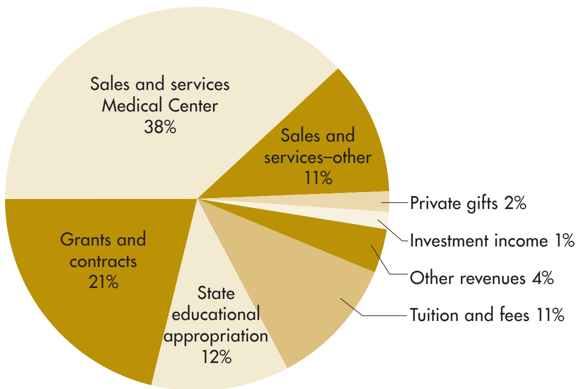
Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Nonoperating revenues are revenues received for which goods and services are not provided. In accordance with Governmental Accounting Standards Board (GASB) requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the university are mandated to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income. A summarized comparison of the operating results for 2011 and 2010, arranged in an informative format that matches the revenues supporting the core activities of UC Davis with the expenses associated with core activities is as follows:

OPERATING RESULTS FOR 2010 AND 2011 (DOLLARS IN MILLIONS)

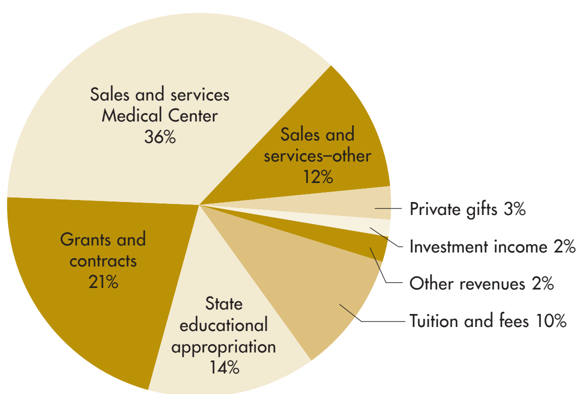
	YEAR ENDED JUNE 30, 2011			YEAR ENDED JUNE 30, 2010			
	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL	CHANGE
REVENUES							
Student tuition and fees, net	$362		$362	$312		$312	$50
State educational appropriations		383	383		432	432	(49)
Grants and contracts	649	48	697	611	38	649	48
Sales and services:							
Medical center	1,257		1,257	1,106		1,106	151
Other	371		371	346		346	25
Private gifts		57	57		85	85	(28)
Investment income		48	48		43	43	5
Other revenues	50	72	122	42	23	65	57
REVENUES SUPPORTING CORE ACTIVITIES	**2,689**	**608**	**3,297**	**2,417**	**621**	**3,038**	**259**
EXPENSES							
Salaries and benefits	2,001		2,001	1,859		1,859	142
Scholarships and fellowships	64		64	65		65	(1)
Utilities	40		40	46		46	(6)
Supplies and materials	357		357	370		370	(13)
Depreciation	217		217	183		183	34
Interest expense		57	57		54	54	3
Other expenses	344		344	253		253	91
EXPENSES ASSOCIATED WITH CORE ACTIVITIES	**3,023**	**57**	**3,080**	**2,776**	**54**	**2,830**	**250**
INCOME (LOSS) FROM CORE ACTIVITES	**$(334)**	**551**	**217**	**$(359)**	**567**	**208**	**9**
OTHER NONOPERATING ACTIVITIES							
Net appreciation (depreciation) in fair value of investments			62			23	39
INCOME BEFORE OTHER CHANGES IN NET ASSETS			**279**			**231**	**48**
OTHER CHANGES IN NET ASSETS							
State capital appropriations			21			9	12
Capital gifts and grants			6			14	(8)
Permanent endowments			11			2	9
INCREASE (DECREASE) IN NET ASSETS			**317**			**256**	**61**
NET ASSETS							
Net assets beginning of year			2,888			2,632	256
NET ASSETS END OF YEAR			**$3,205**			**$2,888**	**$317**

REVENUES SUPPORTING CORE ACTIVITIES

The following chart provides a breakdown of revenues supporting core activities for the fiscal year ended June 30, 2011.



The following chart provides a breakdown of revenues supporting core activities for the fiscal year ended June 30, 2010.



Revenues to support UC Davis' core activities of $3.3 billion, including those classified as nonoperating revenues, increased by $259 million from 2010 to 2011. UC Davis has very diversified sources of revenue. State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of the university. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country. Gifts to UC Davis allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Sales and service revenue includes the medical center, educational activities and auxiliary enterprises such as student housing, the bookstore, food service operations and parking.

Student tuition and fees revenue grew from $312 million in 2010 to $362 million in 2011, an increase of $50 million. These fees are net of scholarship allowances of $79 million in 2010 and $105 million in 2011. The new fee revenue over the past several years has generally been necessitated by growth in the demand for resources that has outpaced state educational appropriations. Consistent with past practices, one-third of the revenue generated from these fee increases is used for financial aid to mitigate the impact on needy students.

In 2011, undergraduate, graduate and professional student enrollment increased by under one percent. Resident undergraduate and graduate student fees increased by 19.02 percent and 13.98 percent, respectively. Professional school fees increased from 2 to 20 percent and nonresident student tuition increased by 6 percent.

In 2010, undergraduate, graduate and professional student enrollment increased by almost 1.5 percent. Resident and non-resident undergraduate and graduate student fees were increased by 9.3 percent effective summer 2009 and 15 percent effective winter 2010. The additional mid-year increase to tuition was in response to the reduction in state educational appropriations. Professional school fees increases varied by discipline, although most degree program fees rose substantially.

State of California educational appropriations to UC Davis were $383 million in 2011 and $432 million in 2010. State education appropriations decreased by $49 million in 2011. The increase of $70 million in 2010 from 2009 was primarily due to federal pass-through stimulus funds. State resources for enrollment growth, faculty and staff increases, and other inflationary cost increases were not available, leading to an increase in student tuition and fees.

Revenue from federal, state, private and local grants and contracts of $697 million increased by $48 million or 7.4 percent from 2010. Federal grant and contract revenue, including facilities and administration cost recovery of $89 million and direct expenditures of $353 million, grew by $46 million (10.4 percent) to $442 million due to an increase in both award levels and number of awards granted. This revenue represents support from a variety of agencies including the Department of Health and Human Services, $223 million; the Department of Education, $62 million; the National Science Foundation, $52 million; and the Department of Agriculture, $28 million. State grants (including special research appropriations) and contracts decreased by $2 million (2 percent) primarily due to a decreases in award levels in various state agencies. Private contracts and grants increased by $11 million (8.8 percent) reflecting an increase in the number of private grants and contracts.

Revenue from the UC Davis Medical Center, educational activities and auxiliary enterprises of over $1.6 billion increased by $176 million, or 12% percent, from 2010. UC Davis Medical Center revenue increased by $151 million over the prior year to almost $1.3 billion in 2011. The revenue growth is primarily due to renegotiated contracts, rate adjustments and an increase in patient activity. Sales from educational activities, primarily physicians' professional fees and auxiliary enterprises increased by $25 million or 7.2 percent reflecting a decrease in the difference between medical contractual and actual costs.

Gifts may be made directly to UC Davis or through the UC Davis Foundation. UC Davis' private gifts for operating purposes decreased by $28 million in 2011 to $57 million, primarily due to a decrease in the number of gifts. UC Davis continues to be aggressive in developing private revenue sources, and when gifts to the UC Davis Foundation are included with those given directly to UC Davis, gifts have generally increased over the past several years.

