UNIVERSITY OF CALIFORNIA

Annual Financial Report

13/14

“The University of California is preeminent in educating the state’s young people, in enhancing research and scholarship in every discipline, in fostering economic growth, medicine, the arts, its athletic and other programs. Simply put, UC is the gold standard.”

PRESIDENT JANET NAPOLITANO

UNIVERSITY OF CALIFORNIA

13/14 Annual Financial Report

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Letter from the President

I marked the end of my first year as President of the University of California with a heightened commitment to enhance our University's ability to educate, discover and serve the public.

In the last year, UC has launched initiatives to maximize alternative funding streams and expand the University's reach on issues from environmental sustainability to global hunger.

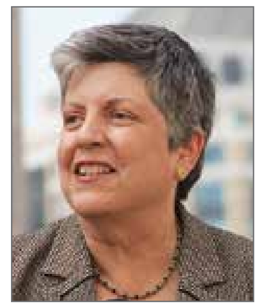
Looking ahead, we need to build on this important work, while continuing to focus on the fundamentals that make UC the world-renowned institution that it is — academic excellence and access.

UC is California's university, and that means California needs to commit to UC as well.

Sadly, funding remains constrained for public higher education in California, despite an American economy that slowly grows more robust. UC today enrolls more than 6,000 California resident undergraduates for whom it has never received additional state dollars.

Public higher education is a necessity — not a private luxury. This country's public universities and colleges foster an active, informed citizenry. They enhance public spirit. They educate — and more importantly, elevate — vast numbers of young people. These institutions are public goods that benefit all of us, and not just the students who attend them.

Public research universities like the University of California support innovation and scholarship that creates new, transformative knowledge. For nearly a century and a half, UC discoveries have delivered public benefits throughout California and to communities far beyond our state's borders.



As an engine of social mobility, UC leads our nation's universities in providing educational access. Of the university's more than 180,000 undergraduates, forty-two percent are first-generation college students. Thirty percent are transfer students from California community colleges. Forty-two percent of our undergraduates receive federal Pell Grants, meaning that they come from very low-income families. Within five years of graduating from UC, those students as individuals are earning salaries that are higher than what their families' combined incomes were before they went to college. They contribute to their communities and to the statewide economy.

As former UC President Clark Kerr famously declared: "The best investment that any society makes is in the education of its young people." For UC — and California — to succeed, we all must make investing in public higher education a top priority.

JANET NAPOLITANO
PRESIDENT, UNIVERSITY OF CALIFORNIA

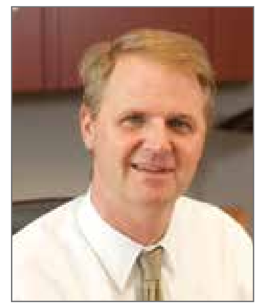
Letter from the Executive Vice President, CFO

The University of California had a busy 2013-2014. It was a year of change and growth as we welcomed a new president, added to our ranks of Nobel laureates and made significant progress on improving operational efficiency at the Office of the President.

It was also a year of change here in the office of the Chief Financial Officer as we said goodbye to Peter Taylor, my predecessor as CFO. Peter's tireless commitment, vision and innovation over the past five years were instrumental in guiding UC through one of the worst financial crises in our history. Even as the university weathered an economic downturn of historic proportions and a dramatic decline in state funding, Peter and his team launched several key initiatives that left UC in much better financial shape today than when he assumed his role.

They modernized UC's management of operating capital, resulting in large increases in discretionary revenue for our campuses, and they successfully issued a Century Bond, the largest of its kind for a public university at over $800 million. They used the strength of our balance sheet to shore up UC's retirement plan and launched several longer-term projects that will help UC dramatically reduce future costs and administrative complexities. Two examples are the P200 plan that leverages the university's buying power for procurement savings and UC Path, which will modernize and consolidate UC's disparate and archaic payroll and HR systems.

I'm honored to take over the job from someone who did so much to secure UC's financial future. The transition has offered us the opportunity to reexamine our approach and reinvigorate our commitment to UC's core missions of teaching, research and public service so that we can go even further along the trajectory on which Peter and the CFO team launched the university.



To that end, we will take a comprehensive approach to budget and finance across the university, considering all of our revenue sources and all of our assets as we try to build a strong and sustainable financial model for UC. We will keep the pressure on expenditures, using the size and scale of the UC system to drive down costs. We will explore new areas of revenue generation, supporting our campuses in their efforts and evaluating systemwide synergies. We will focus on more closely integrating asset management in the operating budget, looking at both our financial assets and our real assets. We will develop debt strategies to make up for the decline in state funding and the constraints on our borrowing capacity. Finally, we will address the ongoing challenges posed by unfunded liabilities in the UC Retirement Plan, retiree health and deferred maintenance on our campuses.

Improving the university's financial performance while maintaining its commitment to both affordability and excellence is a challenging goal. But a sound financial future is crucial to UC remaining a driver of economic prosperity and social mobility for California, as it has been from its founding right up to the present day: Of UC's more than 188,000 undergraduate students, 42 percent are the first in their families to attend college and 77,000 are low-income recipients of federal Pell Grants. I've been working hard to maintain UC's accessibility and affordability ever since I came the university and I'm looking forward to another chapter in this effort as UC's new CFO.

NATHAN BROSTROM
EXECUTIVE VICE PRESIDENT, CFO
UNIVERSITY OF CALIFORNIA

Facts in Brief *(Unaudited)*

	2014*	2013*	2012*	2011**	2010**
STUDENTS					
Undergraduate fall enrollment	191,369	183,498	184,562	179,581	177,788
Graduate fall enrollment	52,757	55,188	52,129	54,883	54,065
Total fall enrollment	**244,126**	**238,686**	**236,691**	**234,464**	**231,853**
University Extension enrollment[1]	452,649	343,758	321,582	302,179	309,818
FACULTY AND STAFF[2] *(full-time equivalents)*	**139,553**	**139,965**	**137,546**	**136,145**	**134,644**

SUMMARY FINANCIAL INFORMATION[3] *(in thousands of dollars, except for retirement plan participation)*

UNIVERSITY OF CALIFORNIA	2014*	2013*	2012*	2011**	2010**
PRIMARY REVENUE SOURCES					
Student tuition and fees, net[4]	$ 3,585,859	$ 3,402,946	$ 3,237,126	$ 2,811,121	$ 2,401,323
Grants and contracts, net	5,068,233	5,078,750	5,240,289	5,249,094	4,939,155
Medical centers, educational activities and auxiliary enterprises, net	11,750,586	10,890,244	10,067,147	9,406,993	8,551,817
State educational, financing and capital appropriations	2,683,315	2,484,877	2,303,330	3,042,795	3,088,905
Federal Pell Grants	316,064	345,910	359,408	352,469	298,584
Private gifts, net	881,648	801,940	804,691	816,291	794,244
Capital gifts and grants, net	431,836	256,670	198,023	247,259	189,617
Department of Energy laboratories	1,250,820	1,032,350	1,014,199	976,294	910,194
OPERATING EXPENSES BY FUNCTION					
Instruction	5,477,857	5,477,776	5,509,027	4,925,863	4,677,830
Research	3,837,361	4,287,561	4,533,125	4,249,411	4,143,448
Public service	581,069	554,231	620,884	582,868	545,544
Academic support	1,835,476	2,008,866	2,003,770	1,716,006	1,574,329
Student services	923,284	819,209	814,340	701,800	660,779
Institutional support	1,463,248	1,361,439	1,207,733	1,242,786	1,084,967
Operation and maintenance of plant	618,030	640,712	610,968	582,315	602,425
Student financial aid[5]	580,807	603,805	600,655	600,713	544,280
Medical centers	7,481,938	7,201,528	6,984,842	6,078,510	5,827,790
Auxiliary enterprises	1,104,050	1,153,775	1,124,704	1,012,309	985,639
Depreciation and amortization	1,709,672	1,555,254	1,478,254	1,404,837	1,267,134
Impairment of capital assets	11,201	31,441			22,803
Department of Energy laboratories	1,244,335	1,026,088	1,007,804	970,054	903,926
Other	81,061	123,513	104,576	86,252	87,665
INCREASE (DECREASE) IN NET POSITION	1,369,113	(1,334,155)	(3,086,015)	413,693	(524,584)
FINANCIAL POSITION					
Investments, at fair value	21,541,053	18,942,008	18,292,398	18,258,665	15,952,930
Capital assets, at net book value	27,361,525	26,179,885	25,216,265	23,743,797	22,497,543
Other assets and deferred outflows	11,565,457	14, 808,621	16,447,696	7,843,699	8,173,541
Outstanding debt, including capital leases	(18,030,749)	(17,236,225)	(17,459,934)	(13,577,911)	(12,534,930)
Obligations for pension and retiree health benefits	(16,154,166)	(19,915,231)	(22,738,325)	(6,982,866)	(5,381,625)
Other liabilities and deferred inflows	(15,001,261)	(12,866,107)	(8,387,164)	(9,520,612)	(9,356,380)
Net position	11,281,859	9,912,951	11,370,936	19,764,772	19,351,079

*Certain revisions in classifications, or restatements, have been made to prior year information in order to conform to current year presentation.

**Amounts have not been restated or revised to conform to current year presentation.

[1] *For academic year 2013-14.*

[2] *As of October 2013.*

[3] *As of June 30, 2014.*

[4] *Scholarship allowances, including both financial aid and fee waivers that are not paid directly to students, are recorded primarily as a reduction of student tuition and fees in the statement of revenues, expenses and changes in net position.*

[5] *Includes only financial aid paid directly to students. The state-administered California grant awards are not included as expenses since the government determines grantees. College work study expenses are shown in the programs in which the student worked.*

	2014	2013	2012	2011	2010
SUMMARY FINANCIAL INFORMATION *(in thousands of dollars, except for participant information)*					
UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS					
PRIMARY REVENUE SOURCES					
Private gifts, net	$ 789,573	$ 711,363	$ 596,242	$ 880,889	$ 422,643
PRIMARY EXPENSES					
Grants to campuses	958,873	632,132	559,301	496,704	565,952
INCREASE IN NET POSITION	849,091	746,263	125,506	1,226,285	353,332
FINANCIAL POSITION					
Investments, at fair value	6,496,649	5,799,788	5,161,217	5,151,869	4,037,367
Pledges receivable, net	861,005	713,710	641,134	553,900	386,910
Net position	7,094,913	6,245,822	5,535,441	5,409,935	4,183,650
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM					
PLAN PARTICIPATION					
Plan membership	262,988	243,140	232,767	223,867	221,852
Retirees and beneficiaries currently receiving payments	64,191	58,934	56,296	53,902	51,531
PRIMARY REVENUE SOURCES					
Contributions[6]	$ 3,215,712	$ 2,175,983	$ 3,101,629	$ 2,693,892	$ 1,106,774
Interest, dividends and other investment income, net	1,344,731	1,254,981	907,739	1,316,306	1,187,713
Net appreciation (depreciation) in the fair value of investments	9,137,618	5,106,081	(597,030)	8,541,574	4,243,820
PRIMARY EXPENSES					
Benefit payments	2,583,223	2,396,577	2,184,450	2,047,747	1,905,939
Participant and member withdrawals	1,369,641	1,364,304	940,367	939,338	711,380
INCREASE IN NET POSITION	9,701,107	4,731,316	249,762	9,529,389	3,887,875
FINANCIAL POSITION					
Investments, at fair value	68,747,604	60,104,811	54,408,678	54,218,018	45,855,690
Members' defined benefit pension plan benefits	52,853,829	45,404,828	41,868,728	41,940,183	34,633,878
Participants' defined contribution plan benefits	20,044,154	17,792,048	16,596,832	16,275,615	14,052,531
ACTUARIAL INFORMATION *(as of the beginning of the year)*					
Actuarial value of assets	43,572,353	42,965,028	42,757,271	41,195,318	42,685,564
Actuarial accrued liability	57,380,961	54,619,620	51,831,306	47,504,309	45,041,066
UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST					
PLAN PARTICIPATION					
Plan membership	154,930	151,458	148,704	146,524	146,588
Retirees and beneficiaries currently receiving benefits	37,207	35,872	34,559	33,530	32,278
PRIMARY REVENUE SOURCES					
Contributions	$ 343,395	$ 267,886	$ 329,529	$ 287,842	$ 254,037
Interest, dividends and other investment income, net	13		14	84	97
PRIMARY EXPENSES					
Insurance premiums	318,490	313,105	311,297	284,010	257,605
INCREASE (DECREASE) IN NET POSITION	20,884	(45,219)	18,246	1,919	(5,016)
FINANCIAL POSITION					
Investments, at fair value	37,125	7,750	65,053	27,795	32,509
Net position for retiree health benefits	65,184	44,300	89,519	71,273	69,354
ACTUARIAL INFORMATION *(as of the beginning of the year)*					
Actuarial value of assets	44,301	97,435	77,907	74,450	76,893
Actuarial accrued liability — campuses and medical centers	13,253,215	14,559,017	14,726,665	15,493,742	14,541,529

[6] *Total contributions to the University of California Retirement Plan and the University of California Retirement Savings Plan.*

Campus Facts in Brief *(Unaudited)*

	BERKELEY	DAVIS	IRVINE	LOS ANGELES	MERCED	RIVERSIDE
STUDENTS						
Undergraduate fall enrollment	25,951	26,693	23,605	28,674	5,837	18,658
Graduate fall enrollment	10,253	7,462	5,983	13,516	358	2,639
Total fall enrollment	**36,204**	**34,155**	**29,588**	**42,190**	**6,195**	**21,297**
University Extension enrollment [1]	36,344	62,686	34,238	119,021		28,666
DEGREES CONFERRED [2]						
Bachelor	7,775	7,015	5,963	7,329	858	4,402
Advanced	3,503	2,064	1,877	4,373	36	690
Cumulative	604,190	249,325	167,583	527,954	2,812	97,663
FACULTY AND STAFF [3] *(full-time equivalents)*	14,389	22,442	13,663	31,889	1,648	4,901
LIBRARY COLLECTIONS [4] *(volumes)*	11,742,250	4,391,849	3,390,364	9,854,492	1,122,014	3,283,097
CAMPUS LAND AREA *(in acres)*	6,679	7,309	1,526	420	7,045	2,149
CAMPUS FINANCIAL FACTS [5] *(in thousands of dollars)*						
OPERATING EXPENSES BY FUNCTION						
Instruction	$ 682,452	$ 695,233	$ 545,353	$ 1,612,953	$ 43,522	$212,339
Research	559,876	517,462	246,363	688,013	17,858	99,017
Public service	71,595	96,345	9,201	108,982	3,947	6,759
Academic support	135,793	188,540	176,345	541,154	19,265	37,574
Student services	177,962	123,282	78,684	132,280	20,440	64,239
Institutional support	242,054	121,619	71,404	196,009	45,085	52,646
Operation and maintenance of plant	83,556	98,951	43,260	88,787	15,423	38,225
Student financial aid	135,120	56,136	93,150	30,059	8,912	54,039
Medical centers		1,484,220	762,359	1,677,691		
Auxiliary enterprises	125,901	96,544	121,743	308,900	18,085	68,132
Depreciation and amortization	192,914	228,453	174,307	333,971	22,386	59,223
Other [6]	23,837	6,953	10,574	24,044	2,830	5,897
Total	**$2,431,060**	**$3,713,738**	**$2,332,743**	**$5,742,843**	**$217,753**	**$698,090**
GRANTS AND CONTRACTS REVENUE						
Federal government	$373,625	$385,116	$248,427	$558,592	$14,274	$61,691
State government	92,866	134,052	21,698	46,621	638	9,478
Local government	7,338	11,422	3,768	51,815	60	2,309
Private	188,325	142,558	62,357	200,231	2,727	23,451
Total	**$662,154**	**$673,148**	**$336,250**	**$857,259**	**$17,699**	**$96,929**
UNIVERSITY ENDOWMENTS						
Endowments	$2,370,049	$ 642,109	$ 73,822	$1,485,454	$ 27,582	$ 47,789
Annual income distribution	77,873	22,278	2,759	36,150	1,357	1,926
CAMPUS FOUNDATIONS' ENDOWMENTS						
Endowments	$1,671,939	$ 320,745	$ 310,163	$1,616,045	$ 8,162	$ 136,003
CAPITAL ASSETS						
Capital assets, at net book value	$3,746,185	$ 3,136,895	$ 2,643,705	$5,757,043	$541,322	$1,129,607
Capital expenditures	328,923	228,091	138,020	649,071	57,543	162,688

[1] *For academic year 2013-14.*
[2] *As of academic year 2012-13.*
[3] *As of October 2013.*
[4] *Excludes DOE laboratories.*
[5] *As of June 30, 2014.*
[6] *Includes non-capitalized expenses associated with capital projects and write-off, cancellation and bad debt expense for loans.*