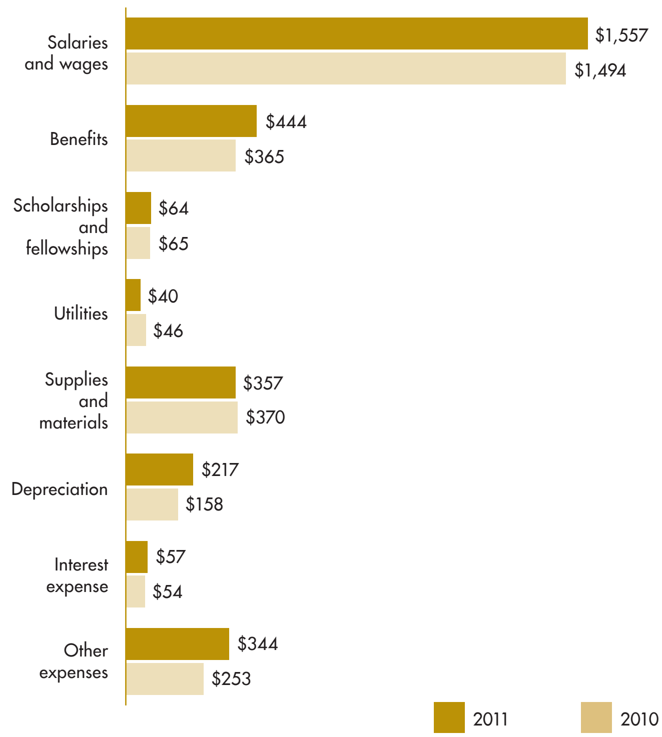
Investment income for the year of $48 million consisted of $15 million from the University of California's Short Term Investment Pool (STIP), $15 million from the University of California's Total Return Investment Pool (TRIP), and $18 million from endowments. Investment income in 2010 totaled $43 million consisting of $17 million from STIP, $6 from TRIP and $20 million from endowments.

Other revenues for 2011 of $122 million, including $29 million of state financing appropriations, $41 million of other revenues and $2 million in federal interest subsidies are reported as non-operating revenue and $50 million of other revenue reported as operating revenue, increased by $57 million from 2010. The state of California financing appropriation is directly related to the required rental payments under lease-purchase agreements with the state of California.

EXPENSES ASSOCIATED WITH CORE ACTIVITIES

The following chart provides a breakdown of expenses associated with core activities for the fiscal years ended June 30, 2011 and 2010.

EXPENSES ASSOCIATED WITH CORE ACTIVITIES (DOLLARS IN MILLIONS)



UC Davis' expenses associated with core activities for 2011, including those classified as non-operating expenses were $3.0 billion, an increase of $250 million, or about 9 percent, from 2010. More than half of UC Davis' expenses are related to salaries and benefits for over 20,000 full time equivalent employees of UC Davis.

In 2011, salaries and wages saw a small increase from 2010 due to scheduled salary increases for union and academic personnel. Benefits increased by $79 million, or 22 percent, from $365 million in 2010, to $444 million in 2011 primarily due to the increase in annual contributions required for pension benefits and increases in health insurance costs for current and retired employees.

Scholarships and fellowships, payments of financial aid made directly to students and reported as operating expenses were $64 million in 2011, a decrease of $1 million, or 1 percent, from 2010. Scholarship allowances, fee waivers and other indirect payments by UC Davis are also forms of financial aid that increased from $97 million in 2010 to $135 million in 2011, an increase of $38 million. However, scholarship allowances are reported as an offset to revenue, not as operating expenses. On a combined basis, financial aid to students in all forms grew from $162 million in 2010 to $200 million in 2011, an increase of $38 million.

Utility costs decreased from $46 million in 2010 to $40 million in 2011. During 2011, supplies and materials costs decreased by $13 million, or 3.5 percent. There continues to be inflationary pressure on the cost of medical supplies and laboratory instruments and higher costs for the general supplies necessary to support expanded research activity and student enrollment. The campus continues to find opportunities to manage expenses in light of reduced state appropriations. Other operating expenses increased by $91 million, from $253 million in 2010 to $344 million.

In accordance with GASB's reporting standards, operating losses were $334 million in 2011 and $359 million in 2010. However, these operating losses were offset by $551 million and $567 million of net revenues in 2011 and 2010, respectively, classified as non-operating by GASB, but clearly supporting the operating activities of UC Davis. Therefore, revenue to support core activities exceeded the associated expenses by $217 million in 2011 and $208 million in 2010. This income is restricted by either legal or fiduciary obligations, allocated for academic and research initiatives or programs, required for debt service, or required for capital purposes.

OTHER NONOPERATING ACTIVITIES

UC Davis' nonoperating activities consisting of net appreciation or depreciation in the fair value of investments are noncash transactions and, therefore, are not available to support operating expenses.

In 2011, UC Davis recognized net appreciation in the fair value of investments of $62 million compared to net appreciation of $23 million during 2010. Equity markets recovered in both 2011 and 2010 offsetting losses incurred in 2009.

OTHER CHANGES IN NET ASSETS

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

State capital appropriations increased by $12 million in 2011 to $20 million from $9 million In 2010. Capital appropriations are from bond measures approved by California voters.

UC DAVIS STATEMENT OF CASH FLOWS

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

A summary comparison of cash flows for 2011 and 2010 is as follows (in millions of dollars):

	6/30/11	6/30/10	CHANGE
CASH PROVIDED (USED) BY:			
Operating activities	$(139)	$(215)	$76
Noncapital financing activities	524	562	(38)
Capital and related financing activities	(283)	(143)	(140)
Investing activities	22	16	6
NET INCREASE (DECREASE) IN CASH	**124**	**220**	**(96)**
Cash, beginning of the year	972	752	220
CASH, END OF THE YEAR	**$1,096**	**$972**	**$124**

UC Davis' cash increased to almost $1.1 billion in 2011 from $972 million in 2010 primarily due to the timing of cash needs from one year to the next. Substantially all of UC Davis' cash is invested in the Short Term Investment Pool (STIP) and Total Return Investment Pool (TRIP) managed by the treasurer of the regents and considered as demand deposits.

Cash of $139 million was used for operating activities, offset by $524 million in cash provided by noncapital financing activities. Noncapital financing activities, as defined by GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operating activities.

Cash used by capital and related financing activities totaled $283 million in 2011, primarily the result of capital assets acquired during the year and principal and interest paid on debt and capital leases, partially offset by state capital and financing appropriations and gifts for capital purposes. Cash provided by investing activities totaled $22 million in 2011.

LOOKING FORWARD

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

For the last 15 years, the university's budgetary planning has been guided by an agreement about funding and accountability reached with each Governor. These funding agreements were a comprehensive statement of the minimum resources needed for the university to accommodate enrollment growth and sustain the quality of the institution. These agreements were intended to provide the university with base budget adjustments to fund compensation, non-salary cost increases, and other programmatic needs related to its basic operations, enrollment funding, and funding for initiatives mutually agreed upon by the university and the state. These agreements were honored and often exceeded in years in which the state's fiscal situation was healthy. However, in years in which the state was in the midst of fiscal crisis, the agreements were either only partially honored or suspended. Most recently, for 2006 through 2008, state funding increased by more than $550 million, allowing the university to continue enrollment growth, provide compensation increases for faculty and staff and avoid a student fee increase in 2007.

However, for 2009 through 2012, the university has experienced major budget reductions and received funding for enrollment growth only in 2011. Permanent and one-time cuts to the university's budget for 2009 totaled $814.1 million, although these reductions were partially offset by State Fiscal Stabilization Funds authorized by the federal economic stimulus act. For 2010, permanent and one-time cuts in state funding totaled $637.1 million (from the level of state funding in 2008), essentially erasing the gains made over the previous years. In 2011, the university received $371 million as partial restoration of 2010 cuts and for enrollment growth of 5,000 students. This restoration was erased and additional cuts added with the budget for 2012, which cut the university's state funds by another $650 million. The budget also includes a provision that will trigger another $100 million in cuts if certain revenue assumptions are not realized by the state. With the budget for 2012, state funds allocated for UC total $2.37 billion. This total is more than $1.5 billion less than it would have been under the most recent agreement with the Governor and nearly $900 million less than the support provided through 2008, before the latest fiscal crisis began. The fiscal problems associated with the inability of the state to honor former Governor Schwarzenegger's agreement with the university—including its inability to fund enrollment growth of more than 11,000 students—and subsequent state funding reductions are compounded by unfunded cost increases for academic merit increases, collective bargaining agreements, health benefits costs and costs for purchased utilities. When these unfunded mandatory cost increases are considered, the university is addressing a total shortfall of over $1 billion in 2012.

UC Davis remains highly competitive in attracting federal grants and contracts revenue, with fluctuations in the awards received closely paralleling trends in the budgets of federal research granting agencies. Over two-thirds of the campus' federal research revenue comes from two agencies, the Department of Health and Human Services, primarily through the National Institutes of Health, and the National Science Foundation. Other agencies that figure prominently in UC Davis' awards are the Department of Education, Department of Defense, the Department of Agriculture and the Department of Energy. While the federal government works through its own financial constraints, there is a bipartisan effort underway to focus on innovation and competitiveness for the nation. In 2011, UC Davis attracted $45 million in additional awards for research funding from federal economic stimulus funds made available by the American Recovery and Reinvestment Act (ARRA), representing approximately 11% of the campus' federal awards in 2011. Federal agencies have now awarded most of their ARRA funds and the funds are expected to be fully expended by 2014. UC Davis is a unique national resource for helping the nation address competitiveness and economic initiatives.

UC Davis' private support is a testament to its distinction as a leader in philanthropy among the nation's colleges and universities and the high regard in which its alumni, corporations, foundations and other supporters hold the campus. The level of private support underscores the continued confidence among donors in the quality of UC Davis' programs and the importance of its mission. At the same time, private support in 2012 will likely continue to reflect the changes in the economy and financial markets, the effect of which is not determinable at this time.

Affordable and accessible student housing continues to be required in order to satisfy demand. Most campus residence halls are occupied at design capacity. UC Davis is responding to increased demand by building student housing in the traditional manner, with housing fees set to generate sufficient revenue to cover direct and indirect operating costs and debt service and by seeking development opportunities for privately owned housing on the campus.

Currently, the university does not pre-fund retiree health benefits and provides for benefits on a pay-as-you-go basis. The unfunded liability for the campuses and medical centers as of the July 1, 2010 actuarial valuation was $15.4 billion. The regents approved a new eligibility formula for the Retiree Health Plan for all employees hired on or after July 1, 2013, and non-grandfathered members, that is based on a graduated formula using both a member's age and years of Retirement Plan service credit upon retirement, subject to collective bargaining for represented members.

UCRP costs are funded by a combination of investment earnings, employee member and employer contributions. The unfunded liability for the campuses and medical centers as of the July 1, 2010 actuarial valuation was $5.4 billion or 86.2 percent funded. The total funding policy contributions in the July 1, 2010 actuarial valuations represent 22.5 percent of covered compensation. As of July 1, 2011, the funded ratio is expected to decrease to approximately 82.5 percent. At its September 2010 meeting, the regents approved increasing the employer and employee contribution rates to UCRP. Contributions by members will be increased to 3.5 percent of covered compensation in July 2011 and 5 percent in July 2012 and contributions by the university will be increased to 7 percent of covered compensation in July 2011 and 10 percent in July 2012. These contribution rates are below UCRP's total funding contributions. The regents also approved a new tier of pension benefits applicable to employees hired on or after July 1, 2013, which would increase the early retirement age from 50 to 55, but retain many of the current features of UCRP. The new tier would not offer lump sum cashouts, inactive member Cost of Living Adjustments (COLAs), or subsidized survivor annuities for spouses and domestic partners. These changes are subject to collective bargaining for union-represented employees.

On August 8, 2011, Standard & Poor's downgraded the credit ratings of certain long-term debt instruments issued by Fannie Mae and Freddie Mac and other U.S. government agencies linked to long-term U.S. debt. These actions initially had an adverse effect on financial markets and we unable to predict the longer-term impact on such markets. These downgrades could adversely affect the market value of such instruments and the credit risk associated with the university's investments in U.S. Treasury securities held as investments by the university. These downgrades could also adversely impact the university's ability to obtain financing, as well as affecting the pricing of that financing when it is available, our credit ratings as well as the credit ratings of our counterparties.

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

The continuing financial success of the medical center is predicated on a multifaceted strategy, which includes competing in commercial markets and offering high quality regional services. Positive results in commercial contracts have helped address the lack of support for medical education and care for the poor. Further, the medical center remains competitive in the market by reducing costs through improved efficiencies, making strategic investments and by expanding its presence in the market through stronger links with other providers and payors. Payment strategies must recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment and invest in infrastructure and program expansion.

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. On March 30, 2010 the Health Care and Education Reconciliation Act of 2010 was signed, amending the PPACA (collectively the "Affordable Care Act"). The Affordable Care Act addresses a broad range of topics affecting the health care industry, including a significant expansion of healthcare coverage. The coverage expansion is accomplished primarily through incentives for individuals to obtain and employers to provide health care coverage and an expansion in Medicaid eligibility. The Affordability Act also includes incentives for medical research and the use of electronic health records, changes designed to curb fraud, waste and abuse, and creates new agencies and demonstration projects to promote the innovation and efficiency in the healthcare delivery system. Some provisions of the health care reform legislation are effective immediately; others will be phased in through 2014. Further legislative policies are required for several provisions that will be effective in future years. The impact of this legislation will likely affect the medical center; the effects of the changes that will be required in future years are not determinable at this time.

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

UNIVERSITY OF CALIFORNIA, DAVIS
STATEMENT OF NET ASSETS
AT JUNE 30, 2011 AND 2010 (IN THOUSANDS OF DOLLARS)

	UC DAVIS		UC DAVIS FOUNDATION	
	2011	**2010**	**2011**	**2010**
ASSETS				
Current Assets				
Cash	$1,095,586	$971,899	$19,380	$17,540
Investments held by trustees	762	773		
Accounts receivable, net	438,673	402,004	3	1
Pledges receivable	2,166	2,513	2,317	3,075
Current portion of notes & mortgages receivable, net	8,879	7,941		
Inventories	25,604	24,076		
Other current assets	33,188	33,049	–	1
TOTAL CURRENT ASSETS	**1,604,858**	**1,442,255**	**21,700**	**20,617**
Noncurrent Assets				
Investments	521,975	433,554	240,568	194,907
Investments held by trustees	340	1,358		
Pledges receivable, net	2,344	2,960	3,418	5,652
Notes and mortgages receivable, net	69,778	62,583		
Land, buildings, equipment, libraries and collections, net	3,079,082	3,002,385		
Other noncurrent assets	28,348	24,779		
TOTAL NONCURRENT ASSETS	**3,701,867**	**3,527,619**	**243,986**	**200,559**
TOTAL ASSETS	**5,306,725**	**4,969,874**	**265,686**	**221,176**
LIABILITIES				
Current Liabilities				
Accounts payable	126,789	113,269	1	
Accrued salaries and benefits	149,698	142,714		
Deferred revenue	114,265	114,392		
Current portion of long-term debt	78,449	72,418		
Funds held for others			1,440	1,410
Other current liabilities	169,760	139,169		
TOTAL CURRENT LIABILITIES	**638,961**	**581,962**	**1,441**	**1,410**
Noncurrent Liabilities				
Refundable federal loans	53,515	50,133		
Obligations under life income agreements			7,202	7,141
Long term debt	1,325,936	1,353,052		
Other noncurrent liabilities	83,724	96,648	5,330	4,523
TOTAL NONCURRENT LIABILITIES	**1,463,175**	**1,499,833**	**12,532**	**11,664**
TOTAL LIABILITIES	**2,102,136**	**2,081,795**	**13,973**	**13,074**
NET ASSETS				
Invested in capital assets, net of related debt	1,674,694	1,576,915		
Restricted:				
Nonexpendable:				
Endowments and gifts	108,274	97,036	145,738	123,532
Expendable:				
Endowments and gifts	533, 395	452,080	103,742	81,158
Other, including loans, capital projects, debt service and appropriations	3,476	13,460		
Unrestricted	884,750	748,588	2,233	3,412
TOTAL NET ASSETS	**$3,204,589**	**$2,888,079**	**251,713**	**208,102**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA, DAVIS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