	SAN DIEGO	SAN FRANCISCO	SANTA BARBARA	SANTA CRUZ	SYSTEMWIDE[7]
STUDENTS					
Undergraduate fall enrollment	23,805	3,079	19,372	15,695	
Graduate fall enrollment	6,505	1,680	2,853	1,508	
Total fall enrollment	**30,310**	**4,759**	**22,225**	**17,203**	
University Extension enrollment[1]	148,654		6,799	16,241	
DEGREES CONFERRED[2]					
Bachelor	6,344	273	5,222	4,038	
Advanced	1,882	571	971	431	
Cumulative	171,209	50,950	212,751	101,512	
FACULTY AND STAFF[3] *(full-time equivalents)*	20,532	19,424	6,179	4,486	
LIBRARY COLLECTIONS[4] *(volumes)*	3,936,007	1,096,541	3,111,320	2,284,006	
CAMPUS LAND AREA *(in acres)*	2,141	198	1,063	6,088	

CAMPUS FINANCIAL FACTS[5] *(in thousands of dollars)*

	SAN DIEGO	SAN FRANCISCO	SANTA BARBARA	SANTA CRUZ	SYSTEMWIDE[7]
OPERATING EXPENSES BY FUNCTION					
Instruction	$ 721,086	$ 474,297	$244,577	$141,070	$ 104,975
Research	741,718	601,768	166,843	110,600	87,843
Public service	19,826	110,295	7,842	14,068	132,209
Academic support	294,063	242,805	49,906	30,337	119,694
Student services	104,350	21,774	76,808	61,077	62,388
Institutional support	125,608	170,070	45,921	42,949	349,883
Operation and maintenance of plant	81,440	78,382	44,053	32,155	13,798
Student financial aid	73,784	9,421	83,238	36,186	762
Medical centers	1,095,128	2,237,276			225,264
Auxiliary enterprises	137,210	25,795	93,098	87,298	21,344
Depreciation and amortization	240,473	317,351	73,755	54,366	12,473
Other[6]	1,420	5,019	7,522	4,492	(651)
Total	**$3,636,106**	**$4,294,253**	**$893,563**	**$614,598**	**$1,129,982**
GRANTS AND CONTRACTS REVENUE					
Federal government	$643,812	$ 648,682	$124,555	$ 96,702	$21,426
State government	43,131	64,745	6,101	4,471	36,739
Local government	11,743	156,087	1,077	555	3,750
Private	221,518	256,153	45,454	26,831	11,262
Total	**$920,204**	**$1,125,667**	**$177,187**	**$128,559**	**$73,177**
UNIVERSITY ENDOWMENTS					
Endowments	$ 236,472	$1,097,774	$ 118,380	$ 73,523	$1,240,755
Annual income distribution	6,820	37,088	3,941	2,606	35,905
CAMPUS FOUNDATIONS' ENDOWMENTS					
Endowments	$ 534,912	$ 912,957	$ 144,379	$ 80,262	
CAPITAL ASSETS					
Capital assets, at net book value	$3,760,216	$4,017,561	$1,277,510	$1,028,893	$ 322,588
Capital expenditures	530,124	515,493	132,310	99,510	77,811

[1] *For academic year 2013-14.*
[2] *As of academic year 2012-13.*
[3] *As of October 2013.*
[4] *Excludes DOE laboratories.*
[5] *As of June 30, 2014.*
[6] *Includes non-capitalized expenses associated with capital projects and write-off, cancellation and bad debt expense for loans.*
[7] *Includes expenses for systemwide education and research programs, systemwide support services and administration. Full-time equivalents counts, as of fall 2013, includes employees at all campuses involved in systemwide activities, including Agriculture and Natural Resources.*

Management's Discussion and Analysis *(Unaudited)*

The objective of Management's Discussion and Analysis is to help readers of the University of California's financial statements better understand the financial position and operating activities for the year ended June 30, 2014, with selected comparative information for the year ended June 30, 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2013, 2014, 2015, etc.) in this discussion refer to the fiscal years ended June 30.

The University of California's financial report communicates financial information for the University of California (the University), its discretely presented component units (component units), the University of California Retirement System (UCRS) and the University of California Retiree Health Benefit Trust (UCRHBT) through five primary financial statements and notes to the financial statements. Three of the primary statements, the statements of net position, the statements of revenues, expenses and changes in net position and the statements of cash flows, present the financial position, changes in financial position and cash flows for the University and its discretely presented component units. The financial statements for the campus foundations and the Children's Hospital and Research Center Oakland are presented discretely from the University. Two of the primary statements, the statements of plans' and trust's fiduciary net position and the statements of changes in plans' and trust's fiduciary net position, present the financial position and operating activities for UCRS and UCRHBT. The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements.

THE UNIVERSITY OF CALIFORNIA

The University of California, one of the largest and most acclaimed institutions of higher learning in the world, is dedicated to excellence in teaching, research, health care and public service. The University has annual resources of nearly $26.6 billion and encompasses ten campuses, five medical schools and medical centers, four law schools and a statewide Division of Agriculture and Natural Resources. The University is also involved in the operation and management of three national laboratories for the U.S. Department of Energy (DOE).

Campuses. The ten campuses are located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara and Santa Cruz. All of the campuses, except San Francisco, offer undergraduate, graduate and professional education; the San Francisco campus is devoted exclusively to graduate and professional education in health sciences.

Health sciences. The University operates one of the nation's largest health science and medical training programs. The instructional program is conducted in 16 health professional schools on six campuses. Our health programs include five medical centers, two dental schools, three nursing schools, two public health schools and two pharmacy schools, in addition to a school of optometry and a school of veterinary medicine. The University's medical schools play a leading role in the development of health services and advancement of medical science and research.

Law schools. The University has law schools at Berkeley, Davis, Irvine and Los Angeles. Also, the Hastings College of the Law in San Francisco is affiliated with the University, although not included in the financial reporting entity.

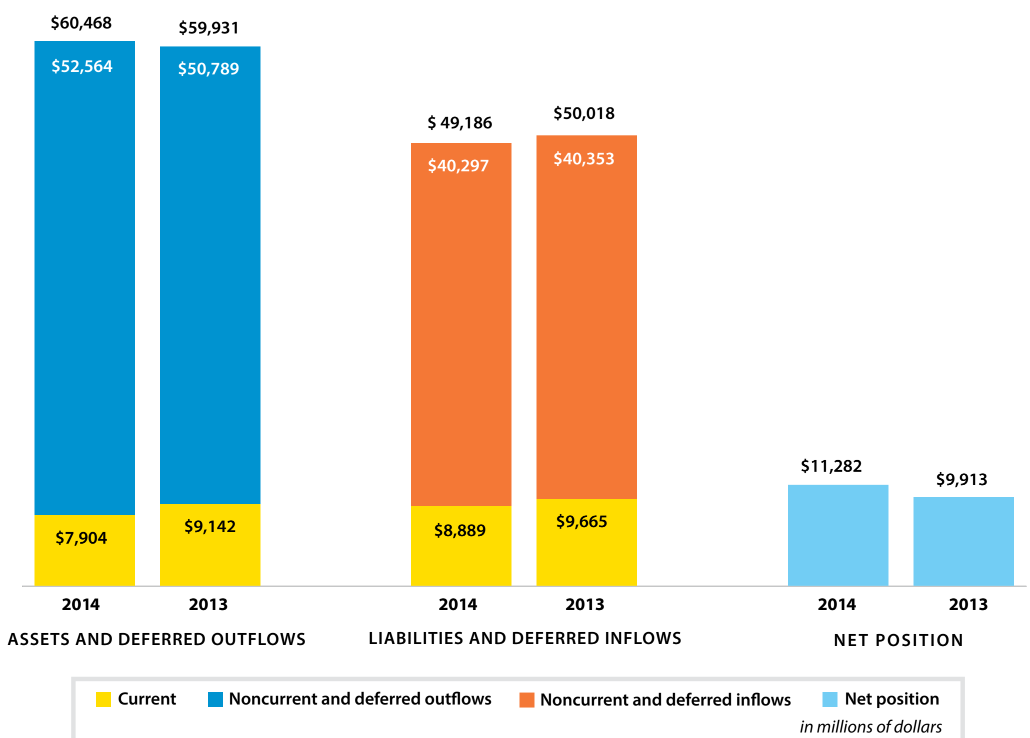
Agriculture and Natural Resources. The Division of Agriculture and Natural Resources is a statewide research and public service organization that serves a large and diverse agricultural community. The division conducts studies on the Berkeley, Davis and Riverside campuses, at nine research and extension centers and on private land in cooperation with California producers. In addition, research and educational programs are conducted in each of the state's 58 counties.

University Extension. The foremost continuing education program of its kind in size, scope and quality of instruction, University Extension offers almost 20,000 self-supporting courses statewide and in several foreign countries.

National laboratories. Under contract with the DOE, the University operates and manages the Ernest Orlando Lawrence Berkeley National Laboratory (LBNL) in California. The University is also a member in two separate joint ventures, Los Alamos National Security, LLC (LANS) and Lawrence Livermore National Security, LLC (LLNS) that operate and manage the Los Alamos National Laboratory (LANL) and Lawrence Livermore National Laboratory (LLNL), respectively, under contracts directly with the DOE. The laboratories conduct broad and diverse basic and applied research in nuclear science, energy production, national defense and environmental and health areas.

THE UNIVERSITY'S FINANCIAL POSITION

The University changed its accounting policies with the implementation of new accounting standards. Changes in accounting policies for pensions are designed to improve transparency regarding pension obligations by requiring recognition of a liability equal to the net pension liability for the University's defined benefit plans. This standard requires recognition of pension expense using a systematic method, designed to match the cost of pension benefits with service periods for eligible employees. These accounting policy changes do not impact the University's funding requirements for the pension plans. The University also adopted accounting changes for reporting deferred inflows and outflows, which required the write-off of unamortized bond issuance costs. Financial information for 2013 has been restated to retroactively apply these new accounting policies.



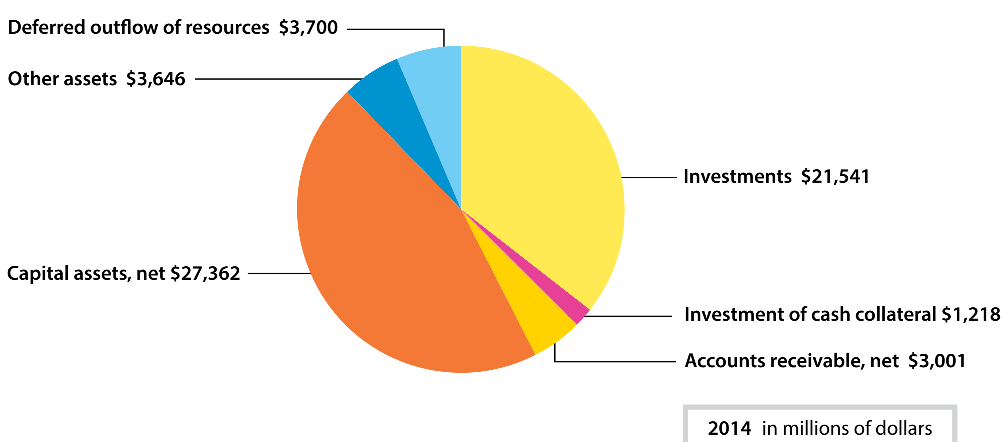
The statement of net position presents the financial position of the University at the end of each year. It displays all of the University's assets, deferred outflows, liabilities and deferred inflows. The difference between assets, deferred outflows, liabilities and deferred inflows is net position.

The major components of the assets, deferred outflows, liabilities, deferred inflows and net position as of June 30, 2014 and 2013 are as follows:

(in millions of dollars)

	2014	2013
ASSETS		
Investments	$21,541	$ 18,942
Investment of cash collateral	1,218	1,403
Accounts receivable, net	3,001	3,744
Capital assets, net	27,362	26,180
Other assets	3,646	4,895
Total assets	**56,768**	**55,164**
DEFERRED OUTFLOWS OF RESOURCES	3,700	4,767
LIABILITIES		
Debt, including commercial paper	18,031	17,236
Securities lending collateral	1,218	1,403
Pension obligations	7,714	12,338
Obligations for retiree health benefits	8,440	7,577
Other liabilities	6,705	7,246
Total liabilities	**42,108**	**45,800**
DEFERRED INFLOWS OF RESOURCES	7,078	4,218
NET POSITION		
Net investment in capital assets	11,884	11,856
Restricted:		
Nonexpendable	1,164	1,134
Expendable	6,837	5,729
Unrestricted	(8,603)	(8,806)
Total net position	**$11,282**	**$ 9,913**

The University's Assets and Deferred Outflows



The University's total assets and deferred outflows of resources have grown to $60.6 billion in 2014, compared to $59.9 billion in 2013. Capital assets have increased due to continued investments in facilities and investments increased due to financial market returns.

Investments

Investments held by the University are principally carried in three investment pools, the Short Term Investment Pool (STIP), the Total Return Investment Pool (TRIP) and the General Endowment Pool (GEP). Cash for operations and bond proceeds for construction expenditures are invested in STIP. The University uses STIP to meet operational liquidity needs. TRIP allows campuses the opportunity to maximize the return on long-term 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. As a result of continued low interest rates, the University increased its use of TRIP to enhance investment returns, while still maintaining sufficient funds in STIP to meet operational liquidity needs. The GEP is a balanced portfolio and the primary investment vehicle for individual endowments and funds functioning as endowments.

The Regents of the University of California (The Regents) utilize 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 a positive return of 19.0 percent in 2014, and a positive return of 12.0 percent in 2013. TRIP had positive returns of 14.7 percent in 2014 and 8.3 percent in 2013. STIP had positive returns of 1.6 percent and 2.1 percent in 2014 and 2013, respectively.

Investment of cash collateral

The University participates in a securities lending program incorporating securities owned by both the University and UCRS as a means to augment income. Cash collateral fluctuates in response to changes in demand from borrowers and the availability of securities based upon the University's asset allocation mix.

Accounts receivable, net

Receivables fluctuate based on the timing of collections and investment sales activity. Receivables from investment sales decreased by $742.6 million in 2014 as compared to 2013.

Capital assets, net

Capital spending continues at a brisk pace in order to provide the facilities necessary to support the University's teaching, research and public service mission and for patient care. These facilities include core academic buildings, libraries, student services, housing and auxiliary enterprises, health science centers, utility plants and infrastructure and remote centers for educational outreach, research and public service. Total additions of capital assets were $2.9 billion in 2014 as compared to $2.6 billion in 2013.

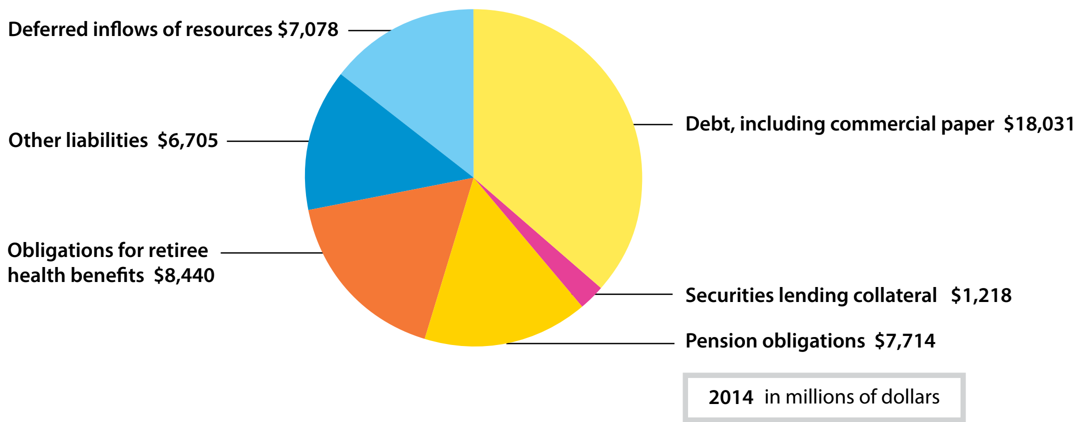
Other assets

Other assets include cash, investments held by trustees, pledge receivables, note and mortgage receivables, inventories and a receivable from the DOE. Investments held by trustees decreased by $626.2 million in 2014 related to the refinancing of debt issued by the state of California. The noncurrent receivable from the DOE, which fluctuates with the pension obligations due to the DOE's continuing responsibility to contribute for retired and terminated vested members of LLNS and LANL, decreased by $615.8 million in 2014 as compared to 2013.

Deferred outflows of resources

Changes in fair values of the University's interest rate swaps that are determined to be hedging derivatives, losses on debt refundings and changes in the net pension liability are reported as deferred outflows of resources. The decrease of $1.1 billion in deferred outflows of resources in 2014 is primarily related to the recognition of changes in the net pension liability.

The University's Liabilities and Deferred Inflows



The University's liabilities and deferred inflows of resources decreased to $49.2 billion in 2014, compared to $50.0 billion in 2013. The decrease in 2014 was primarily related to the reduction in pension obligations offset by issuance of debt to finance capital projects and the increase in the liability for retiree health benefits.

Debt, including commercial paper

Capital assets are financed from a variety of sources, including University equity contributions, federal and state support, revenue bonds, bank loans, leases or structures that involve separate legal entities. Commercial paper and bank loans provide interim financing for capital assets during the construction period.