IN YEARS ENDED JUNE 30, 2011 AND 2010 (IN THOUSANDS OF DOLLARS)

	UC DAVIS		UC DAVIS FOUNDATION	
	2011	2010	2011	2010
OPERATING REVENUES				
Student tuition and fees, net	$362,186	$312,233		
Grants and contracts:				
Federal	394,215	357,906		
State	107,126	109,066		
Private	137,454	126,316		
Local	10,578	17,705		
Sales and services:				
Medical center	1,256,699	1,106,077		
Educational activities	282,032	252,815		
Auxiliary enterprises, net	88,428	92,727		
Campus foundation private gifts			$9,121	$10,637
Other operating revenues, net	49,578	41,844	6	77
TOTAL OPERATING REVENUES	**2,688,296**	**2,416,689**	**9,127**	**10,714**
OPERATING EXPENSES				
Salaries and wages	1,556,793	1,494,356		
Benefits	444,284	364,247		
Scholarships and fellowships	63,906	65,414		
Utilities	40,311	46,104		
Supplies and materials	357,008	370,407		
Depreciation	217,380	182,548		
Campus foundation grants			15,465	58,907
Other operating expenses	343,529	252,545	218	218
TOTAL OPERATING EXPENSES	**3,023,211**	**2,775,621**	**15,683**	**59,125**
OPERATING INCOME (LOSS)	**(334,915)**	**(358,932)**	**(6,556)**	**(48,411)**
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	382,697	431,929		
State financing appropriations	29,420	16,576		
Build America Bonds federal interest subsidies	1,921	966		
Federal Pell grants	48,432	38,463		
Private gifts	56,618	84,936		
Investment income	48,184	42,610	2,428	3,402
Net appreciation (depreciation) in fair value of investments	66,129	25,140	31,318	14,158
Interest expense	(57,217)	(54,570)		
Loss on disposal of capital assets, net of proceeds	(3,837)	(2,464)		
Other nonoperating revenues	40,992	4,778	925	466
NET NONOPERATING REVENUES (EXPENSES)	**613,339**	**588,364**	**34,671**	**18,026**
INCOME (LOSS) BEFORE OTHER CHANGES IN NET ASSETS	**278,424**	**229,432**	**28,115**	**(30,385)**
OTHER CHANGES IN NET ASSETS				
State capital appropriations	20,427	9,425		
Capital gifts and grants	6,420	14,412		
Permanent endowments	11,239	2,318	15,496	10,866
OTHER CHANGES IN NET ASSETS	**38,086**	**26,155**	**15,496**	**10,866**
INCREASE (DECREASE) IN NET ASSETS	**316,510**	**255,587**	**43,611**	**(19,519)**
NET ASSETS				
Net assets, beginning of year, restated	2,888,079	2,632,492	208,102	227,621
NET ASSETS, END OF YEAR	**$3,204,589**	**$2,888,079**	**251,713**	**208,102**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA, DAVIS
STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010 (IN THOUSANDS OF DOLLARS)

	UC DAVIS		UC DAVIS FOUNDATION	
	2011	2010	2011	2010
CASH FLOWS FROM OPERATIONAL ACTIVITIES				
Student tuition and fees	$361,780	$311,885		
Grants and contracts	656,416	585,044		
Medical centers	1,216,120	1,075,787		
Educational activities	279,453	257,356		
Auxiliary enterprises	88,548	93,575		
Collections of loans to students and employees	9,462	10,808		
Private gifts			$10,650	$13,262
Payments to employees	(1,557,461)	(1,491,732)		
Payments to suppliers and utilities	(692,650)	(656,594)		
Payments for benefits	(440,452)	(355,884)		
Payments for scholarships and fellowships	(63,906)	(65,414)		
Loans issued to students and employees	(17,089)	(13,265)		
Payments to campus and beneficiaries			(17,014)	(60,594)
Other receipts	21,032	33,301	543	625
NET CASH USED BY OPERATING ACTIVITIES	**(138,747)**	**(215,133)**	**(5,821)**	**(46,707)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	382,697	434,570		
Federal Pell grants	48,415	38,257		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes	22,018	8,363	14,795	11,438
Other private gifts	24,214	77,649		
Other receipts (payments)	46,079	3,711		
NET CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	**523,423**	**562,550**	**$14,795**	**$11,438**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVIIES				
State capital appropriations	19,819	17,539		
State financing appropriations	24,094	12,126		
Build America Bonds federal interest subsidies	1,680	966		
Capital gifts and grants	272	(13)		
Proceeds from debt issuance	73,184	190,312		
Proceeds from the sale of capital assets	271	121		
Purchases of capital assets	(275,442)	(247,107)		
Refinancing/prepayment outstanding debt	(941)	–		
Principal paid on debt and capital leases	(63,716)	(58,104)		
Interest paid on debt and capital leases	(62,070)	(59,080)		
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(282,849)**	**(143,240)**		
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale and maturities of investments	13,159	13,462	210,335	6,064
Purchases of investments	(39,477)	(40,386)	(219,897)	(18,218)
Investment income, net of investment expense	48,178	42,584	2,428	3,402
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**21,860**	**15,660**	**(7,134)**	**(8,752)**
NET INCREASE (DECREASE) IN CASH	**123,687**	**219,837**	**1,840**	**(44,021)**
Cash - beginning of year	971,899	752,062	17,540	61,561
CASH - END OF YEAR	**$1,095,586**	**$971,899**	**$19,380**	**$17,540**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating income (loss)	(334,915)	(358,932)	(6,556)	(48,411)
Depreciation and amortization expense	217,380	182,548		
Noncash gifts			(1,463)	(881)
Allowance for doubtful accounts	(12,501)	14,892	700	1,933
Change in assets and liabilities:				
Investments			(793)	(942)
Receivables, net	(31,863)	(53,365)	2,290	1,574
Investments held by trustees	–	–		
Inventories	(1,527)	354		
Deferred charges	220	(6,533)		
Other assets	(4,076)	(1,622)	1	20
Accounts payable	(393)	(4,184)	1	–
Accrued salaries and benefits	6,984	(1,077)		
Deferred revenue	487	(7,470)		
Other liabilities	21,457	20,256		
NET CASH USED BY OPERATING ACTIVITIES	**$(138,747)**	**$(215,133)**	**$(5,820)**	**$(46,707)**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA, DAVIS
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

ORGANIZATION

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

FINANCIAL REPORTING ENTITY

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

GASB Statement No. 59, Financial Instruments Omnibus, was adopted by the university during the year ended June 30, 2011. This Statement updates existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. Implementation of Statement No. 59 had no effect on the university's net assets or changes in net assets for the years ended June 30, 2011 and 2010.

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, was adopted by the University during the year ended June 30, 2011. This Statement incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedures that were issued on or before November 30, 1989. Implementation of Statement No. 62 had no effect on the university's net assets or changes in net assets for the years ended June 30, 2011 and 2010.

OTHER ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

Estimated economic lives are generally as follows:

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

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

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

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

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

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

POLLUTION REMEDIATION OBLIGATIONS. Upon an obligating event, UC Davis estimates the components of any expected pollution remediation costs and recoveries from third parties. The costs, estimated using the expected cash flow technique, are generally accrued as a liability.

NET ASSETS. Net assets are required to be classified for accounting and reporting purposes into the following categories:

> **Invested in capital assets, net of related debt.** This category includes all of UC Davis' capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted. UC Davis classifies net assets resulting from transactions with purpose restrictions as restricted net assets until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable. Net assets subject to externally imposed restrictions that must be retained in perpetuity by UC Davis are classified as nonexpendable net assets. Such assets include UC Davis' permanent endowment funds that are held by the University of California and are not included in the UC Davis financial statements.

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

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

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

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

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

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

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

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

GRANT AND CONTRACT REVENUE. UC Davis receives grant and contract revenue from governmental and private sources. Revenue associated with the direct costs of sponsored programs is recognized as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs is at cost reimbursement rates negotiated with UC Davis' federal cognizant agency, the Department of Health and Human Services. For the fiscal year ended June 30, 2011, the facilities and administrative cost recovery totaled $122 million; $89 million from federally sponsored programs and $33 million from other sponsors. For the fiscal year ended June 30, 2010, the facilities and administrative cost recovery totaled $112 million; $82 million from federally sponsored programs and $30 million from other sponsors.

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

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

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

	2011	2010
Student tuition and fees	$105,031	78,912
Auxiliary enterprises	18,423	17,408
Other operating revenues	12,157	789
SCHOLARSHIP ALLOWANCES	**$135,611**	**$97,109**

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

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

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

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

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

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

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

1. CASH

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

UC Davis' deposits into STIP and TRIP are considered demand deposits. Unrealized gains and losses associated with the fluctuation in the fair value of the investments included in the STIP (and predominately held to maturity) are not recorded by each operating entity but are absorbed by the university, as the manager of the pool. At June 30, 2011 and 2010, the carrying value of UC Davis' demand deposits was almost $1.1 billion and $972 million, respectively.

2. INVESTMENTS

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

STIP allows participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities and is managed to maximize current earned income. Cash to provide for payroll, construction expenditures and other operating expenses for campuses and medical centers is invested in STIP. The available cash in endowment investment pools awaiting investment, or cash for administrative expenses, is also invested in STIP.

Investments authorized by the regents for STIP include fixed income securities with a maximum maturity of five and one-half years. In addition, TRIP allows the campus the opportunity to maximize the return on our long-term working capital by taking advantage of the economies of scale of investing in a large pool across a broad range of asset classes. TRIP is managed to a total return objective and is intended to supplement STIP. Investments authorized by the regents for TRIP include a diversified portfolio of equity and fixed income securities.

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

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

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

3. INVESTMENTS HELD BY TRUSTEES

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

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

The state financing appropriations to UC Davis are deposited in commingled U.C. bond funds managed by the state of California Treasurer's Office, as trustee, and used to satisfy the annual lease requirements under lease-purchase agreements with the state. The fair market value of these deposits was $173 thousand in 2011.

Investments held by trustees to be used for capital projects totaled $167 thousand as of June 30, 2011. Substantially all of these investments are of a highly liquid, short term nature.

Investments held by trustees for future landfill closure expenditures are in accordance with requirements of the California Integrated Waste Management Board. The fair value of these investments was $762 thousand at June 30, 2011.

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

4. ACCOUNTS RECEIVABLE

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

	STATE AND FEDERAL GOVERNMENT	MEDICAL CENTER	OTHER	TOTAL
At June 30, 2011:				
Accounts receivable	$87,747	$1.055,862	$98,089	$1,241,698
Allowance for uncollectible amounts	(60)	(788,127)	(14,838)	(803,025)
ACCOUNTS RECEIVABLE, NET	**$87,687**	**$267,735**	**$83,251**	**$438,673**
At June 30, 2010:				
Accounts receivable	$100,506	$831,367	$99,089	$1,030,962
Allowance for uncollectible amounts	(26)	(603,254)	(25,678)	(628,958)
ACCOUNTS RECEIVABLE, NET	**$100,480**	**$228,113**	**$73,411**	**$402,004**

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

5. PLEDGES RECEIVABLE

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

	2011	2010
Total pledges receivable outstanding	$4,566	$5,545
Less: Unamortized discount to present value	(43)	(72)
Allowance for uncollectible pledges	(13)	–
TOTAL PLEDGES RECEIVABLE, NET	**4,510**	**5,473**
Less: Current portion of pledges receivable	(2,166)	(2,513)
NONCURRENT PORTION OF PLEDGES RECEIVABLE	**$2,344**	**$2,960**

Payments of pledges receivable for each of the five fiscal years subsequent to June 30, 2011 and thereafter are as follows (in thousands of dollars):

YEAR ENDING JUNE 30	
2012	$2,179
2013	1,995
2014	172
2015	153
2016	47
2017–2021	20
TOTAL PAYMENTS ON PLEDGES RECEIVABLE	**$4,566**

6. NOTES AND MORTGAGES RECEIVABLE

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

	CURRENT PORTION	NONCURRENT PORTION		TOTAL
		NOTES	MORTGAGES	
At June 30, 2011				
Notes and mortgages receivable	$9,373	$76,147	$12	$85,532
Allowance for uncollectible amounts	(494)	(6,381)		(6,875)
NOTES AND MORTGAGES RECEIVABLE, NET	**$8,879**	**$69,766**	**$12**	**$78,657**
At June 30, 2010				
Notes and mortgages receivable	$8,538	$69,762	$403	$78,703
Allowance for uncollectible amounts	(597)	(7,582)		(8,179)
NOTES AND MORTGAGES RECEIVABLE, NET	**$7,941**	**$62,180**	**$403**	**$70,524**

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

UC Davis' capital asset activity for the years ended June 30, 2011, and June 30, 2010, is as follows (in thousands of dollars):

	2009	ADDITIONS	DISPOSALS	2010	ADDITIONS	DISPOSALS	2011
ORIGINAL COST							
Land	$59,867	$0	$0	$59,867	722	$0	$60,589
Infrastructure	148,102	22,722	–	170,824	7,246	(295)	177,775
Buildings & improvements	2,710,159	666,260	(433)	3,375,986	99,241	(470)	3,474,757
Equipment	865,571	107,909	(46,502)	926,978	95,878	(43,470)	979,386
Libraries & collections	356,028	16,647	(1,555)	371,120	16,158	(935)	386,343
Special collections	36,358	3,106	(151)	39,313	2,831	(1,255)	40,889
Construction in progress	628,209	(485,426)	–	142,783	75,348	–	218,131
CAPITAL ASSETS, AT ORIGINAL COST	**$4,804,294**	**$331,218**	**($48,641)**	**$5,086,871**	**$297,424**	**($46,425)**	**$5,337,870**

	2009	DEPRECIATION & AMORTIZATION	DISPOSALS	2010	DEPRECIATION & AMORTIZATION	DISPOSALS	2011
ACCUMULATED DEPRECIATION							
Infrastructure	$58,858	$5,163		$64,021	$6,237	($115)	$70,143
Buildings & improvements	1.064,315	91,790	(406)	1,155,699	113,714	(381)	1,269,032
Equipment	573,094	73,124	(43,440)	602,778	84,577	(41,029)	646,326
Libraries & collections	250,991	12,470	(1,473)	261,988	12,854	(1,555)	273,287
ACCUMULATED DEPRECIATION	**$1,947,258**	**$182,547**	**($45,319)**	**$2,084,486**	**$217,382**	**($43,080)**	**$2,258,788**
CAPITAL ASSETS, NET	**$2,857,036**	**$148,671**	**($3,322)**	**$3,002,385**	**$80,042**	**($3,345)**	**$3,079,082**