Outstanding debt increased by $795.0 million in 2014. A summary of the activity follows:

(in millions of dollars)

	2014
ADDITIONS TO OUTSTANDING DEBT	
General Revenue Bonds	$ 3,429
Medical Center Pooled Revenue Bonds	650
Capital leases	36
Other borrowings	14
Bond premium, net	186
Additions to outstanding debt	**4,315**
REDUCTIONS TO OUTSTANDING DEBT	
Refinancing and prepayments	(2,433)
Scheduled principal payments	(687)
Payments on other borrowings	(31)
Commercial paper	(326)
Other[1]	(43)
Reductions to outstanding debt	**(3,520)**
Net increase in outstanding debt	**$ 795**

[1]*Amortization of bond premium*

The University's debt, which is used to finance capital assets, includes $993.7 million of commercial paper outstanding at the end of 2014 and $1.3 billion of commercial paper outstanding at the end of 2013. Total debt outstanding was $18.0 billion at the end of 2014, compared to $17.2 billion at the end of 2013.

In August 2013, the University issued Medical Center Pooled Revenue Bonds totaling $650.0 million to finance and refinance certain facilities and projects. In October 2013, the University issued General Revenue Bonds of $2.5 billion to restructure Lease Revenue Bonds issued by the State Public Works Board of the state of California, reported as lease-purchase agreements by the University. General Revenues, as defined in the Indenture, have been amended to include certain state appropriations as to secure payment of the General Revenue Bonds.

In April 2014, General Revenue Bonds totaling $970.4 million were issued to finance and refinance certain facilities and projects of the University. Reductions to debt in 2014 were $3.5 billion. In April 2014, the University remarketed General Revenue Bonds totaling $500 million with a scheduled mandatory tender for purchase on July 1, 2017. In 2014, the University's General Revenue Bond ratings were changed by Moody's Investors Service from Aa1 to Aa2 and by Fitch Ratings from AA+ to AA. The University's Limited Project Revenue Bonds and Medical Center Pooled Revenue Bonds were changed by Moody's Investors Service from Aa2 to Aa3 and by Fitch Ratings from AA to AA-.

Commercial paper borrowings decreased by $326.4 million in 2014 compared to June 30, 2013. Commercial paper is primarily used as interim financing for construction projects and equipment financing. Commercial paper fluctuates based upon the timing of refinancing construction projects with the issuance of long-term Revenue Bonds. The University has various revolving credit agreements totaling $1.1 billion with major financial institutions for the purpose of providing additional liquidity for bonds, commercial paper and other liquidity needs.

Securities lending collateral

Under the securities lending program, the University records a liability to the borrower for cash collateral received and held by the University for securities on loan at the end of the year. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of the securities lent. The amount of the securities lending collateral liability fluctuates directly with securities lending opportunities and the investment of cash collateral.

Pension obligations and retiree health benefits

The University has a financial responsibility for pension benefits associated with its defined benefit plans and for retiree health benefits. The University's 2013 financial statements have been restated for new accounting standards, and accordingly, the University's pension obligation was $7.7 billion and $12.3 billion in 2014 and 2013, respectively. The change in net pension liability has been primarily driven by the investment performance of the UCRP investment portfolio. UCRP's total investment rate of return was 17.4 percent in 2014 and 11.7 percent in 2013. The discount rate used to estimate the net pension liability for both June 30, 2014 and 2013 was 7.5 percent.

LBNL participates in the University's defined benefit pension plan, although the DOE has an ongoing financial responsibility to reimburse the University for LBNL's share of the obligation to UCRP. In addition, under certain circumstances the University makes contributions to UCRP for LANL and LLNL retirees and, based upon contractual arrangements with the DOE, is reimbursed by the DOE. The University recorded receivables from the DOE of $1.2 billion and $1.8 billion for 2014 and 2013, respectively, representing the DOE's share of the net pension liability.

The University's obligation for retiree health benefits is based upon an actuarial determination of the annual retiree health benefit expense. The University funds the retiree health expense through UCRHBT based upon a projection of benefits on a pay-as-you-go basis. The increase of $863.0 million in 2014 in the obligation for retiree health benefits is due to the impact of amortizing the University's unfunded obligation. The unfunded liability for the campuses and medical centers as of the July 1, 2013 actuarial valuation was $13.2 billion.

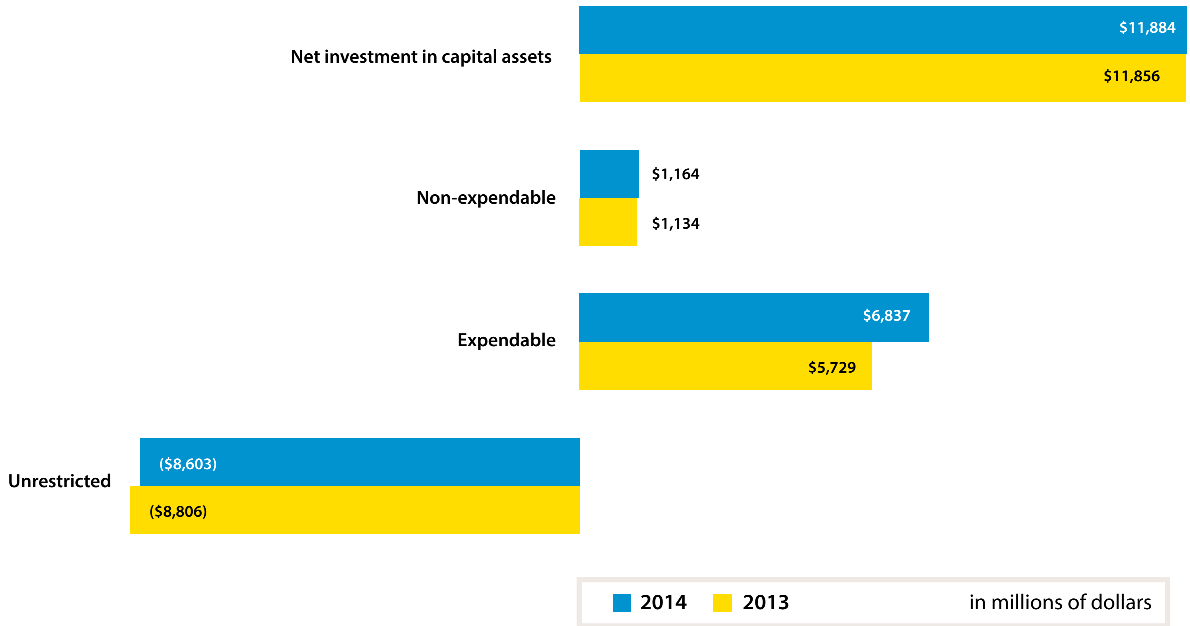
Other liabilities

Other liabilities consist of accounts payable, accrued salaries, other employee benefits, unearned revenue, funds held for others, DOE laboratories' liabilities, federal refundable loans, self-insurance and obligations under life income agreements.

Deferred inflows of resources

Deferred inflows of resources are related to the University's service concession arrangements, gains on debt refundings and changes in the net pension liability. Deferred inflows of resources in 2014 increased by $2.8 billion due to higher than expected earnings on pension investments.

The University's Net Position



Net position represents the residual interest in the University's assets and deferred outflows after all liabilities and deferred inflows are deducted. The University's net position is $11.4 billion in 2014, compared to $9.9 billion in 2013. Net position was restated for 2013 as a result of adopting new accounting rules. Net position is reported in the following categories: net investment in capital assets; restricted, nonexpendable; restricted, expendable; and unrestricted.

Net investment in capital assets

The portion of net position invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of these capital assets, is $11.9 billion in 2014 and 2013. The University continues to invest in its physical facilities.

Restricted, nonexpendable

Restricted, nonexpendable net position includes the corpus of the University's permanent endowments and the estimated fair value of certain planned giving arrangements. In 2014 the increase in restricted nonexpendable net position was principally due to the receipt of new gifts.

Restricted, expendable

Restricted, expendable net position is subject to externally imposed restrictions governing their use. Net position may be spent only in accordance with the restrictions placed upon them and may include endowment income and gains, subject to the University's spending policy; support received from gifts, appropriations or capital projects; trustee held investments; or other third-party receipts. The increases or decreases in restricted, expendable funds are principally due to unrealized appreciation or depreciation respectively in the fair value of investments related to restricted gifts and funds functioning as endowments.

Unrestricted

Under generally accepted accounting principles, net position that is not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Unrestricted net position is negative due to obligations for pension and retiree health benefits exceeding University reserves. Although unrestricted net position is not subject to externally imposed restrictions, substantially all of the University's reserves are allocated for academic and research initiatives or programs and for capital and other purposes. As of June 30, 2014, unrestricted net position is in a deficit position. The decrease in the deficit is due to changes in the net pension obligation related to strong financial market performance.

The University's Results of Operations

The statement of revenues, expenses and changes in net position is a presentation of the University's operating results. It indicates whether the financial condition has improved or deteriorated. In accordance with the Governmental Accounting Standards Board (GASB) requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the University are required to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income. A summarized comparison of the operating results for 2014 and 2013, arranged in a format that matches the revenue supporting the core activities of the University with the expenses associated with core activities, is as follows:

(in millions of dollars)

	2014			2013		
	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL
REVENUES						
Student tuition and fees, net	$ 3,586		$ 3,586	$ 3,403		$ 3,403
State educational appropriations		$ 2,638	2,638		$2,154	2,154
Pell Grants		316	316		346	346
Grants and contracts, net	5,068		5,068	5,079		5,079
Medical centers, educational activities and auxiliary enterprises, net	11,751	2	11,753	10,890	3	10,893
Department of Energy laboratories	1,251		1,251	1,032		1,032
Private gifts, net		882	882		802	802
Investment income, net		313	313		366	366
Other revenues	712	92	804	696	294	990
Revenues supporting core activities	**22,368**	**4,243**	**26,611**	**21,100**	**3,965**	**25,065**
EXPENSES						
Salaries and benefits	16,976		16,976	17,532		17,532
Scholarships and fellowships	577		577	592		592
Utilities	290		290	281		281
Supplies and materials	2,543		2,543	2,465		2,465
Depreciation and amortization	1,710		1,710	1,555		1,555
Department of Energy laboratories	1,244		1,244	1,026		1,026
Interest expense		616	616		666	666
Other expenses	3,609	2	3,611	3,394	15	3,409
Expenses associated with core activities	**26,949**	**618**	**27,567**	**26,845**	**681**	**27,526**
Income (loss) from core activities	**$ (4,581)**	**$3,625**	**$ (956)**	**$ (5,745)**	**$3,284**	**$ (2,461)**
OTHER NONOPERATING ACTIVITIES						
Net appreciation in fair value of investments			1,828			727
Income before other changes in net position			**872**			**(1,734)**
OTHER CHANGES IN NET POSITION						
State capital appropriations			45			120
Capital gifts and grants, net			432			257
Permanent endowments			20			23
Increase (decrease) in net position			**1,369**			**(1,334)**
NET POSITION						
Beginning of year, as previously reported			9,913			17,745
Cumulative effect of accounting changes						(6,498)
Beginning of year, as restated			9,913			11,247
End of year			**$11,282**			**$ 9,913**

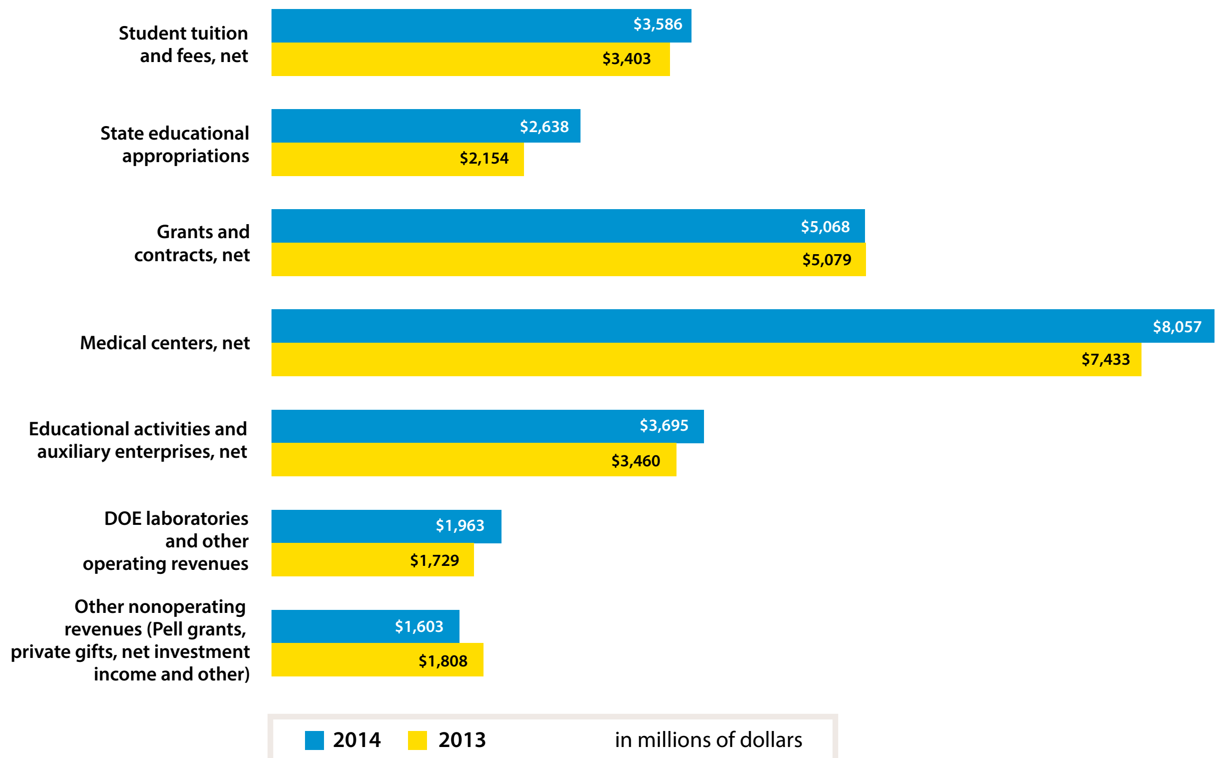
Revenues Supporting Core Activities

Revenues to support the University's core activities, including those classified as nonoperating revenues, were $26.6 billion and $25.1 billion in 2014 and 2013, respectively. These diversified sources of revenue increased by $1.5 billion in 2014.

The state of California's educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of the University. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country.

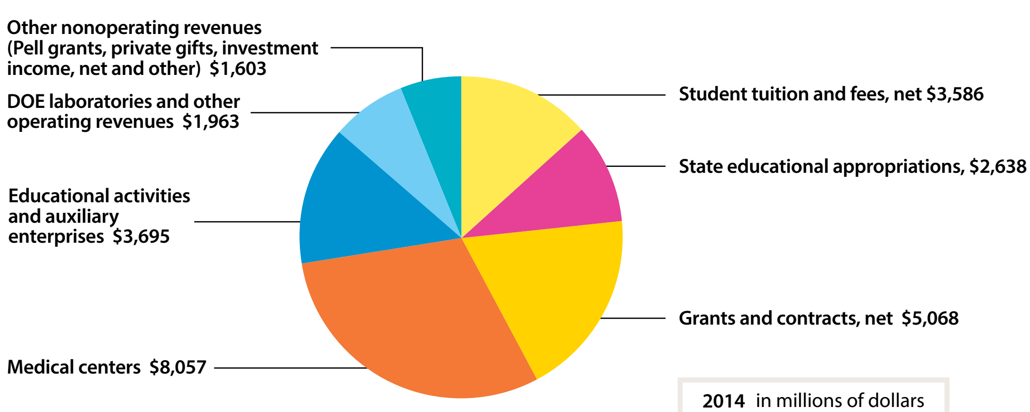
Gifts to the University allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Other significant revenues are from medical centers, educational activities and auxiliary enterprises such as student housing, food service operations and parking.

Revenues in the various categories have increased and decreased as follows:



A major financial strength of the University includes a diverse source of revenues, including those from student fees, federally sponsored grants and contracts, medical centers, the state of California, private support and self-supporting enterprises. The variety of fund sources has become increasingly important over the past several years given the effects of the state's financial crisis that required reductions in both instructional and non-instructional programs.

Categories of both operating and nonoperating revenue that supported the University's core activities in 2014 are as follows:



Student tuition and fees, net

Net student tuition and fees were $3.6 billion and $3.4 billion in 2014 and 2013, respectively. Student tuition and fees, net of scholarship allowances, increased by $182.9 million in 2014. Scholarship allowances were $1.1 billion in 2014 and $1.0 billion in 2013. Scholarship allowances are reported as an offset to revenue, not as an operating expense.

In 2014, enrollment grew by 2.3 percent. Mandatory tuition and fees for resident undergraduates were not changed in 2014. Certain nonresident undergraduates and resident and nonresident graduate students experienced increases in mandatory tuition and fees. Professional degree supplemental tuition varies by discipline and some programs increased supplemental tuition levels in 2014.

State educational appropriations

Educational appropriations from the state of California were $2.6 billion and $2.2 billion in 2014 and 2013, respectively. State educational appropriations increased in 2014 by $483.4 million, as a result of tax initiatives approved by the voters of California in November 2012. In connection with the passage of these tax initiatives, the University did not raise tuition in 2013. Additionally, the state of California agreed to increase state educational appropriations in exchange for the reduction in state financing appropriations, which decreased with the refinancing of the Lease Revenue Bonds issued by the State Public Works Board of the state of California.