8. DEBT

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

UC Davis' portion of the University of California's outstanding debt at June 30, 2011 and 2010 is as follows (in thousands of dollars):

	INTEREST RATES	MATURITY YEARS	2011	2010
The Regents of the University of California:				
General Revenue Bonds	1.6-6.3%	2011-2040	$542,201	552,250
Medical Center Pooled Revenue Bonds	3.0-6.6%	2011-2047	331,175	344,863
Multi-Purpose Projects Revenue Bonds	4.0-5.8%	2010-2027	7,228	14,074
Limited Project Revenue Bond	3.0-5.0%	2011-2038	86,972	61,694
Revenue bonds			967,576	972,881
Capital leases	0.0-11.0%	2010-2035	378,644	393,960
Mortgages and other borrowings	Various	2010-2015	58,165	58,629
TOTAL OUTSTANDING DEBT			**1,404,385**	**1,425,470**
Current portion of long term debt			(78,449)	(72,418)
TOTAL LONG-TERM DEBT			**$1,325,936**	**$1,353,052**

Total interest expense during the years ended June 30, 2011, and 2010 was $57 million and $54 million, respectively.

OUTSTANDING DEBT ACTIVITY

Activity with respect to UC Davis' outstanding debt for the years ended June 30, 2011 and 2010 is as follows (in thousands of dollars):

	REVENUE BONDS	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASE OBLIGATIONS	TOTAL
YEAR ENDED JUNE 30, 2011				
Current portion at June 30, 2010	30,024	$16,080	$26,314	$72,418
Reclassification from noncurrent	58,869	21,324	16,490	96,683
Principal payments	(31,492)	(17,743)	(16,153)	(65,388)
Refinancing or repayment of debt	(26,882)	–	–	(26,882)
Amortization of deferred financing costs	1,618	–	–	1,618
CURRENT PORTION AT JUNE 30, 2011	**32,137**	**19,661**	**26,651**	**78,449**
Noncurrent portion at June 30, 2010	942,857	42,549	367,646	1,353,052
New obligations	51,451	17,279	837	69,567
Reclassification to current	(58,869)	(21,324)	(16,490)	(96,683)
NONCURRENT PORTION AT JUNE 30, 2011	**$935,439**	**$38,504**	**$351,993**	**$1,325,936**
YEAR ENDED JUNE 30, 2010				
Current portion at June 30, 2009	$27,643	$13,556	$16,120	$57,319
Reclassification from noncurrent	30,022	16,765	26,350	73,137
Refinancing or repayment of debt	(29,326)	(14,241)	(16,156)	(59,723)
Principal payments	–	–	–	0
Amortization of deferred financing costs	1,685	–	–	1,685
CURRENT PORTION AT JUNE 30, 2010	**30,024**	**16,080**	**26,314**	**72,418**
Noncurrent portion at June 30, 2009	854,285	34,829	317,013	1,206,127
New obligations	118,594	24,485	76,983	220,062
Reclassification to current	(30,022)	(16,765)	(26,350)	(73,137)
NONCURRENT PORTION AT JUNE 30, 2010	**$942,857**	**$42,549**	**$367,646**	**$1,353,052**

REVENUE BONDS

Revenue bonds have financed various auxiliary, administrative, academic and research facilities of UC Davis. They have annual principal and semiannual interest payments, serial and term maturities, contain sinking fund requirements and may have optional redemption provisions.

General Revenue Bonds are collateralized solely by general revenues defined in the indenture as certain operating and nonoperating revenues consisting of gross student tuition and fees, facilities and administrative cost recovery from contracts and grants, revenues from educational, auxiliary, and other activities and other revenues, including unrestricted investment income. The General Revenue Bond indenture requires the university to set rates, charges, and fees each year sufficient for general revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. General revenues for UC Davis for the years ended June 30, 2011 and 2010 were almost $1.1 billion and $922 million, respectively.

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

Multiple Purpose Projects Revenue Bonds are collateralized by a pledge of the net revenues generated by the enterprises. The Multiple Purpose Revenue Bond indentures require UC Davis to achieve net revenues after expenses and requirements for senior lien indentures equal to 1.25 times debt service and maintain certain other financial covenants.

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

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

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

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

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

2011 ACTIVITY

In July 2010, General Revenue Bonds totaling $144.0 million were issued to refinance certain facilities and projects of the university. UC Davis' portion was $16 million and was used to refund outstanding Multiple Purpose Projects Revenue Bonds and General Revenue Bonds. The bonds mature at various dates through 2024 and have a weighted average interest rate of 4.9 percent.

In September 2010, Limited Project Revenue Bonds totaling $681.8 million, including $486.1 million of taxable "Build America Bonds" and $195.7 million of tax-exempt bonds, were issued to finance and refinance certain facilities and projects of the university. UC Davis' portion was $10 million and was used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper. The bonds mature at various dates through 2050. The taxable bonds have a stated weighted average interest rate of 6.0 percent and a net weighted average interest rate of 3.9 percent after the expected cash subsidy payment from the United States Treasury equal to 35.0 percent of the interest payable on the taxable bonds. The tax-exempt bonds have a weighted average interest rate of 4.5 percent.

In December 2010, General Revenue Bonds totaling $200 million of taxable "Build America Bonds" were issued to finance and refinance certain improvements and capital projects on various campuses. UC Davis' portion as of June 30, 2011 was $1.7 million and was used to pay for project construction and issuance costs. The bonds were issued in an initial term rate mode and are subject to mandatory tender on March 1, 2013, upon which they are expected to be remarketed. The final maturity date is 2050. Through April 30, 2013, the taxable "Build America Bonds have a stated interest rate of 2.0 percent and a net interest rate of 1.3 percent after the expected cash subsidy payment from the United States Treasury equal to 35.0 percent of the interest payable on the bonds.

2010 ACTIVITY

In August 2009, General Revenue Bonds totaling $1.3 billion, including $1.0 billion of taxable "Build America Bonds" and $300.6 million of tax-exempt bonds, were issued to finance and refinance certain facilities and projects of the university. UC Davis' portion was $107.5 million and was used to pay for project construction and issuance costs and to repay interim financing incurred prior to the issuance of the bonds, including commercial paper. The bonds mature at various dates through 2043. The taxable bonds have a stated weighted average interest rate of 5.9 percent and a net weighted average interest rate of 3.8 percent after the expected cash subsidy payment from the United States Treasury equal to 35.0 percent of the interest payable on the taxable bonds. The tax-exempt bonds have a weighted average interest rate of 5.1 percent.

In April 2010, General Revenue Bonds totaling $85.5 million, including $75.4 million of tax-exempt bonds and $10.1 million of taxable bonds, were issued to finance and refinance certain facilities and projects of the university. UC Davis' portion was $8 million and was used to pay for project construction and issuance costs and to repay interim financing incurred prior to the issuance of the bonds, including commercial paper. The bonds mature at various dates through 2040. The tax-exempt bonds have a weighted average interest rate of 4.9 percent and the taxable bonds have a weighted average interest rate of 5.8 percent.

CAPITAL LEASES

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

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

UC Davis did not enter into lease-purchase agreements with the state for the year ended June 30, 2011 to finance the construction of various campus projects.