Grants and contracts, net

Revenue from federal, state, private and local government grants and contracts — including an overall facilities and administration cost recovery of $978.4 million and $990.5 million in 2014 and 2013, respectively — were $5.1 billion in 2014 and 2013.

In 2014, federal grants and contracts revenue, including the federal facilities and administrative cost recovery of $709.6 million, decreased $22.1 million, or 0.3 percent as compared to 2013. Expiring federal grants and contracts funded from federal economic stimulus funds made available by the American Recovery and Reinvestment Act (ARRA) and federal budget cuts have slowed the University's growth in federal grants and contracts. Grant and contract revenue is from a variety of federal agencies as indicated below:

(in millions of dollars)

	2014	2013
Department of Health and Human Services	$1,902	$1,967
National Science Foundation	469	478
Department of Education	124	75
Department of Defense	256	271
National Aeronautics and Space Administration	102	94
Department of Energy (excluding national laboratories)	109	111
Other federal agencies	215	249
Federal grants and contracts net revenue	**$3,177**	**$3,245**

Medical centers, educational activities and auxiliary enterprises, net

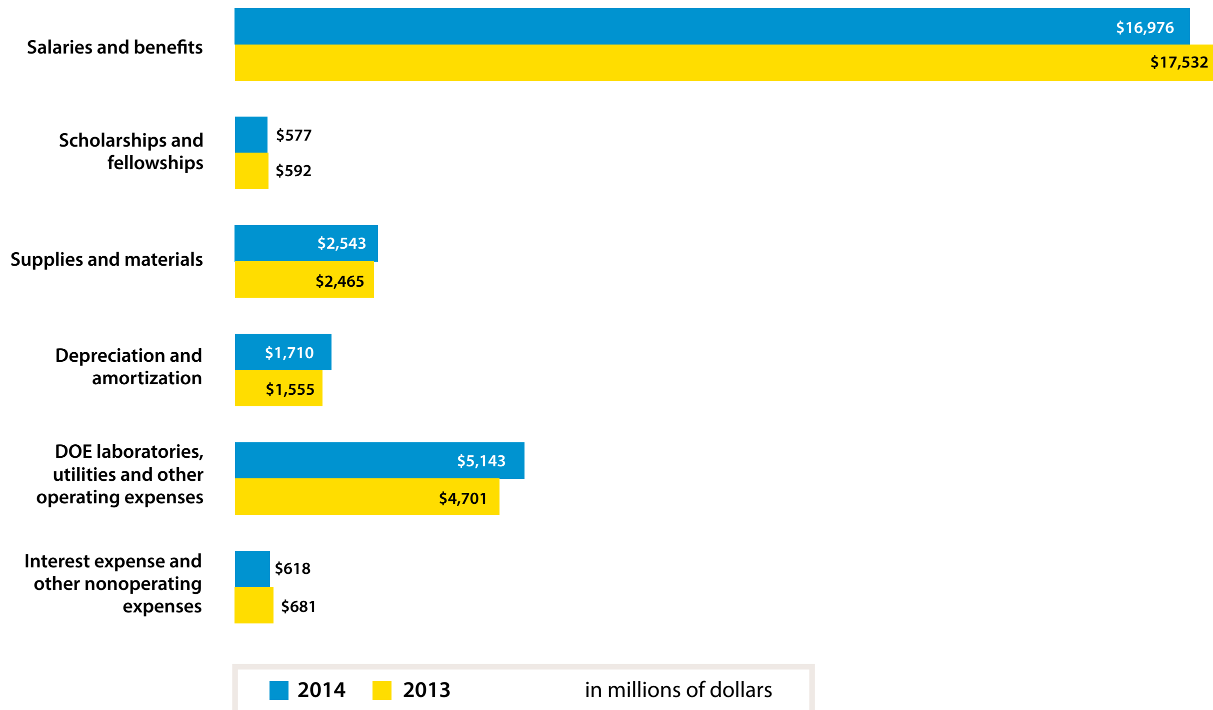
Medical center revenues, including state hospital fee grants and net of allowances, increased $624.1 million in 2014, or 8.4 percent. Revenues increased in 2014 due to higher patient volumes, a continuing increase in the complexity of cases, slight improvements in payor mix and higher reimbursement rates. In response to health care reform and increasing pension contributions, the medical centers continue to invest in expanding services and achieving efficiencies to maintain operating margins.

Revenue from education activities, primarily medical professional fees, net of allowances, grew by $189.2 million, or 8.4 percent in 2014. The growth is generally associated with an expanded patient base and higher rates from third-party payors.

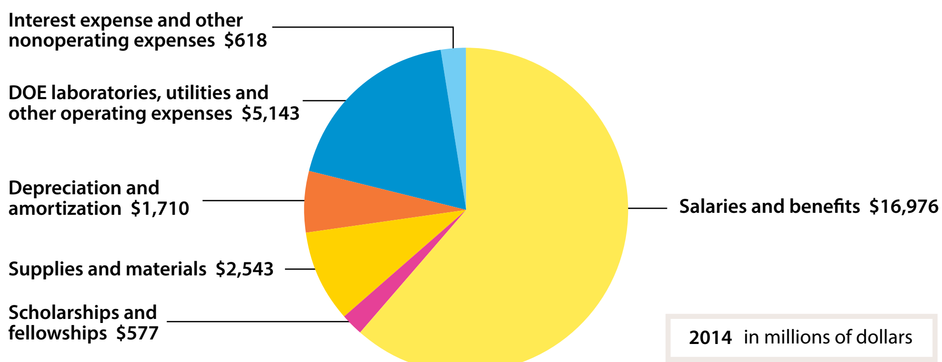
Expenses Associated with Core Activities

Expenses associated with the University's core activities, including those classified as nonoperating expenses, were $27.5 billion and $27.5 billion in 2014 and 2013, respectively. Expenses decreased by $61.0 million, primarily due to pension expenses which were offset by an increase in other operating expenses.

Expenses in the various categories are as follows:



Categories of both operating and nonoperating expenses related to the University's core activities in 2014 are as follows:



Salaries and benefits

Over 63 percent of the University's expenses were related to salaries and benefits. There were 142,000 full-time equivalent (FTE) employees in the University in 2014, excluding employees who were associated with LBNL whose salaries and benefits were included as laboratory expenses. Salaries and benefits decreased 1.9 percent in 2014 due to lower pension expense. In 2014, salaries increased 5.4 percent, 1.6 percent due to an increase in the number of FTEs and 3.8 percent due to an increase in the average salary per FTE. Employee benefits, excluding pension and post retirement health care benefits, increased by 4.3 percent in 2014, due to higher health insurance costs. Pension expense is lower due to investment gains on plan assets in excess of expected returns.

Scholarships and fellowships

The University places a high priority on student financial aid as part of its commitment to affordability. Scholarships and fellowships, representing payments of financial aid made directly to students and reported as an operating expense, decreased $14.4 million in 2014 as compared to the prior year.

Scholarship allowances, representing financial aid and fee waivers awarded by the University, were $1.9 billion and $1.8 billion in 2014 and 2013, respectively. On a combined basis, as the University continues its commitment to provide financial support for needy students, financial aid in all forms increased by $47.8 million, or 2.6 percent in 2014.

Supplies and materials

During 2014, overall supplies and materials costs increased by $78.2 million, or 3.2 percent. In recent years, there has been inflationary pressure on the costs for medical supplies and laboratory instruments and higher costs for general supplies necessary to support expanded research activity and increased medical patient volumes. The University continues to find opportunities to manage the costs of supplies and materials.

Other expenses

Other expenses consist of a variety of expense categories, including travel, rent, insurance, legal settlements and repairs and maintenance, plus any gain or loss on disposals of capital assets and other nonoperating expenses.

Operating Losses

In accordance with the GASB's reporting standards, operating losses were $4.6 billion in 2014 and $5.7 billion in 2013. The operating loss in 2014 was partially offset by $3.6 billion of net revenue that is required by the GASB to be classified as nonoperating, but clearly supports core operating activities of the University. Expenses associated with core activities in 2014 exceeded revenue available to support core activities by $1.0 billion.

Other Nonoperating Activities

The University's other 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.

Net appreciation (depreciation) in fair value of investments

In 2014, the University recognized net appreciation in the fair value of investments of $1.8 billion compared to net $727.0 million during 2013. The University's portfolio showed positive performance in 2014 due to strong returns in both the equity and bond markets.

Other Changes in Net Position

Similar to other nonoperating activities discussed above, other changes in net position are also not available to support the University's operating expenses in the current year. State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital assets. Only income earned from gifts of permanent endowments is available in future years to support the specified program. The University's enrollment growth requires new facilities, in addition to continuing needs for renewal, modernization and seismic correction of existing facilities. Capital appropriations from the state of California decreased by $74.7 million in 2014. Capital appropriations are from bond measures approved by the California voters.

THE UNIVERSITY OF CALIFORNIA DISCRETELY PRESENTED COMPONENT UNITS

Separate foundations at each individual campus provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although independent boards govern each of the foundations, they are affiliated with, and their assets are dedicated for, the benefit of the University of California.

In 2014, The Regents became the sole corporate member of Children's Hospital and Research Center Oakland (CHRCO), an existing 501(c)(3) corporation. CHRCO is considered a discretely presented component unit of the University, therefore, financial information for the discretely presented component units has been restated for 2013 for this change in reporting entity.

The Discretely Presented Component Units' Financial Position

The discretely presented component units' statement of net position presents their combined financial position at the end of the year. It displays all of the discretely presented component units' assets, deferred outflows, liabilities, deferred inflows and net position. The difference between assets, deferred outflows, liabilities, and deferred inflows is net position, representing a measure of the current financial condition of the discretely presented component units.

The major components of the combined assets, liabilities and net position of the discretely presented component units at June 30, 2014 and 2013 are as follows:

(in millions of dollars)

	2014	2013
ASSETS		
Investments	$6,704	$6,005
Investment of cash collateral	51	66
Accounts receivable, net	103	155
Pledges receivable, net	865	718
Capital assets, net	284	242
Other assets	245	233
Total assets	**8,252**	**7,419**
DEFERRED OUTFLOW OF RESOURCES	**5**	**4**
LIABILITIES		
Accounts payable and other current liabilities	158	158
Securities lending collateral	51	66
Obligation under life income agreements and funds held for others	383	368
Other noncurrent liabilities	109	155
Total liabilities	**701**	**747**
DEFERRED INFLOWS OF RESOURCES	**30**	**11**
NET POSITION		
Net investment in capital assets	282	176
Restricted:		
Nonexpendable	3,180	2,854
Expendable	3,851	3,350
Unrestricted	213	285
Total net position	**$7,526**	**$6,665**

Investments increased in 2014 due to the strong performance of the equity markets. The Board of Trustees for each campus foundation is responsible for its specific investment policy, although asset allocation guidelines are recommended to campus foundations by the Investment Committee of The Regents. The Boards of Trustees may determine that all or a portion of their investments will be managed by the University's Chief Investment Officer. The Chief Investment Officer managed $1.4 billion and $1.2 billion of the campus foundations' investments at the end of 2014 and 2013, respectively.

Restricted, nonexpendable net position includes the corpus of the campus foundations' permanent endowments and the estimated fair value of certain planned giving arrangements. Restricted, expendable net position is subject to externally imposed restrictions governing their use. Net position may be spent only in accordance with the restrictions placed upon them and may include endowment income and investment gains, subject to each individual campus foundation's spending policy; support received from gifts; trustee held investments; or other third-party receipts. New gifts and net appreciation in the fair value of investments were the primary reasons for the changes in value in 2014.

CHRCO operates a 190-bed inpatient acute care hospital, and outpatient facilities and clinics throughout the San Francisco Bay Area, as well as a pediatric research institute. CHRCO's assets consist primarily of patient receivables and capital assets. In 2014, capital assets increased due primarily to investments in an electronic medical record system. Liabilities include long-term debt, outstanding in 2013, which was refinanced in 2014 with $58.1 million of the University's commercial paper and pension liabilities for CHRCO's defined benefit retirement plan. CHRCO net position increased $12.3 million in 2014.

The Discretely Presented Component Units' Results of Operations

The discretely presented component units' combined statement of revenues, expenses and changes in net position is a presentation of their operating results for the year. It indicates whether their financial condition has improved or deteriorated during the year.

A summarized comparison of the operating results for 2014 and 2013 is as follows:

(in millions of dollars)

	2014	2013
OPERATING REVENUES		
Medical centers, net	$ 358	$ 405
Grants and contracts, net	50	56
Private gifts and other revenues	814	737
Total operating revenues	**1,222**	**1,198**
OPERATING EXPENSES		
Salaries and benefits	291	272
Supplies and materials	42	38
Depreciation and amortization	30	22
Grants to campuses and other expenses	1,101	826
Total operating expenses	**1,464**	**1,158**
Operating income (loss)	**(242)**	**40**
NONOPERATING REVENUES (EXPENSES)		
Investment income	94	68
Net appreciation in fair value of investments	677	484
Other nonoperating revenues	17	11
Income before other changes in net position	**546**	**603**
OTHER CHANGES IN NET POSITION		
Capital gifts and grants, net	41	37
Permanent endowments	274	185
Increase in net position	**861**	**825**
NET POSITION		
Beginning of year, as previously reported	6,665	5,500
Cumulative effect of accounting and reporting entity changes		340
Beginning of year, as restated	6,665	5,840
End of year	**$7,526**	**$ 6,665**

Operating revenues generally consist of current-use gifts, including pledges and income from other fundraising activities, although they do not include additions to permanent endowments and endowment income. Operating revenues fluctuate based upon fundraising campaigns conducted by the campus foundations during the year.

Operating expenses generally consist of grants to University campuses, comprised of current-use gifts and endowment income and other expenses, including gift fees. Grants to campuses typically follow the pattern indicated by private gift revenue; however, the campuses' programmatic needs are also taken into consideration, subject to abiding by the restricted purposes of gifts to the endowment and the amounts available for grants in any particular year.

Grants to the campuses can only be made when the cash is received and, in addition, also include endowment investment income, classified as nonoperating income. Therefore, operating losses can occur when grants distributed to the campuses in any particular year exceed private gift revenue.

CHRCO's operating loss for 2014 was $55.8 million as compared to operating income of $18.4 million in 2013. The operating loss is a result of declining revenues due to the expiration in 2013 of supplemental state health care reimbursement programs in addition to cost increases due to inflation. The operating loss is offset by gifts and investment returns.

THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

UCRS is a valuable component of the comprehensive benefits package offered to employees of the University. UCRS consists of the University of California Retirement Plan (UCRP), a defined benefit plan for members; the University of California Retirement Savings Program (UCRSP) that includes four defined contribution plans (Defined Contribution Plan, Supplemental Defined Contribution Plan, 403(b) Plan and 457(b) Plan) to complement the defined benefit plan, with several investment portfolio options for participants' elective and non-elective contributions; and the California Public Employees Retirement System (PERS) Voluntary Early Retirement Incentive Plan (PERS-VERIP) for certain University employees that were members of PERS who elected early retirement.

UCRS' Financial Position and Result of Operations

The statement of plans' fiduciary net position presents the financial position of UCRS at the end of the fiscal year. It displays all of the retirement system's assets, liabilities and net position. The difference between assets and liabilities is the net position held in trust for pension benefits. These represent amounts available to provide pension benefits to members of UCRP and participants in the defined contribution plans and PERS-VERIP. At June 30, 2014, the UCRS' assets were $80.8 billion, liabilities $7.9 billion and net position held in trust for pension benefits $72.9 billion, an increase of $9.7 billion from 2013.

The major components of the assets, liabilities and net position available for pension benefits for 2014 and 2013 are as follows:

(in millions of dollars)

	2014	2013
ASSETS		
Investments	$68,748	$60,105
Participants' interests in mutual funds	5,044	3,739
Investment of cash collateral	6,563	6,540
Other assets	464	438
Total assets	**80,819**	**70,822**
LIABILITIES		
Securities lending collateral	6,562	6,540
Other liabilities	1,359	1,085
Total liabilities	**7,921**	**7,625**
NET POSITION HELD IN TRUST FOR PENSION BENEFITS		
Members' defined benefit plan benefits	52,854	45,405
Participants' defined contribution plan benefits	20,044	17,792
Total net position held in trust for pension benefits	**$72,898**	**$63,197**

The statement of changes in the plans' fiduciary net position is a presentation of the UCRS' operating results. It indicates whether the financial condition has improved or deteriorated during the year. A summarized comparison of the operating results for 2014 and 2013 is as follows:

(in millions of dollars)

	2014	2013
ADDITIONS (REDUCTIONS)		
Contributions	$ 3,216	$2,176
Net appreciation (depreciation) in fair value of investments	9,137	5,106
Investment and other income, net	1,347	1,255
Total additions (reductions)	**13,700**	**8,537**
DEDUCTIONS		
Benefit payments and participant withdrawals	3,953	3,761
Plan expenses	46	45
Total deductions	**3,999**	**3,806**
Increase in net position held in trust for pension benefits	**$ 9,701**	**$4,731**

The Regents utilize asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk. The overall investment gain based upon unit values for UCRS was 14.0 percent in 2014 compared to an investment gain of 11.0 percent in 2013.

The participants' interests in mutual funds, representing defined contribution plan contributions to certain mutual funds on a custodial plan basis, fluctuate based upon market performance of the mutual funds and participant investment elections.