The state of California financing appropriation to UC Davis under the terms of the lease-purchase agreements, recorded as nonoperating revenue in the statement of revenue, expenses and changes in net assets, for the years ended June 30, 2011, and 2010 was $29 million and $17 million, respectively. The principal and interest, including accrued interest, reported in UC Davis' financial statements for the years ended June 30, 2011, and 2010 contain amounts related to these lease-purchase agreements with the state of California as follows (in thousands of dollars):

	2011	2010
Capital lease principal	13,998	13,828
Capital lease interest	17,803	15,554
	31,801	**29,382**

FUTURE DEBT SERVICE

Future debt service payments for each of the five fiscal years subsequent to June 30, 2011, and thereafter are as follows (in thousands of dollars):

	REVENUE BONDS	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASES		TOTAL PAYMENTS	PRINCIPAL	INTEREST
			STATE	OTHER			
YEAR ENDED JUNE 30, 2011							
2012	78,463	21,053	34,112	12,196	145,824	78,449	67,375
2013	78,725	17,694	35,926	1,985	134,330	69,521	64,809
2014	78,384	12,336	35,925	1,937	128,582	66,741	61,841
2015	78,109	8,100	35,503	1,786	123,498	64,545	58,953
2016	79,213	1,809	29,887	470	111,379	55,983	55,396
2017-2021	374,519	–	146,879	139	521,537	285,128	236,409
2022-2026	342,412	–	125,398	–	467,810	305,998	161,812
2027-2031	214,426	–	99,161	–	313,587	221,574	92,013
2032-2036	157,495	–	49,418	–	206,913	163,952	42,961
2037-2041	86,121	–	–	–	86,121	74,228	11,893
2042-2046	18,394	–	–	–	18,394	15,642	2,752
2047-2051	2,741	–	–	–	2,741	2,624	117
2052-2056	–	–	–	–	–	–	–
TOTAL FUTURE DEBT SERVICE	**1,589,002**	**60,992**	**592,209**	**18,513**	**$2,260,716**	**$1,404,385**	**$856,331**
Less: Interest component of future payments	621,426	2,827	231,568	510			
PRINCIPAL PORTION OF FUTURE PAYMENTS	**$967,576**	**$58,165**	**$360,641**	**$18,003**			

9. OTHER NONCURRENT LIABILITIES

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

	2011		2010	
	CURRENT	NONCURRENT	CURRENT	NONCURRENT
Compensated absences	$79,359	$41,077	$70,308	$53,946
3rd party payer settlement liability	76,322		53,046	
Accrued interest	8,819		9,809	
McClellan closure		17,593		17,593
Pollution remediation		22,531		22,586
Landfill closure		2,523		2,523
Other liabilities	5,260		6,006	
TOTAL OTHER LIABILITIES	**$169,760**	**$83,724**	**$139,169**	**$96,648**

Changes in other noncurrent liabilities for the years ended June 30, 2011 and 2010 are as follows (in thousands of dollars):

	COMPENSATED ABSENCES	OTHER	TOTAL
YEAR ENDED JUNE 30, 2011			
Liabilities at June 30, 2010	$53,946	$42,702	$96,648
New obligations	70,417	(55)	70,362
Reclassification to current	(83,286)	–	(83,286)
LIABILITIES AT JUNE 30, 2011	**$41,077**	**$42,647**	**$83,724**
YEAR ENDED JUNE 30, 2010			
Liabilities at June 30, 1009	$38,406	$42,541	$80,947
New obligations	51,006	161	51,167
Reclassification to current	(35,466)		(35,466)
LIABILITIES AT JUNE 30, 2010	**$53,946**	**$42,702**	**$96,648**

POLLUTION REMEDIATION LIABILITIES

Pollution remediation liabilities generally involve groundwater, soil and sediment contamination at certain sites where state and other regulatory agencies have indicated UC Davis is among the responsible parties. The liabilities are revalued annually and may increase or decrease the cost or recovery from third parties, if any, as a result of additional information that refines the estimates, or from payments made from revenue sources that support the activity. There were $150 thousand in expected recoveries at June 30, 2011 reducing the pollution remediation liability.

MCCLELLAN CLOSURE LIABILITY

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

LANDFILL CLOSURE

UC Davis has two landfill units. Unit I had a total capacity of close to 252 thousand cubic yards and was closed in June 2001. Unit II is made up of 8 cells with a combined capacity of 703 thousand cubic yards and will be opened one cell at a time.

State laws and regulations require UC Davis to perform certain maintenance and monitoring functions at each landfill site for 30 years after closure. Although closure and post closure care costs will be paid only near or after the date that the landfill stops accepting waste, UC Davis reports a portion of these closure and post closure care costs as an operating expense in each period based on the landfill capacity used as of each balance sheet date. The $2.5 million reported as landfill closure liability at June 30, 2011 represents the cumulative amount reported to date based on the use of 55% of the estimated capacity of the landfill. UC Davis will recognize the remaining estimated cost of closure and post closure care of $2.7 million as the remaining estimated capacity is filled.

UC Davis is required by state laws and regulations to make contributions to a trust to finance closure care. UC Davis is in compliance with these requirements and, at June 30, 2011, investments of $762 thousand are held for these purposes. UC Davis expects that future inflation costs will be paid from the interest earnings on these annual contributions. However, if interest earnings are inadequate or additional post closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users.

In August 2011, the UC Davis landfill stopped accepting waste. Formal closure of the landfill is planned for the summer of 2012.

10. RETIREE HEALTH PLANS

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

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

Participating university locations, such as the campus, are required to contribute at a rate assessed each year by the UCRHBT. The contribution requirements are based upon projected pay-as-you-go financing requirements. The assessment rates for 2011 and 2010 were $3.31 and $3.12 per $100 of UCRP covered payroll resulting in campus contributions of $42 million and $37 million for years ended June 30, 2011 and 2010, 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, 2010, the date of the latest actuarial valuation, were $74 million and $15.5 billion, respectively. The net assets held in trust for pension benefits on the UCRHBT's Statement of Plan Fiduciary Net assets were $71.3 million at June 30, 2011. For the years ended June 30, 2011 and 2010, combined contributions from the university's campuses and medical centers were $313.9 million and $283.5 million, respectively, including an implicit subsidy of $54.9 million and $49.5 million, respectively. The university's annual retiree health benefit expense for its campuses and medical centers was $1.75 billion and $1.64 billion for the years ended June 30, 2011 and 2010, 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 $5.11 billion at June 30, 2011 increased by $1.44 billion and $1.36 billion for the years ended June 30, 2011 and 2010, 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 2010–2011 annual reports of the University of California and the University of California Health and Welfare Program.

11. RETIREMENT PLANS

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

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

Contributions to the UCRP may be made by the campus and the employees. The rates for contributions as a percentage of payroll are determined annually pursuant to the regents' funding policy and based upon recommendations of the consulting actuary. The regents determine the portion of the total contribution to be made by the campus and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements. University and employee contributions were $1.7 billion and $143.3 million, respectively, during the year ended June 30, 2011. University and employee contributions were $148.3 million and $23.3 million, respectively, during the year ended June 30, 2010.

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, 2010, the date of the latest actuarial valuation, were $33.7 billion and $39.1 billion, respectively, resulting in a funded ratio of 86.2 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 $58.2 billion and $48.7 billion at June 30, 2011 and June 30, 2010, respectively.

For the years ended June 30, 2011 and 2010, the university's campuses and medical centers contributed a combined $1.44 billion and $64.83 million, respectively. The university's annual UCRP benefits expense for its campuses and medical centers was $1.68 billion for the year ended June 30, 2011. 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 $239 million and $1.5 billion for the years ended June 30, 2011 and June 30, 2010, respectively.

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

Information related to plan assets and liabilities, as they relate to campus employees, is not readily available. Additional information on the retirement plans can be obtained from the 2010-2011 annual reports of the University of California Retirement Plan, the University of California Retirement Savings Plan and the University of California PERS–VERIP.