UCRS participates in the University's securities lending program as a means to augment income. All borrowers are required to provide collateral and the University records a liability to the borrower for cash collateral received and held by the University for securities on loan at the end of the year. Investments in cash collateral and the securities lending collateral liability fluctuate in response to changes in demand from borrowers and the availability of securities based upon the UCRS asset allocation mix.

Contributions to UCRP in 2014 and 2013 were $3.2 and $2.2 billion, respectively, due to increased employer and employee contribution rates. Additional deposits of $700 million were made by the University to UCRP in July 2014, subsequent to year-end.

Benefit payments and participant withdrawals were $192.0 million more in 2014 than in 2013. Payments from UCRP increase each year due to a growing number of retirees receiving payments and cost-of-living adjustments. Benefit payments from UCRSP fluctuate based upon member withdrawals. At the beginning of 2014, there were 64,200 retirees and beneficiaries receiving payments from UCRS as compared to 58,900 at the beginning of 2013.

As of July 1, 2013, the date of the most recent actuarial report, UCRP's overall funded ratio was 76.0 percent compared to 79.0 percent as of July 1, 2012. The decrease in the funded status ratio for 2013 is primarily attributable to recognition of investment losses from previous years and actual contribution less than expected.

Additional information on the retirement plans can be obtained from the 2014 annual reports of the University of California Retirement System by writing to the University of California, Office of the President, Human Resources and Benefits, Post Office Box 24570, Oakland, California 94623.

THE UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT)

The UCRHBT was established on July 1, 2007 to allow certain University locations — primarily campuses and medical centers — that share the risks, rewards and costs of providing for retiree health benefits to fund such benefits on a cost-sharing basis and accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. The University contributes toward retiree medical and dental benefits, although it does not contribute toward the cost of other benefits available to retirees. The DOE laboratories do not participate in the UCRHBT, therefore the DOE has no interest in the trust's assets.

UCRHBT's Financial Position and Result of Operations

The statement of trust's fiduciary net position presents the financial position of the UCRHBT at the end of the fiscal year. It displays all of the UCRHBT's assets, liabilities and net position. The difference between assets and liabilities is the net position held in trust for retiree health benefits. This represents amounts available to provide retiree health benefits to participants.

The major components of the assets, liabilities and net position available for retiree health benefits for 2014 and 2013 are as follows:

(in millions of dollars)

	2014	2013
ASSETS		
Investments	$37	$ 8
Other assets	39	40
Total assets	**76**	**48**
LIABILITIES		
Total liabilities	**11**	**4**
NET POSITION HELD IN TRUST FOR RETIREE HEALTH BENEFITS		
Total net position held in trust for retiree health benefits	**$65**	**$44**

The statement of changes in trust's fiduciary net position is a presentation of the UCRHBT's operating results. It indicates whether the financial condition has improved or deteriorated during the year. Summarized operating results for 2014 and 2013 are as follows:

(in millions of dollars)

	2014	2013
ADDITIONS		
Contributions	$343	$268
Total additions	**343**	**268**
DEDUCTIONS		
Insurance premiums and payments	318	310
Plan expenses	4	3
Total deductions	**322**	**313**
Increase (decrease) in net position held in trust for retiree health benefits	**$ 21**	**$ (45)**

Contributions for retiree health benefits are made by the campuses and medical centers based upon projected pay-as-you-go financing. The University acts as a third-party administrative agent on behalf of the UCRHBT to pay health care insurers and administrators amounts currently due.

The retiree health benefits provided under the University's plan and any liabilities related to the future funding requirements for the retiree health benefits are reported by the University. The unfunded actuarial accrued liability for eligible participants as of July 1, 2013, the date of the latest actuarial valuation, was $13.3 billion.

LOOKING FORWARD

The University of California is 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.

The University's variety of funding sources has become increasingly important over the past several years given the effects of the state financial crisis. In June 2013, the Legislature approved the governor's 2014 budget recommendation for a multi-year funding plan that will provide an annual base budget increase beginning with 5 percent in 2014, another 5 percent in 2015, 4 percent in 2016 and another 4 percent in 2017. This multi-year funding plan is intended to provide the University with fiscal stability after five years of severe reductions in state educational appropriations. In exchange for this long-term stability, the University commits to focus its resources to address long-term accountability goals for accessibility, student fees, financial aid and performance outcome measures.

The University 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 University's 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 the University's awards are the Department of Education, Department of Defense, the National Aeronautics and Space Administration 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. The University is a unique national resource for helping the nation address competitiveness and economic initiatives.

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, 2013 actuarial valuation was $13.2 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, 2014 actuarial valuation was $7.6 billion or 80.0 percent funded. Total funding policy contributions in the July 1, 2014 actuarial valuation represents 29.0 percent of covered compensation in July 2013. Member contributions for the employees in the new benefit tier are 7.0 percent, and the employer rate is uniform across all members. On July 1, 2014 employer contributions increased to 14.0 percent and employee contributions to 8.0 percent. In July 2014, The Regents authorized additional contributions of $700 million to UCRP, representing the difference between the contribution rates and the funding requirements, to improve the Plan's funded status. The additional $700 million contribution to UCRP is projected to result in a 95.0 percent funded status by July 1, 2042.

The University's medical centers have demonstrated very positive financial results, although they continue to face financial and competitive challenges in their regional markets, along with the added costs and responsibilities related to their function as academic institutions. 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 University's medical centers also face additional costs associated with new technologies, biomedical research, the education and training of health care professionals and the care for a disproportionate share of the medically underserved in California. 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. The growth in costs of the publicly funded programs and health care reform will likely continue to reduce rates or limit payment growth, placing downward pressure on operating results for the medical centers.

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

Additional 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 the University, 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, which address activities, events or developments that the University 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. The University 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.

Independent Auditors’ Report

THE BOARD OF REGENTS
UNIVERSITY OF CALIFORNIA

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the University of California (the University), a component unit of the State of California, its aggregate discretely component units, the University of California Retirement System, and the University of California Retiree Health Benefit Trust, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University’s basic financial statements, listed in the table of contents as pages 38 through 99.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University of California San Francisco Foundation, which represent 16% and 20% of the assets and revenues, respectively, of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of California San Francisco Foundation, is based solely on the report of other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the University, its aggregate discretely presented component units, the University of California Retirement System, and the University of California Retiree Health Benefit Trust as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Adoption of New Accounting Pronouncements

As discussed in the significant accounting policies Note to the financial statements, in 2014, the University of California adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinions are not modified with respect to this matter.

Change in Reporting Entity

As discussed in the financial reporting entity Note to the financial statements, in 2014, the University of California changed its reporting entity to include the Children's Hospital and Research Center Oakland as a discretely presented component unit. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 16 through 33, and the schedules of changes in net pension liability, net pension liability, employers' contributions and funding progress on pages 100 through 105 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

ORANGE COUNTY, CALIFORNIA
NOVEMBER 5, 2014

UNIVERSITY OF CALIFORNIA
STATEMENTS OF NET POSITION

At June 30, 2014 (in thousands of dollars)	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS
ASSETS		
Cash and cash equivalents	$ 140,429	$ 182,282
Short-term investments	3,334,675	473,756
Investment of cash collateral	848,436	35,695
Investments held by trustees	24,619	
Accounts receivable, net	3,000,773	103,053
Pledges receivable, net	26,833	222,531
Current portion of notes and mortgages receivable, net	43,497	5
Inventories	189,758	4,857
Department of Energy receivable	97,342	
Other current assets	197,358	11,316
Current assets	**7,903,720**	**1,033,495**
Investments	18,206,378	6,230,614
Investment of cash collateral	369,718	15,554
Investments held by trustees	864,148	
Pledges receivable, net	34,780	642,337
Notes and mortgages receivable, net	321,665	1,296
Department of Energy receivable	1,488,634	
Capital assets, net	27,361,525	283,632
Other noncurrent assets	217,453	44,868
Noncurrent assets	**48,864,301**	**7,218,301**
Total assets	**56,768,021**	**8,251,796**
DEFERRED OUTFLOWS OF RESOURCES	**3,700,014**	**5,445**
LIABILITIES		
Accounts payable	1,357,675	44,319
Accrued salaries	990,371	6,894
Employee benefits	439,902	3,033
Unearned revenue	1,028,673	32,804
Collateral held for securities lending	1,217,834	51,249
Commercial paper	993,650	
Current portion of long-term debt	1,186,884	
Funds held for others	319,324	241,685
Department of Energy laboratories' liabilities	81,305	
Other current liabilities	1,273,403	70,739
Current liabilities	**8,889,021**	**450,723**
Federal refundable loans	232,878	
Self-insurance	443,040	16,091
Obligations under life income agreements	28,700	140,818
Long-term debt	15,850,215	
Pension obligations	7,713,863	11,212
Obligations for retiree health benefits	8,440,303	
Other noncurrent liabilities	510,247	81,677
Noncurrent liabilities	**33,219,246**	**249,798**
Total liabilities	**42,108,267**	**700,521**
DEFERRED INFLOWS OF RESOURCES	**7,077,909**	**30,653**
NET POSITION		
Net investment in capital assets	11,884,373	282,434
Restricted:		
Nonexpendable: Endowments and gifts	1,120,368	3,179,940
Nonexpendable: Reserved for minority interests	43,343	
Expendable: Endowments and gifts	6,055,394	3,848,154
Expendable: Other, including debt service, loans, capital projects and appropriations	781,710	2,284
Unrestricted	(8,603,329)	213,255
Total net position	**$11,281,859**	**$7,526,067**

See accompanying Notes to Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year ended June 30, 2014 (in thousands of dollars)	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS
OPERATING REVENUES		
Student tuition and fees, net	$ 3,585,859	
Grants and contracts, net:		
Federal	3,176,902	$ 20,364
State	460,540	416
Private	1,180,867	27,038
Local	249,924	1,685
Medical centers, net	8,055,683	357,823
Educational activities, net	2,378,484	
Auxiliary enterprises, net	1,316,419	
Department of Energy laboratories	1,250,820	
Campus foundation private gifts		789,573
Other operating revenues, net	712,141	24,759
Total operating revenues	**22,367,639**	**1,221,658**
OPERATING EXPENSES		
Salaries and wages	12,034,140	228,001
Pension benefits	1,285,997	5,703
Retiree health benefits	1,216,648	296
Other employee benefits	2,439,123	57,655
Supplies and materials	2,543,340	41,628
Depreciation and amortization	1,709,672	29,940
Department of Energy laboratories	1,244,335	
Scholarships and fellowships	577,212	
Utilities	290,444	
Campus foundation grants		958,873
Other operating expenses	3,608,153	142,016
Total operating expenses	**26,949,064**	**1,464,112**
Operating loss	**(4,581,425)**	**(242,454)**
NONOPERATING REVENUES (EXPENSES)		
State educational appropriations	2,637,896	
State financing appropriations	458	
State hospital fee grants	1,558	
Build America Bonds federal interest subsidies	59,327	
Federal Pell Grants	316,064	
Private gifts, net	881,648	8,966
Investment income:		
Short Term Investment Pool and other, net	230,019	
Endowment, net	76,226	
Securities lending, net	6,949	363
Discretely presented component units		94,343
Net appreciation in fair value of investments	1,827,628	677,302
Interest expense	(615,556)	(1,444)
Loss on disposal of capital assets	(2,152)	
Other nonoperating revenues, net	33,440	9,156
Net nonoperating revenues	**5,453,505**	**788,686**
Income before other changes in net position	**872,080**	**546,232**
OTHER CHANGES IN NET POSITION		
Capital gifts and grants, net	431,836	41,628
State capital appropriations	44,961	
Permanent endowments	20,236	273,503
Increase in net position	**1,369,113**	**861,363**
NET POSITION		
Beginning of year, as previously reported	16,649,672	6,245,822
Cumulative effect of accounting and reporting entity changes	(6,736,926)	418,882
Beginning of year, as restated	9,912,746	6,664,704
End of year	**$11,281,859**	**$7,526,067**

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

Year ended June 30, 2014 (in thousands of dollars)	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 3,567,031	
Grants and contracts	5,556,286	
Medical centers	8,053,684	$ 375,273
Educational activities	2,387,096	
Auxiliary enterprises	1,320,755	
Collection of loans from students and employees	65,731	
Campus foundation private gifts		539,013
Payments to employees	(11,933,305)	(196,996)
Payments to suppliers and utilities	(6,122,274)	(171,868)
Payments for pension benefits	(1,578,009)	(14,500)
Payments for retiree health benefits	(298,594)	(250)
Payments for other employee benefits	(2,486,814)	(83,132)
Payments for scholarships and fellowships	(576,989)	
Loans issued to students and employees	(75,060)	
Payments to campuses and beneficiaries		(972,923)
Other receipts	470,717	87,793
Net cash used by operating activities	**(1,649,745)**	**(437,590)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State educational appropriations	2,641,928	
Federal Pell Grants	315,887	
State hospital fee grants	1,558	
Gifts received for other than capital purposes:		
Private gifts for endowment purposes	21,527	236,969
Other private gifts	867,765	8,731
Receipt of retiree health contributions from UCRP	44,114	
Payment of retiree health contributions to UCRHBT	(43,695)	
Receipts from UCRHBT	304,565	
Payments for retiree health benefits made on behalf of UCRHBT	(306,114)	
Student direct lending receipts	908,900	
Student direct lending payments	(908,875)	
Commercial paper financing:		
Proceeds from issuance	15,893	
Payments of principal	(304,277)	
Interest paid on debt	(10,972)	
Other receipts (payments)	32,778	(9,668)
Net cash provided by noncapital financing activities	**3,580,982**	**236,032**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Commercial paper financing:		
Proceeds from issuance	699,999	
Payments of principal	(1,024,480)	
Interest paid	(1,715)	
State capital appropriations	55,544	
State financing appropriations	1,832	
Build America Bonds federal interest subsidies	56,708	
Capital gifts and grants	358,061	43,475
Proceeds from debt issuance	1,891,948	58,120
Proceeds from the sale of capital assets	14,568	232
Purchase of capital assets	(2,323,307)	(70,411)
Refinancing or prepayment of outstanding debt	(43,843)	(59,207)
Scheduled principal paid on debt and capital leases	(413,044)	(7,444)
Interest paid on debt and capital leases	(787,427)	(2,988)
Advances from the University for prepayment of outstanding debt		
Net cash used by capital and related financing activities	**$(1,515,156)**	**$ (38,223)**

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS *continued*

Year ended June 30, 2014 (in thousands of dollars)	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	$ 67,865,326	$ 1,557,669
Purchase of investments	(68,658,229)	(1,374,549)
Investment income, net of investment expenses	323,030	65,804
Net cash provided (used) by investing activities	**(469,873)**	**248,924**
Net increase (decrease) in cash and cash equivalents	**(53,792)**	**9,143**
Cash and cash equivalents, beginning of year	194,221	173,139
Cash and cash equivalents, end of year	**$ 140,429**	**$ 182,282**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating (loss)	$ (4,581,425)	$ (242,454)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization expense	1,709,672	29,940
Noncash gifts		(77,175)
Allowance for doubtful accounts	348,037	21,049
Loss on impairment of capital assets	11,202	
Change in assets and liabilities:		
Accounts receivable	(451,523)	6,218
Pledges receivable		(159,793)
Investments held by trustees	(33,948)	
Inventories	(3,767)	(390)
Other assets	(6,093)	(371)
Accounts payable	62,006	2,262
Accrued salaries	64,570	51
Employee benefits	43,999	
Unearned revenue	78,580	2,125
Self-insurance	12,779	2,618
Obligations to life beneficiaries		(15,139)
Pension obligations	(446,924)	(9,704)
Obligations for retiree health benefits	862,938	
Department of Energy	615,859	
Other liabilities	64,293	3,173
Net cash used by operating activities	**$ (1,649,745)**	**$ (437,590)**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION		
Capital assets acquired through capital leases	$ 36,470	
Capital assets acquired with a liability at year-end	82,625	
Change in fair value of interest rate swaps classified as hedging derivatives	(29,481)	
Gifts of capital assets	69,115	
Other noncash gifts	27,136	$ 105,779
Other borrowings from conversion of interest rate swap to hedging derivative	14,025	
Debt service for, or refinancing of, lease revenue bonds:		
Principal paid	(2,406,740)	
Interest paid	(14,000)	
Proceeds from general revenue bonds used to refinance lease revenue bonds:		
Principal received	2,389,830	
Bond premium received	185,534	
Investments held by trustee used to refinance lease revenue bonds	180,303	
Interest added to principal		27,917
Beneficial interest in charitable remainder trust		91

See accompanying Notes to Financial Statements.

STATEMENTS OF PLANS' AND TRUST'S FIDUCIARY NET POSITION

At June 30, 2014 (in thousands of dollars)	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)	UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT)	TOTAL UCRS AND UCRHBT
ASSETS			
Investments	$68,747,604	$37,125	$68,784,729
Participants' interests in mutual funds	5,044,424		5,044,424
Investment of cash collateral	6,563,272		6,563,272
Participant 403(b) loans	170,215		170,215
Accounts receivable:			
Contributions from University and affiliates	135,279	22,961	158,240
Investment income	85,911		85,911
Securities sales and other	72,006	3	72,009
Prepaid insurance premiums		16,390	16,390
Total assets	**80,818,711**	**76,479**	**80,895,190**
LIABILITIES			
Payable to University		11,295	11,295
Payable for securities purchased	1,083,699		1,083,699
Member withdrawals, refunds and other payables	275,415		275,415
Collateral held for securities lending	6,561,614		6,561,614
Total liabilities	**7,920,728**	**11,295**	**7,932,023**
NET POSITION HELD IN TRUST			
Members' defined benefit plan benefits	52,853,829		52,853,829
Participants' defined contribution plan benefits	20,044,154		20,044,154
Retiree health benefits		65,184	65,184
Total net position held in trust	**$72,897,983**	**$65,184**	**$72,963,167**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM AND RETIREE HEALTH BENEFIT TRUST

STATEMENTS OF CHANGES IN PLANS' AND TRUST'S FIDUCIARY NET POSITION

Year ended June 30, 2014 (in thousands of dollars)	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)	UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT)	TOTAL UCRS AND UCRHBT
ADDITIONS (REDUCTIONS)			
Contributions:			
Members and employees	$ 1,628,638		$ 1,628,638
Retirees		$ 47,722	47,722
University	1,587,074	295,673	1,882,747
Total contributions	**3,215,712**	**343,395**	**3,559,107**
Investment income (expense), net:			
Net appreciation in fair value of investments	9,137,618		9,137,618
Interest, dividends and other investment income	1,304,521	13	1,304,534
Securities lending income	47,664		47,664
Securities lending fees and rebates	(7,454)		(7,454)
Total investment income, net	**10,482,349**	**13**	**10,482,362**
Interest income from contributions receivable	2,361		2,361
Total additions	**13,700,422**	**343,408**	**14,043,830**
DEDUCTIONS			
Benefit payments:			
Retirement payments	1,875,734		1,875,734
Member withdrawals	109,486		109,486
Cost-of-living adjustments	370,000		370,000
Lump sum cash outs	253,807		253,807
Preretirement survivor payments	41,995		41,995
Disability payments	33,411		33,411
Death payments	8,276		8,276
Participant withdrawals	1,260,155		1,260,155
Total benefit payments	**3,952,864**		**3,952,864**
Insurance premiums:			
Insured plans		244,461	244,461
Self-insured plans		60,702	60,702
Medicare Part B reimbursements		13,327	13,327
Total insurance premiums, net		**318,490**	**318,490**
Other deductions:			
Plan administration	42,374	4,034	46,408
Other	4,077		4,077
Total other deductions	**46,451**	**4,034**	**50,485**
Total deductions	**3,999,315**	**322,524**	**4,321,839**
Increase in net position held in trust	**9,701,107**	**20,884**	**9,721,991**
NET POSITION HELD IN TRUST			
Beginning of year	63,196,876	44,300	63,241,176
End of year	**$ 72,897,983**	**$ 65,184**	**$72,963,167**

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA

Notes to Financial Statements

Year ended June 30, 2014

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) is 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.

FINANCIAL REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The University's financial statements include the accounts of ten campuses, five medical centers, a statewide agricultural extension program and the operations of most student government or associated student organizations as part of the primary financial reporting entity because The Regents has certain fiduciary responsibility for these organizations. In addition, the financial position and operating results of certain other legally separate organizations are included in the University's financial reporting entity on a blended basis if The Regents is determined to be financially accountable for the organization. Organizations that are not significant or for which the University is not financially accountable, such as booster and alumni organizations are not included in the reporting entity. However, cash invested with the University by these organizations, along with the related liability, is included in the statement of net position. The statement of revenues, expenses and changes in net position excludes the activities associated with these organizations.

The University has ten legally separate, tax-exempt, affiliated campus foundations. The economic resources received or held by the foundations are entirely for the benefit of the campuses. Because of the nature and significance of their relationship with the University, including their ongoing financial support, the campus foundations are reported under GASB requirements as discretely presented component units of the University. On January 1, 2014, The Regents became the sole corporate and voting member of CHRCO, an existing legally separate 501(c)(3) corporation. A Board of Directors comprised primarily of independent directors serves as the governing body of CHRCO. Certain corporate powers are reserved to The Regents, including the power to appoint and remove directors and to approve CHRCO's strategic plan and budget. Children's Hospital & Research Center Foundation, a nonprofit public benefit corporation, is organized and operated for the purpose of supporting CHRCO. San Francisco provides certain management services for CHRCO. Since the University has the ability to impose its will on CHRCO, under GASB requirements, CHRCO, combined with its foundation, is a discretely presented component unit of the University. Financial information for CHRCO is presented to retroactively apply this change in accounting entity. The ten campus foundations and CHRCO combined are reported as discretely presented component units in financial statements.

Specific assets and liabilities and all revenues and expenses associated with the Lawrence Berkeley National Laboratory (LBNL), a major United States Department of Energy (DOE) national laboratory operated and managed by the University under contract directly with the DOE, are included in the financial statements.

The Regents has fiduciary responsibility for the University of California Retirement System (UCRS) that includes two defined benefit plans, the University of California Retirement Plan (UCRP) and the University of California Public Employees' Retirement System (PERS) Voluntary Early Retirement Incentive Plan (PERS–VERIP), and four defined contribution plans in the University of California Retirement Savings Program (UCRSP), consisting of the Defined Contribution Plan (DC Plan), the Supplemental Defined Contribution Plan (SDC Plan), the Tax-Deferred 403(b) Plan (403(b) Plan) and the 457(b) Deferred Compensation Plan (457(b) Plan). As a result, the UCRS statements of plans' fiduciary net position and changes in plans' fiduciary net position are shown as a fiduciary fund in the University's financial statements.

The Regents also has fiduciary responsibility for the University of California Retiree Health Benefit Trust (UCRHBT). The UCRHBT statements of trust's fiduciary net position and changes in trust's fiduciary net position are shown separately in the University's financial statements. UCRHBT allows certain University locations and affiliates, primarily campuses and medical centers that share the risks, rewards and costs of providing for retiree health benefits, to fund such benefits on a cost-sharing basis and 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.

Significant Accounting Policies

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, using the economic resources measurement focus and the accrual basis of accounting. The University follows accounting principles issued by the Governmental Accounting Standards Board (GASB).

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

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*, effective for the University's fiscal year beginning July 1, 2013. This Statement resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, effective for the University's fiscal year beginning July 1, 2013. This Statement revises existing standards for financial reporting for pension plans by changing the approach to measuring the net pension liability. The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. Statement No. 67 affects the information presented in the footnotes to the financial statements and required supplementary information for UCRP.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the University's fiscal year beginning July 1, 2014. The University has elected to early implement this Statement, effective July 1, 2013. This Statement revises existing standards for employer financial statements relating to measuring and reporting pension liabilities for pension plans provided by the University to its employees. This Statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* effective for the University's fiscal year beginning July 1, 2014. This Statement establishes standards for accounting and financial reporting of government combinations and disposals of government operations. Government combinations include mergers, acquisitions and transfers of operations of government or nongovernment entities to a continuing government. The Statement includes guidance for measuring the assets and liabilities that are acquired in a combination, either with or without consideration. The provisions of this Statement are applicable on a prospective basis to combinations that occur after the effective date.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the University's fiscal year beginning July 1, 2013. This Statement establishes standards for recording a liability when a government extends a nonexchange financial guarantee for the obligations of another government, a not-for-profit organization, a private entity or an individual without receiving equal or nearly equal value in exchange. As part of the nonexchange financial guarantee, the government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. This standard requires the government that extends a nonexchange financial guarantee to record a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective for the University concurrently with the implementation of GASB Statement No. 68. This Statement addresses an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to the implementation of that Statement by employers and nonemployer contributing entities.

Implementation of Statements Nos. 66, 67, 69, 70 and 71 had no effect on the University's beginning net position. The adoption of Statements Nos. 65 and 68 did not result in any adjustments to the financial statements for the discretely presented component units, UCRS or UCRHBT. To implement Statement No. 65, the University reclassified losses on debt refundings to deferred outflows of resources and wrote-off unamortized bond issuance costs as of July 1, 2013. To implement Statement No. 68, the University recorded the net pension liabilities for its defined benefit plans. The CHRCO financial data is presented in accordance with the new accounting standards described above. The impact on the University's net position as of June 30, 2013 of adopting Statements Nos. 65 and 68, as well as the change in reporting entity related to CHRCO, was as follows:

(in thousands of dollars)	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS
Cumulative effect on net position of:		
Adoption of Statement No. 65	$ (97,992)	
Adoption of Statement No. 68	(6,638,934)	
Change in reporting entity		$418,882
Total	**$(6,736,926)**	**$418,882**

The significant accounting policies of the University are as follows:

Cash and cash equivalents. The University and the discretely presented component units consider all balances in demand deposit accounts to be cash. The University classifies all other highly liquid cash equivalents with original maturities less than one year, as short-term investments. Certain campus foundations classify their deposits in the University's Short Term Investment Pool as a cash equivalent.

Investments. Investments are recorded at fair value. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or utilizing an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Certain securities may be valued on a basis of a price provided by a single source.

Investments also include private equities, absolute return funds and real estate. Private equities include venture capital partnerships, buyout and international funds. Fair values for interests in private equity, absolute value partnerships and real estate partnerships are based on valuations provided by the general partners of the respective partnerships. Interests in certain direct investments in real estate are estimated based upon independent appraisals. Because the private equity, real estate and absolute return partnerships, along with direct investments in real estate, are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investment existed.

Investments in registered investment companies are valued based upon the reported net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value.

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the University's statement of revenues, expenses and changes in net position.

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned. Gifts of securities are recorded at estimated fair value at the date of donation.

Campus foundations may invest all or a portion of their investments in University-managed investment pools. Securities in these investment pools are included in the University's security lending program. Accordingly, the campus foundations' investments in University-managed investment pools and their allocated share of the securities lending activities have been excluded from the University's financial statements and displayed in the discretely presented component units' column.

Funds held by trustees. The University and its discretely presented component units have been named the irrevocable beneficiary for several charitable remainder trusts for which the University and its discretely presented component units are not the trustee. Upon maturity of each trust, the remainder of the trust corpus will be transferred to the University or the campus foundation. These funds cannot be sold, disbursed or consumed until a specified number of years have passed or a specific event has occurred. The University and its discretely presented component units are also an income beneficiary of certain trusts where the assets are invested and administered by outside trustees.

Consistent with the University's and its discretely presented component units recognition policy for pledges of endowment, receivables and contribution revenue associated with these trusts are not reflected in the accompanying financial statements. The University and its discretely presented component units recognize contribution revenue when all eligibility requirements have been met.

Derivative financial instruments. Derivative instruments are recorded at estimated fair value. Futures contracts, foreign currency exchange contracts, stock rights and warrants, options and swaptions are valued at the last sales price on the last day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Financial institutions or independent advisors have estimated the fair value of the interest rate swaps and total return swaps using quoted market prices when available or discounted expected future net cash flows.

The University has entered into interest rate swap agreements to limit the exposure of its variable-rate debt to changes in market interest rates. Interest rate swap agreements involve the exchange with a counterparty of fixed- and variable-rate interest payments periodically over the life of the agreement without exchange of the underlying notional principal amounts. The net differential to be paid or received is recognized over the life of the agreements as an adjustment to interest expense. The University's counterparties are major financial institutions.

Derivatives are recorded at estimated fair value as either assets or liabilities in the statement of net position. Certain derivatives are determined to be hedging derivatives and designated as either a fair value or cash flow hedge. Under hedge accounting, changes in the fair value of hedging derivatives are considered to be deferred inflows (for hedging derivatives with positive fair values) or deferred outflows (for hedging derivatives with negative fair values).

Changes in the fair value of derivatives that are not hedging derivatives are recorded as net appreciation or depreciation in fair value of investments in the statement of revenues, expenses and changes in net position.

Participants' interests in mutual funds. Participants in the University's defined contribution retirement plans may invest their account balances in funds managed by the University's Chief Investment Officer or in certain mutual funds.

Accounts receivable, net. Accounts receivable, net of allowance for uncollectible amounts, 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 receivable, net. Unconditional pledges of private gifts to the University or to the discretely presented component units, net of allowance for uncollectible amounts, are recorded as pledges receivable and revenue in the year promised at the net present value of expected cash flows. Conditional pledges, including all pledges of endowments and intentions to pledge, are recognized as receivables and revenues when the specified conditions are met. Receivables and contribution revenue associated with externally held investment trusts are not reflected in the accompanying financial statements. The University recognizes contribution revenue when all eligibility requirements have been met.

Notes and mortgages receivable, net. Loans to students, net of allowance for uncollectible amounts, are provided from federal student loan programs and from other University sources. Home mortgage loans, primarily to faculty, are provided from the University's Short Term Investment Pool and from other University sources. Mortgage loans provided by the Short Term Investment Pool are classified as investments and loans provided by other sources are classified as mortgages receivable in the statement of net position.

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

DOE national laboratories. The University operates and manages LBNL under a contract directly with the DOE. Specific assets and liabilities and all revenues and expenses associated with LBNL are included in the financial statements. Other assets, such as cash, property and equipment and other liabilities of LBNL are owned by the United States government rather than the University and, therefore, are not included in the statement of net position. The statement of cash flows excludes the cash flows associated with LBNL other than reimbursements, primarily related to pension and health benefits, since all other cash transactions are recorded in bank accounts owned by the DOE.

The University is a member in two separate joint ventures, Los Alamos National Security, LLC (LANS), and Lawrence Livermore National Security, LLC (LLNS), that operate and manage two other DOE laboratories, Los Alamos National Laboratory (LANL) and Lawrence Livermore National Laboratory (LLNL), respectively, under contracts directly with the DOE. The University's investment in LANS and LLNS is accounted for using the equity method. Accordingly, the University's statement of net position includes its equity interest in LANS and LLNS, adjusted for the equity in undistributed earnings or losses and the statement of revenues, expenses and changes in net position includes its equity in the current earnings or losses of LANS and LLNS.

The DOE is financially responsible for substantially all of the current and future costs incurred at any of the national laboratories, including pension and retiree health benefit costs. Accordingly, to the extent there is a liability on the University's statement of net position for pension or retiree health obligations related to these laboratories, the University records a receivable from the DOE.

Capital assets, net. Land, infrastructure, buildings and improvements, intangible assets, equipment, libraries, collections and special collections are recorded at cost at the date of acquisition, or estimated 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 value. Intangible assets include easements, land rights, trademarks, patents and other similar arrangements. Capital leases are recorded at the estimated present value of future minimum lease payments. 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. Equipment with a cost in excess of $5,000 and a useful life of more than one year is capitalized. 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. Equipment under capital leases is amortized over the estimated useful life of the equipment. 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:

	YEARS
Infrastructure	25
Buildings and improvements	15–33
Equipment	2–20
Computer software	3–7
Intangible assets	2 – indefinite
Library books and collections	15

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

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

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

Service concession arrangements. The University has entered into service concession arrangements with third parties for student housing and certain other faculty and student services. Under these arrangements, the University enters into ground leases with third parties at minimal or no cost, and gives the third party the right to construct, operate and maintain a facility, primarily for the benefit of students and faculty at competitive rates. Rate increases for use of the facilities are subject to certain constraints and ownership of the facilities reverts to the University upon expiration of the ground lease. The facilities are reported as capital assets by the University when placed in service, and a corresponding deferred inflow of resources is reported. The University has not provided guarantees on financing obtained by the third parties under these arrangements.

Unearned revenue. Unearned 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 for housing and dining services.

Funds held for others. Funds held for others result from the University or the discretely presented component units acting as an agent, or fiduciary, on behalf of organizations that are not significant or financially accountable to the University or the discretely presented component units.

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

Self-insurance programs. The University is self-insured or insured through a wholly owned captive insurance company for medical malpractice, workers' compensation, employee health care and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred, but not reported. The estimated liabilities are based upon an independent actuarial determination of the present value of the anticipated future payments. Settlements did not exceed insurance coverage for each of the past three fiscal years.

Obligations under life income agreements. Obligations under life income agreements represent trusts with living income beneficiaries where the University has a residual interest. The investments associated with these agreements are recorded at fair value. The discounted present value of any income beneficiary interest is reported as a liability in the statement of net position. Gifts subject to such agreements are recorded as revenue, net of the income beneficiary share, at the date of the gift. Actuarial gains and losses are included in other nonoperating income (expense) in the statement of revenues, expenses and changes in net position. Resources that are expendable upon maturity are classified as restricted, expendable net position; all others are classified as restricted, nonexpendable net position.

Pollution remediation obligations. Upon an obligating event, the University estimates the components of any expected pollution remediation costs and recoveries from third parties. The costs, estimated using the expected cash flow technique, are accrued as a liability. Pollution remediation liabilities generally involve groundwater, soil and sediment contamination at certain sites where state and other regulatory agencies have indicated that the University is among the responsible parties. The liabilities are revalued annually and may increase or decrease the cost of 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 no expected recoveries at June 30, 2014 reducing the pollution remediation liability.

Deferred outflows of resources and deferred inflows of resources. The University classifies gains on retirement of debt as deferred inflows of resources and losses as deferred outflows of resources and amortizes such amounts as a component of interest expense over the remaining life of the old debt, or the new debt, whichever is shorter.