12. ENDOWMENT FUNDS

The value of endowment and gifts at June 30, 2011 and 2010 is as follows:

	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
YEAR ENDED JUNE 30, 2011				
Endowments	$106,473	$173,650	$694	$280,817
Funds functioning as endowments		272,788		272,788
Annuity and life income	1,801			1,801
Gifts		86,957	1,944	88,901
ENDOWMENTS AND GIFTS	**$108,274**	**$533,395**	**$2,638**	**$644,307**
YEAR ENDED JUNE 30, 2010				
Endowments	$95,509	$139,688	$1,024	$236,221
Funds functioning as endowments		227,107		227,107
Annuity and life income	1,527			1,527
Gifts		85,285	1,579	86,864
ENDOWMENTS AND GIFTS	**$97,036**	**$452,080**	**$2,603**	**$551,719**

The portion of investment returns earned on endowments held by the regents and distributed each year to support current operations is based upon a rate (stated in dollars per share) that is approved by the regents. The total distribution from endowments held by the regents to UC Davis was $18 million for the year ended June 30, 2011.

13. OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the years ended June 30, 2011, and June 30, 2010 are as follows (in thousands of dollars):

	2011	2010
Instruction	$564,234	$538,361
Research	510,754	478,476
Public service	58,466	55,176
Academic support	147,116	142,330
Student services	83,355	62,065
Institutional support	87,719	83,845
Operations and maintenance of plant	92,802	82,213
Student financial aid	65,576	66,845
Medical center	1,104,892	996,321
Auxiliary enterprises	86,455	81,224
Depreciation	217,380	182,548
Other	4,462	6,217
TOTAL OPERATING EXPENSES	**$3,023,211**	**$2,775,621**

14. SEGMENT INFORMATION

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

Condensed financial statement information related to the UC Davis Medical Center for the years ended June 30, 2011, and 2010, follows (in thousands of dollars):

	2011	2010
Bonds outstanding	345,264	360,650
Related debt service payments	32,421	31,798
Bonds due serially through	2047	2047
CONDENSED STATEMENT OF NET ASSETS		
Assets		
Current assets	400,977	344,328
Capital assets, net	1,111,322	1,073,344
Other assets	27,077	23,507
TOTAL ASSETS	**1,539,376**	**1,441,179**
Liabilities		
Current liabilities	227,301	203,714
Long-term debt	365,928	385,450
TOTAL LIABILITIES	**593,229**	**589,164**
Net assets		
Invested in capital assets, net of debt	693,467	645,225
Restricted	–	108
Unrestricted	252,680	206,682
TOTAL NET ASSETS	**946,147**	**852,015**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS		
Operating revenues	1,259,997	1,112,214
Operating expenses	(1,092,519)	(980,904)
Depreciation expense	(77,760)	(59,575)
OPERATING INCOME	**89,718**	**71,735**
Nonoperating revenues (expenses)	27,911	(2,765)
INCOME BEFORE CHANGES IN OTHER ASSETS	**117,629**	**68,970**
Health systems support	(41,066)	(29,719)
Transfers to the University of California	17,569	18,819
Other, including donated assets		
INCREASE IN NET ASSETS	**94,132**	**58,070**
Net assets–beginning balance	852,015	793,945
NET ASSETS–ENDING BALANCE	**946,147**	**852,015**
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	138,755	108,038
Noncapital financing activities	(764)	(27,189)
Capital and related financing activities	(127,832)	(119,164)
Investing activities	3,606	7,413
NET INCREASE (DECREASE) IN CASH	**13,765**	**(30,902)**
Cash–beginning balance	91,819	122,721
CASH–ENDING BALANCE	**105,584**	**91,819**

Additional Information on the UC Davis Medical Center can be obtained from its separate June 30, 2011, audited financial statements

15. UC DAVIS FOUNDATION

Under university policies approved by the regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the mission of the campus. Although independent boards govern the UC Davis Foundation, their assets are dedicated for the benefit of the campus. During the years ended June 30, 2011 and 2010, gifts of $15 million and $59 million, respectively were transferred to UC Davis from the UC Davis Foundation. At June 30, 2011 and 2010, UC Davis Foundation's net assets were $252 million and $208 million, respectively.

16. COMMITMENTS AND CONTINGENCIES

UC Davis leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenditures for the years ended June 30, 2011 and 2010, were $22 million and $24 million, respectively. The terms of operating leases extend through the year ending 2023. Future minimum payments on operating leases with an initial or remaining non-cancelable term in excess of one year are as follows (in thousands of dollars):

	MINIMUM ANNUAL LEASE PAYMENTS
YEAR ENDING JUNE 30	
2012	$20,508
2013	15,637
2014	10,497
2015	6,016
2016	3,687
2017-2021	8,538
2022-2026	2,624
2027-2031	
TOTAL	$67,507

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

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

Photography by Karin Higgins, UC Davis.

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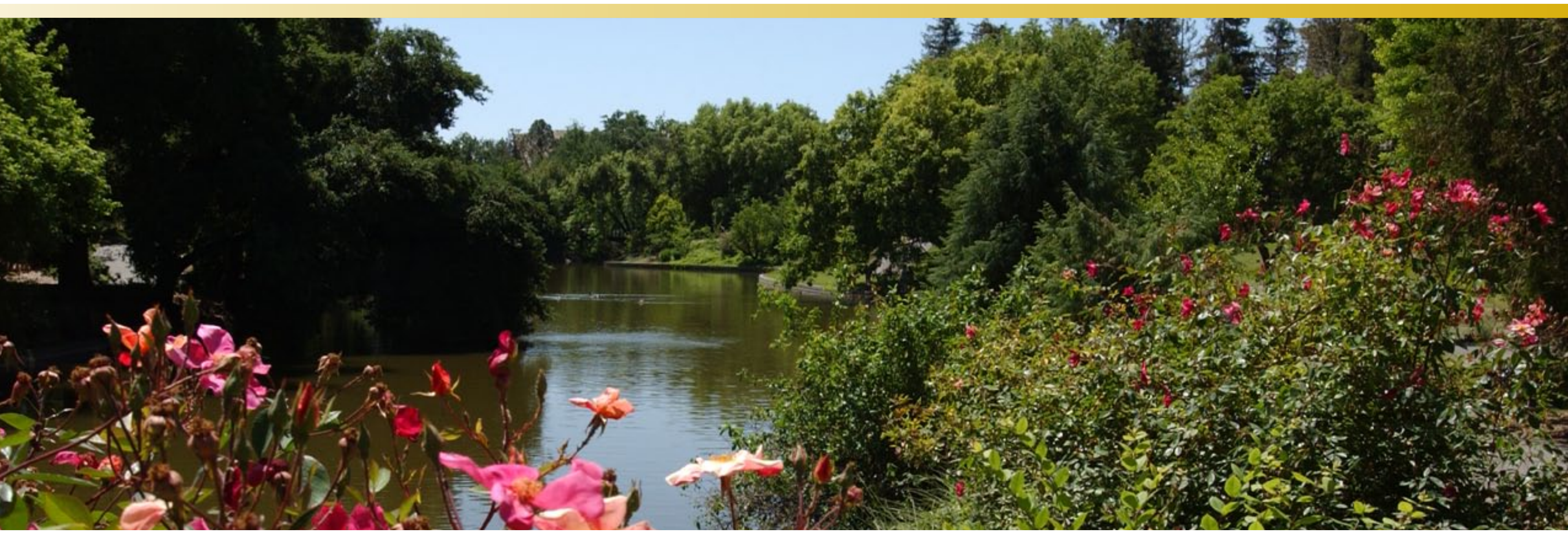

UCDAVIS

accounting.ucdavis.edu

University of California, Davis
One shields Avenue, Davis, California 95616
(530) 757-8501
ucdavis.edu