The University classifies an increase in the fair value of the hedging derivatives as deferred inflows of resources, and a decrease as deferred outflows of resources. Payments received or to be received by the University from service concession arrangements are reported as deferred inflows of resources.

Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

Net position. Net position is required to be classified for accounting and reporting purposes into the following categories:

Net investment in capital assets. This category includes all of the University's capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction or improvement of those assets.

Restricted. The University and the discretely presented component units classify the net position resulting from transactions with purpose restrictions as restricted net position until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable. The net position subject to externally imposed restrictions, which must be retained in perpetuity by the University or the discretely presented component units, are classified as nonexpendable net position. This includes the University and campus foundation permanent endowment funds.

Also included in nonexpendable net position are minority interests, which includes the net position of legally separate organizations attributable to other participants.

Expendable. The net position whose use by the University or the discretely presented component units are subject to externally imposed restrictions that can be fulfilled by actions of the University or the discretely presented component units pursuant to those restrictions or that expire by the passage of time are classified as expendable net position.

Unrestricted. The net position that is neither reserved, restricted nor invested in capital assets, net of related debt, are classified as unrestricted net position. The University's unrestricted net position may be designated for specific purposes by management or The Regents. The discretely presented component units' unrestricted net position may be designated for specific purposes by their Boards of Trustees. Substantially, all of the University's unrestricted net position is allocated for academic and research initiatives or programs, for capital programs or for other purposes.

Expenses are charged to either restricted or unrestricted net position based upon a variety of factors, including consideration of prior and future revenue sources, the type of expense incurred, the University's budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost.

Revenues and expenses. Operating revenues of the University include receipts from student tuition and fees, grants and contracts for specific operating activities and sales and services from medical centers, educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of the University are presented in the statement of revenues, expenses and changes in net position as operating activities. The University's equity in current earnings or losses of LANS and LLNS is also an operating transaction.

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, certain federal grants for student financial aid, private gifts and investment income, since the GASB does not consider them to be related to the principal operating activities of the University.

Campus foundations are established to financially support the University. Private gifts to campus foundations are recognized as operating revenues since, in contrast to the University, such contributions are fundamental to the core mission of the campus foundations. Foundation grants to the University are recognized as operating expenses by the foundations. Private gift or capital gift revenues associated with campus foundation grants to the University are recorded by the University as gifts when the foundations transfer the gifts to the University.

Nonoperating revenues and expenses include state educational appropriations, state financing appropriations, state hospital fee grants, Build America Bonds federal interest subsidies, federal Pell Grants, private gifts for other than capital purposes, investment income, net appreciation in the fair value of investments, interest expense and the 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 position.

Student tuition and fees. Substantially, all student tuition and fees provide for the current operations of the University. A small portion of the student fees, reported as capital gifts and grants, is required for debt service associated with student union and recreational centers.

The University recognizes scholarship allowances as the difference between the stated charge for tuition and fees, housing and dining charges, recreational center and other fees, and the amount that is paid by the student and third parties on behalf of the student. Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

Scholarship allowances are netted against student tuition and fees in the statement of revenues, expenses and changes in net position for the year ended June 30, 2014 as follows:

(in thousands of dollars)

	2014
Student tuition and fees	$1,075,948
Auxiliary enterprises	205,340
Other operating revenues	28,836
Scholarship allowances	**$1,310,124**

State appropriations. The state of California provides appropriations to the University on an annual basis. State educational appropriations are recognized as nonoperating revenue; however, the related expenses for educational or other specific operating purposes are reported as operating expenses. State financing appropriations provide for principal and interest payments associated with lease-purchase agreements with the State Public Works Board and are also reported as nonoperating revenue. State appropriations for capital projects are recorded as revenue under other changes in net position when the related expenditures are incurred. Special state appropriations for AIDS, tobacco and breast cancer research are reported as grant operating revenue.

Grant and contract revenue. The University receives grant and contract revenue from governmental and private sources. The University recognizes revenue associated with the direct costs of sponsored programs as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs is at cost reimbursement rates negotiated with the University's federal cognizant agency, the U.S. Department of Health and Human Services.

For the year ended June 30, 2014, the facilities and administrative cost recovery totaled $982.5 million, $712.6 million from federally sponsored programs and $269.9 million from other sponsors.

Medical center revenue. Medical center revenue is reported at the estimated net realizable amounts from patients and third-party payors, including Medicare, 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.

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

Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for pension benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

Both current employees and retirees at LBNL participate in UCRP. The University makes contributions to UCRP for LBNL employees and is reimbursed by the DOE based upon rates that are identical to those authorized by The Regents for campus and medical center employees. The University also makes contributions to UCRP for LANL and LLNL retirees and terminated vested members, whose benefits were retained in UCRP at the time the joint ventures were formed. The University records a receivable for the net pension liability that is expected to be collected from the DOE. The University deposits funds in UCRP when the DOE makes payments for these contributions. The contributions from the DOE and deposits into UCRP on behalf of DOE are included as DOE laboratory expense and revenue, respectively, in the statement of revenues, expenses and changes in net position.

Retiree health benefits and obligations for retiree health benefits. The University's cost for campus and medical center retiree health benefits expense is based upon the annual required contribution to the retiree health plan, as actuarially determined. Campus and medical center contributions toward retiree health benefits, at rates determined by the University, are made to UCRHBT and reduce the obligation for retiree health benefits in the statement of net position.

LBNL participates in the University's retiree health plans. The annual required contribution for LBNL is actuarially determined independently from the University's campuses and medical centers, and is included with the DOE laboratory expense in the statement of revenues, expenses and changes in net position. The University directly pays health care insurers and administrators amounts currently due under the University's retiree health benefit plans for retirees who previously worked at LBNL, and is reimbursed by the DOE. These contributions, in the form of direct payments, also reduce the University's obligation for retiree health benefits in the statement of net position. The reimbursement from the DOE is included as DOE laboratory revenue in the statement of revenues, expenses and changes in net position.

The University records a receivable from the DOE for the DOE's portion of the University's obligation for retiree health benefits attributable to LBNL. The University does not have any obligation for LANL or LLNL retiree health benefit costs since they do not participate in the University's retiree health plans.

Campus and medical center contributions toward retiree health costs made to UCRHBT, the University's LBNL-related payments made directly to health care insurers and administrators and the corresponding reimbursements from the DOE are operating activities in the statement of cash flows. Cash flows resulting from retiree health contributions from retirees are shown as noncapital financing activities in the statement of cash flows.

University of California Retiree Health Benefit Trust. UCRHBT receives the University's contributions toward retiree health benefits from campuses, medical centers and University affiliates. The University receives retiree health contributions from University affiliates and campus and medical center retirees that are deducted from their UCRP benefit payments. The University also remits these retiree contributions to UCRHBT.

The University acts as a third-party administrator on behalf of UCRHBT and pays health care insurers and administrators amounts currently due under the University's retiree health benefit plans for retirees who previously worked at a campus or medical center. UCRHBT reimburses the University for these amounts.

LBNL does not participate in UCRHBT; therefore, the DOE has no interest in the Trust's assets.

Compensated absences. The University accrues annual leave, including employer-related costs, for employees at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked.

Endowment spending. Under provisions of California law, the Uniform Prudent Management of Institutional Funds Act allows for investment income, as well as a portion of realized and unrealized gains, to be expended for the operational requirements of University programs.

Tax exemption. The University is recognized as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). Because the University is a state institution, related income received by the University is also exempt from federal tax under IRC Section 115(a). In addition, the University is exempt from state income taxes imposed under the California Revenue and Taxation Code. UCRS plans are qualified under IRC Section 401(a) and the related trusts are tax-exempt under Section 501(c)(3). The campus foundations are exempt under Section 501(c)(3). CHRCO and its component unit, the Children's Hospital and Research Center Foundation, are exempt under Section 501(c)(3). Income received by UCRHBT is tax-exempt under Section 115(a).

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Although management believes the estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made and actual amounts could differ from those estimates.

1. CASH AND CASH EQUIVALENTS

The University maintains centralized management for substantially all of its cash and cash equivalents. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis.

Under University policy, deposits are only held at financial institutions that maintain an issuer rating on long-term debt of A3 or higher by Moody's, A- or higher by Standard & Poor's or an Asset Peer Group rating of 65 or higher as defined by Sheshunoff Bank Rating Reports. In 2012, ratings for one of the University's banks were lowered below these thresholds. The University approved an exception for this institution and continues to monitor the institution's financial condition. At June 30, 2014, the carrying amount of the University's demand deposits, generally held in five nationally recognized banking institutions, was $140.4 million compared to bank balances of $110.3 million. Deposits in transit and cash awaiting investment are the primary differences. The University's deposits are uninsured and uncollateralized.

The University does not have significant exposure to foreign currency risk in demand deposit accounts. Accounts held in foreign countries maintain minimum operating balances with the intent to reduce potential foreign exchange risk while providing an adequate level of liquidity to meet the obligations of the academic programs established abroad. The equivalent U.S. dollar balances required to support research groups and education abroad programs in foreign countries was $4.2 million at June 30, 2014.

The carrying amount of the discretely presented component units' cash and cash equivalents at June 30, 2014 was $182.3 million compared to bank balances of $142.6 million. Deposits in transit and cash awaiting investment are the primary differences. Included in bank balances are deposits in the University's Short Term Investment Pool of $28.7 million at June 30, 2014, with the remaining uncollateralized bank balances insured by the Federal Deposit Insurance Corporation (FDIC). Bank balances include $2.7 million in excess of the FDIC limits and were not collateralized at June 30, 2014. The discretely presented component units do not have exposure to foreign currency risk in their cash and cash equivalents.

2. INVESTMENTS

The Regents, as the governing Board, is responsible for the oversight of the University's, UCRS' and UCRHBT's investments and establishes 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), UCRS, UCRHBT 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 UCRS or 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, for STIP, The Regents has also authorized loans, primarily to faculty members residing in California, under the University's Mortgage Origination Program with terms up to 40 years.

TRIP allows participant campuses the opportunity to maximize the return on their 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.

Investments authorized by The Regents for GEP, UCRS, 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 both GEP and UCRS. Absolute return strategies, which may incorporate short sales, plus derivative positions to implement or hedge an investment position, are also authorized for GEP and UCRS.

Derivative instruments, including futures, forward contracts, options and swap contracts are authorized for portfolio rebalancing in accordance with The Regents' asset allocation policy and as substitutes for physical securities. Derivatives are not used for speculative purposes.

The Regents has also authorized certain employee account balances in defined contribution plans included as part of UCRS' investments to be invested in mutual funds. The participants' interests in mutual funds is not managed by the Chief Investment Officer and totaled $5.0 billion at June 30, 2014.

Investments authorized by The Regents for the UCRHBT are restricted to a portfolio of high-quality money market instruments in a commingled fund that is managed externally. The average credit quality of the portfolio is A-1/P-1 with an average maturity of 41 days at June 30, 2014. The fair value of UCRHBT's investment in this portfolio was $37.1 million at June 30, 2014.

The composition of investments, by investment type at June 30, 2014, is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM
Equity securities:			
Domestic	$ 1,996,677	$ 266,321	$ 15,013,705
Foreign	1,661,853	20,507	9,105,760
Equity securities	**3,658,530**	**286,828**	**24,119,465**
Fixed- or variable-income securities:			
U.S. government guaranteed:			
U.S. Treasury bills, notes and bonds	673,558	217,439	2,602,611
U.S. Treasury strips	90,350	172	562,694
U.S. TIPS	154,120		3,484,007
U.S. government-backed securities		939	11,288
U.S. government-backed–asset-backed securities		710	
U.S. government guaranteed	**918,028**	**219,260**	**6,660,600**
Other U.S. dollar denominated:			
Corporate bonds	5,500,224	85,929	3,070,552
Commercial paper	1,932,764		
U.S. agencies	1,058,009	3,999	2,886,644
U.S. agencies–asset-backed securities	88,096	80,374	2,258,922
Corporate–asset-backed securities	35,014	90,562	1,119,923
Supranational/foreign	1,906,414	12,005	1,754,917
Other	12,740	10,358	24,846
Other U.S. dollar denominated	**10,533,261**	**283,227**	**11,115,804**
Foreign currency denominated:			
Corporate	2,174		17,840
Foreign currency denominated	**2,174**		**17,840**
Commingled funds:			
Absolute return funds	3,094,059	1,618,057	3,457,058
Non-U.S. equity funds	1,976,805	943,892	6,475,644
Private equity	918,186	501,079	3,791,134
Money market funds	692,512	583,660	3,768,742
U.S. equity funds	849,020	647,610	3,118,198
Real estate investment trusts	290,589	58,479	451,697
Real assets	240,773		1,377,695
U.S. bond funds	188,223	115,058	1,126,897
Non-U.S. bond funds	28,415	57,683	158,339
Balanced funds		1,065,668	
Commingled funds	**8,278,582**	**5,591,186**	**23,725,404**
Investment derivatives	13,044	(3,369)	41,036
Publicly traded real estate investment trusts	342,674	1,218	104,867
Mortgage loans	133,556	91	
Insurance contracts			119,797
Real estate	653,449	127,163	2,842,791
Other investments	13,145	198,766	
Discretely presented component units' investments with the University	(1,352,725)		
UCRS investment in STIP	(1,652,665)		
Total investments	**21,541,053**	**6,704,370**	**$68,747,604**
Less: Current portion	(3,334,675)	(473,756)	
Noncurrent portion	**$18,206,378**	**$6,230,614**	

Investment Risk Factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk and foreign currency risk may affect both equity and fixed-income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed-income securities are particularly sensitive to credit risks and changes in interest rates. Alternative investment strategies and their underlying assets and rights are subject to an array of economic and market vagaries that can limit or erode value.

Credit Risk

Fixed-income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond and, ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond rating agencies, for example Moody's Investors Service (Moody's) or Standard and Poor's (S&P). The lower the rating, the greater the chance, in the rating agency's opinion, that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

Certain fixed-income securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are considered to have minimal credit risk.

Asset-backed securities are debt obligations that represent claims to the cash flows from pools of commercial, mortgage, credit card or student loans. Mortgage-backed securities issued by Ginnie Mae are backed by the full faith and credit of the U.S. government. Effective September 2008, Fannie Mae and Freddie Mac were placed under the conservatorship of the Federal Housing Finance Agency. At the same time, the U.S. Treasury put in place a set of financing agreements to ensure Fannie Mae and Freddie Mac have the ability to fulfill their obligations to holders of bonds that they have issued or guaranteed.

The investment guidelines for STIP recognize that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk adjusted return over its benchmark (the benchmark for STIP is the two-year Treasury). No more than 5 percent of the total market value of the STIP portfolio may be invested in securities rated below investment grade (BB, Ba or lower). The average credit quality of STIP must be A or better and commercial paper must be rated at least A-1, P-1 or F-1.

The University recognizes that credit risk is appropriate in balanced investment pools such as TRIP, UCRS and GEP by virtue of the benchmarks chosen for the fixed-income portion of those pools.

Fixed-income benchmarks for TRIP include the Barclays Capital Aggregate Credit Index, the JP Morgan Emerging Markets Bond Index Global Diversified, the Merrill Lynch High-Yield Cash Pay Index and the Barclays Capital Aggregate Government Index. The TRIP fixed-income benchmark is comprised of 66.1 percent high grade corporate bonds and government bonds, and 16.9 percent below investment grade securities, all of which carry some degree of credit risk. The remaining 17.0 percent is emerging market debt.

The fixed-income benchmark for UCRS and GEP, Barclays Capital U.S. Aggregate Bond Index, is comprised of 29.4 percent high grade corporate bonds and 31.4 percent mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 39.2 percent is government-issued bonds.

Credit risk in TRIP, UCRS and GEP is managed primarily by diversifying across issuers. In addition, portfolio guidelines for UCRS and GEP mandate that no more than 10 percent of the market value of fixed-income securities may be invested in issues with credit ratings below investment grade. Further, the weighted average credit rating must be A or higher.

In addition, the investment policy for both UCRP and GEP allows for dedicated allocations to non-investment grade and emerging market bonds, an investment which entails credit, default and/or sovereign risk.

The credit risk profile for fixed- or variable-income securities at June 30, 2014 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM
Fixed- or variable-income securities:			
U.S. government guaranteed	$ 918,028	$219,260	$6,660,600
Other U.S. dollar denominated:			
AAA	1,262,960	49,549	6,017,280
AA	1,068,822	99,622	261,055
A	3,047,350	35,412	922,851
BBB	2,462,057	37,891	1,855,949
BB	438,244	9,474	937,227
B	221,338	1,680	668,780
CC or below	82,203	29,404	424,520
A-1 / P-1/ F-1	1,932,764		
Not rated	17,523	20,195	28,142
Foreign currency denominated:			
BB	20		166
B	1,153		9,463
C or below	1,001		8,211
Investment Derivatives:			
AAA	(3,615)		
Commingled funds:			
U.S. bond funds: Not rated	188,223	115,058	1,126,897
Non-U.S. bond funds: Not rated	28,415	57,683	158,339
Money market funds: Not rated	692,512	583,660	3,768,742
Mortgage loans: Not rated	133,556	91	
Insurance contracts: Not rated			119,797

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned.

Substantially all of the University's, the discretely presented component units' and UCRS' securities are registered in the University's name by the custodial bank as an agent for the University. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk for such investments is remote.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments.

The U.S. and non-U.S. equity portions of the University and UCRS portfolios may be managed either passively or actively. For the portions managed passively, the concentration of individual securities is exactly equal to their concentration in the benchmark. While some securities have a larger representation in the benchmark than others, the University considers that passive management results in an absence of concentration of credit risk. For the portions managed actively, asset class guidelines do not specifically address concentration risk, but do state that the U.S. equity asset class, in the aggregate, will be appropriately diversified to control overall risk and will exhibit portfolio characteristics similar to the asset class benchmark (including concentration of credit risk). Concentration risk for individual portfolios is monitored relative to their individual benchmarks and agreed-upon risk parameters in their guidelines.

Investment guidelines addressing concentration of credit risk related to the investment grade fixed-income portion of the University and UCRS portfolios include a limit of no more than 3 percent of each portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). These same guidelines apply to STIP. For high-yield and emerging market debt, the corresponding limit is 5 percent.

Each discretely presented component unit may have its own individual investment policy designed to limit exposure to a concentration of credit risk. Securities issued or explicitly guaranteed by the U.S. government, mutual funds, external investment pools, other investment pools or investments that are invested by the University for the discretely presented component units are not subject to concentration of credit risk. Most of the discretely presented component units that hold other types of investments have policies to limit the exposure to an individual issuer.

Investments in issuers other than U.S. government guaranteed securities that represent 5 percent or more of investments held at June 30, 2014 are as follows:

(in thousands of dollars)

	DISCRETELY PRESENTED COMPONENT UNITS
Silchester International Value Equity Trust	$56,700

Interest Rate Risk

Interest rate risk is the risk that the value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis point (1 percentage point) change in the level of interest rates. It is not a measure of time.

Interest rate risk for STIP is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio as it is managed relative to the liquidity demands of the investors. The nature and maturity of individual securities in STIP allow for the use of weighted average maturity as an effective risk management tool, rather than the more complex measure, effective duration.

Portfolio guidelines for the fixed-income portion of TRIP limit weighted average effective duration to the effective duration of the benchmarks (Barclays Capital Aggregate Credit Index, JP Morgan Emerging Markets Bond Index Global Diversified, the Merrill Lynch High-Yield Cash Pay Index and Barclays Capital Aggregate Government Index), plus or minus 10 percent. Similarly, portfolio guidelines for the fixed-income portion of UCRS and GEP limit weighted average effective duration to the effective duration of their benchmarks (Citigroup Large Pension Fund Index and Barclay's Capital US Aggregate Index), plus or minus 20 percent. These portfolio guidelines constrain the potential price movement due to interest rate changes of the portfolio to be similar to that of the benchmark. There are similar restrictions for the high-yield and emerging market debt portfolios relative to their benchmarks.

The effective durations for fixed- or variable-income securities at June 30, 2014 are as follows:

	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM
Fixed- or variable-income securities:			
U.S. government guaranteed:			
U.S. Treasury bills, notes and bonds	1.4	2.9	1.5
U.S. Treasury strips	8.8		8.3
U.S. TIPS	6.7		5.9
U.S. government-backed securities		2.9	4.4
U.S. government-backed–asset-backed securities		3.4	
Other U.S. dollar denominated:			
Corporate bonds	3.2	4.2	5.0
Commercial paper	0.0		
U.S. agencies	2.1	4.2	2.5
U.S. agencies-asset-backed securities	3.7	3.6	4.1
Corporate-asset-backed securities	2.0	0.9	2.8
Supranational/foreign	4.3	1.7	6.2
Other	17.5	6.3	16.7
Foreign currency denominated:			
Corporate	1.5		1.5
Commingled funds:			
U.S. bond funds*	4.4	5.0	5.3
Non-U.S. bond funds		5.3	
Money market funds**	0.0	2.2	2.2
Investment derivatives	0.9		
Insurance contracts			0.0

** University considers the modified durations for commingled funds*
*** Foundation and UCRS investment in STIP*

The University considers the effective durations for commercial paper, mortgage loans, insurance contracts and money market funds to be zero. The terms of the mortgage loans include variable interest rates. Insurance contracts can be liquidated without loss of principal and money market funds consist of underlying securities that are of a short-term, liquid nature.

Investments also include various mortgage-backed securities, collateralized mortgage obligations, structured notes, variable-rate securities and callable bonds that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the effective durations of these securities may be low.

At June 30, 2014, the fair values of such investments are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM
Mortgage-backed securities	$ 93,052	$ 53,782	$2,613,162
Collateralized mortgage obligations		49,728	214,735
Other asset-backed securities	30,186	40,386	490,351
Variable-rate securities	52,608		131,005
Callable bonds	1,599,256	12,740	3,487,903
Convertible bonds	706		5,413
Total	**$1,775,808**	**$156,636**	**$6,942,569**

Mortgage-Backed Securities. These securities are issued primarily by Fannie Mae, Ginnie Mae and Freddie Mac, and various commercial entities and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

Collateralized Mortgage Obligations. Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In rising interest rate environments, the opposite is true.

Other Asset-Backed Securities. Other asset-backed securities also generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMOs, the relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates.

Variable-Rate Securities. These securities are investments with terms that provide for the adjustment of their interest rates on set dates and are expected to have fair values that will be relatively unaffected by interest rate changes. Variable-rate securities may have limits on how high or low the interest rate may change. These constraints may affect the market value of the security.

Callable Bonds. Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The University must then replace the called bond with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.

At June 30, 2014, the effective durations for these securities are as follows:

	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM
Mortgage-backed securities	3.8	2.4	4.1
Collateralized mortgage obligations		1.1	3.1
Other asset-backed securities	1.7	1.3	1.5
Variable-rate securities	4.5		4.8
Callable bonds	3.7	2.4	3.3
Convertible bonds	6.7		7.0

Foreign Currency Risk

The University's strategic asset allocation policy for TRIP, UCRS and GEP includes allocations to non-U.S. equities and non-dollar denominated bonds. The benchmarks for these investments are not hedged; therefore foreign currency risk is an essential part of the investment strategies. Portfolio guidelines for U.S. investment-grade fixed-income securities also allow exposure to non-U.S. dollar denominated bonds up to 10 percent of the total portfolio market value. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency exchange contracts. Under the University's investment policies, such instruments are not permitted for speculative use or to create leverage. Similar limits on foreign exchange exposure apply to the high-yield debt and emerging market debt portfolios (10 percent and 20 percent, respectively).

At June 30, 2014, the foreign currency risk expressed in U.S. dollars, organized by currency denomination and investment type, is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM
Equity securities:			
Euro	$ 468,620		$ 2,674,506
British pound	298,175	$ 1,858	1,769,937
Japanese yen	284,806		1,577,457
Canadian dollar	104,600	546	651,190
Swiss franc	128,303	4,326	792,002
Australian dollar	79,876		499,441
Hong Kong dollar	103,754		314,471
Swedish krona	41,289		239,421
Singapore dollar	33,735		165,002
Danish krone	16,949		104,944
Norwegian krone	16,561		82,108
South Korean won	11,676		42,059
Brazilian real	21,860		44,096
Other	51,649	13,777	149,126
Subtotal	**1,661,853**	**20,507**	**9,105,760**
Fixed-income securities:			
Euro	1,772		14,168
Other	402		3,672
Subtotal	**2,174**		**17,840**
Commingled funds (various currency denominations):			
Non-U.S. equity funds	1,976,805	687,937	6,475,644
Balanced funds		229,473	
U.S. bond funds		8,788	
Non-U.S. bond funds	28,415	43,788	158,339
Real estate investment trusts		10,889	
Absolute Return funds		64,971	
Subtotal	**2,005,220**	**1,045,846**	**6,633,983**
Investment derivatives:			
Australian dollar	(14)		(359)
Canadian dollar	175		278
British pound	112		(29)
Japanese yen	319		809
Hong Kong dollar	165		143
Other	(101)		(33)
Subtotal	**656**		**809**
Private equity:			
Euro	18,602	10,468	105,329
Other	3,491	3,697	19,780
Publicly traded real estate investment trusts			
Australian dollar	44,190		13,489
Euro	22,680		6,924
British pound	18,558		5,665
Japanese yen	10,279		3,138
South African rand	8,250		2,519
Singapore dollar	6,580		2,009
Canadian dollar	5,046		
Mexican peso	4,209		1,285
Other	5,224		3,135
Subtotal	**147,109**	**14,165**	**163,273**
Total exposure to foreign currency risk	**$3,817,012**	**$1,080,518**	**$15,921,665**

Liquidity Risks

Alternative investments are subject to liquidity risk. Alternative investments include hedge funds, limited partnerships, private equity, venture capital funds, real estate and real assets funds. Additionally, certain asset-backed securities are thinly traded and subject to liquidity risk.

Alternative investments include ownership interests in a wide variety of vehicles including partnerships and corporations that may be domiciled in the United States or offshore. Generally, there is little or no regulation of these investment vehicles by the Securities and Exchange Commission or the applicable state agencies. Managers of these investments employ a wide variety of strategies and have areas of concentration including absolute return, venture capital or early stage investing, private equity or later stage investing and the underlying investments may be leveraged to enhance the total investment return. Each asset class has guidelines and policies regarding the use of leverage. Such underlying investments may include financial assets such as marketable securities, non-marketable securities, derivatives and other synthetic and structured investments as well as tangible and intangible assets.

Alternative investments do not have a ready market and ownership interests in these investment vehicles may not be traded without the approval of the general partner or fund management. These investments are subject to the risks generally associated with equities and fixed-income instruments with additional risks due to leverage and the lack of a ready market for acquisition or disposition of ownership interests.

The University's portfolio includes the following investments subject to liquidity risk as of June 30, 2014:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM
Absolute return funds	$3,094,059	$1,618,057	$ 3,457,058
Private equity funds	918,186	501,079	3,791,134
Real estate funds	653,449	127,163	2,842,791
Real assets funds	240,773		1,377,695
Total	**$4,906,467**	**$2,246,299**	**$11,468,678**

The University's Investment Pools

The composition of the University's investments at June 30, 2014, by investment pool, is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				
	STIP	TRIP	GEP	OTHER	TOTAL
Equity securities:					
Domestic		$ 1,057,374	$ 841,524	$ 97,779	$ 1,996,677
Foreign		809,780	817,068	35,005	1,661,853
Fixed- or variable-income securities:					
U.S. government guaranteed	$ 326,297	344,209	238,629	8,893	918,028
Other U.S. dollar denominated	7,919,885	2,016,480	572,019	24,877	10,533,261
Foreign currency denominated			2,174		2,174
Commingled funds	1,690	2,997,569	4,055,380	64,984	7,119,623
Investment derivatives		9,813	6,828	(3,597)	13,044
Publicly traded real estate investment trusts		328,320	14,354		342,674
Private equity		791	899,617	17,778	918,186
Mortgage loans	76,888			56,668	133,556
Real assets			240,773		240,773
Real estate			625,668	27,781	653,449
Other investments				13,145	13,145
Subtotal	**8,324,760**	**7,564,336**	**8,314,034**	**343,313**	**24,546,443**
Discretely presented component units' investments with the University	(554,053)	(10,109)	(648,621)	(139,942)	(1,352,725)
UCRS investment in STIP	(1,652,665)				(1,652,665)
Total investments	**$6,118,042**	**$7,554,227**	**$7,665,413**	**$203,371**	**$21,541,053**

The total investment return based upon unit values, representing the combined income plus net appreciation or depreciation in the fair value of investments, for the year ended June 30, 2014, was 14.7 percent for TRIP, 19.0 percent for GEP and 16.7 percent for UCRS. The investment return for STIP distributed to participants, representing combined income and realized gains or losses, during the same period, was 1.6 percent. Other investments consist of numerous, small portfolios of investments or individual securities, each with its individual rate of return.

Related Party Relationships with the University

UCRS and the discretely presented component units may invest available cash in STIP. Shares are purchased or redeemed in STIP at a constant value of $1 per share. Actual income earned, including any realized gains or losses on the sale of STIP investments, is allocated to UCRS and the discretely presented component units based upon the number of shares held. Unrealized gains and losses associated with the fluctuation in the fair value of investments included in STIP are recorded by the University as the manager of the pool. The net asset value for STIP is held at a constant value of $1 and is not adjusted for unrealized gains and losses associated with the fluctuation in the fair value of investments included in STIP.

The discretely presented component units may purchase or redeem shares in GEP, TRIP or other investment pools at the unitized value of the portfolio at the time of purchase or redemption. Actual income earned is allocated to the discretely presented component units based upon the number of shares held.

UCRS

UCRS had $1.7 billion invested in STIP at June 30, 2014. These investments are excluded from the University's statement of net position and are included in UCRS' statement of plans' fiduciary net position. They are categorized as commingled money market funds in the composition of investments for UCRS. STIP investment income in the University's statement of revenues, expenses and changes in net position is net of income earned by, and distributed to, UCRS totaling $23.5 million for the year ended June 30, 2014.

Discretely Presented Component Units

The discretely presented component units' cash and cash equivalents and investments that are invested with the University and managed by the Chief Investment Officer are excluded from the University's statement of net position and included in the discretely presented component units' statement of net position. Under the accounting policies elected by each discretely presented component unit, certain component units classify all or a portion of their investment in STIP and TRIP as cash and cash equivalents, rather than investments. Substantially, all of the discretely presented component units' investments managed by the Chief Investment Officer are categorized as commingled funds or commingled money market funds by the discretely presented component units in the composition of investments.

The fair value of the discretely presented component units' cash and cash equivalents and investments that are invested with the University, by investment pool at June 30, 2014 is as follows:

(in thousands of dollars)	**2014**
STIP	$ 554,053
TRIP	10,109
GEP	648,621
Other investment pools	139,942
Discretely presented component units' investments with the University	**1,352,725**
Classified as cash and cash equivalents by discretely presented component units	(27,776)
Classified as investments by discretely presently component units	**$1,324,949**

Endowment investment income in the University's statement of revenues, expenses and changes in net position is net of income earned by, and distributed to, the discretely presented component units totaling $17.6 million for the year ended June 30, 2014.

Agency Relationships with the University

STIP and GEP are external investment pools and include investments on behalf of external organizations that are associated with the University, although not financially accountable to the University. These organizations are not required to invest in these pools. Participants purchase or redeem shares in STIP at a constant value of $1 per share and purchase or redeem shares in GEP at the unitized value of the portfolio at the time of purchase or redemption. Actual income earned is allocated to participants based upon the number of shares held.

The fair value of these investments in each investment pool and the related liability associated with these organizations that are included in the University's statement of net position at June 30, 2014 are as follows:

(in thousands of dollars)	**2014**
Short-term investments:	
STIP	$ 84,411
GEP	216,964
Other investment pools	17,949
Total agency assets	**$319,324**
Funds held for others	**$319,324**

The composition of the net position at June 30, 2014 for STIP and GEP is as follows:

(in thousands of dollars)	**STIP**	**GEP**
Investments	$ 8,324,760	$8,314,034
Investment of cash collateral	218,971	381,673
Securities lending collateral	(218,916)	(381,576)
Other assets (liabilities), net	1,162,560	(130,747)
Net position	**$9,487,375**	**$8,183,384**

Other assets include amounts receivable for pension benefits from the campuses and medical centers at $1.1 billion as of June 30, 2014.

The changes in net position for STIP and GEP for the years ending June 30, 2014 are as follows:

(in thousands of dollars)	**STIP**	**GEP**
Net position, beginning of year	$10,608,027	$6,999,293
Investment income	159,607	80,525
Net appreciation (depreciation) in fair value of investments	(128,857)	1,255,060
Transfer to TRIP	(2,226,959)	
Participant contributions (withdrawals), net	1,075,557	(151,494)
Net position, end of year	**$9,487,375**	**$8,183,384**

3. SECURITIES LENDING

The University and UCRS jointly participate in a securities lending program as a means to augment income. The discretely presented component units' investments that are invested with the University and managed by the Chief Investment Officer are included in the University's investment pools that participate in the securities lending program.

The campus foundations' allocated share of the program's cash collateral received, investment of cash collateral and collateral held for securities lending is determined based upon their equity in the investment pools. The Board of Trustees for each campus foundation may also authorize participation in a direct securities lending program.

Securities are lent to selected brokerage firms for which collateral received equals or exceeds the fair value of such investments lent during the period of the loan. Securities loans immediately terminate upon notice by either the University or the borrower. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Securities collateral cannot be pledged or sold by the University unless the borrower defaults.

Loans of domestic equities and all fixed-income securities are initially collateralized at 102 percent of the fair value of securities lent. Loans of foreign equities are initially collateralized at 105 percent. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of securities lent.

Cash collateral received from the borrower is invested by lending agents, as agents for the University, in investment pools in the name of the University, with guidelines approved by the University. These investments are shown as investment of cash collateral in the statement of net position. At June 30, 2014, the securities in these pools had a weighted average maturity of 30 days and 44 days, respectively. The University records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net position. Securities collateral received from the borrower is held in investment pools by the University's custodial bank.

At June 30, 2014, the University had insignificant exposure to borrowers because the amounts the University owed the borrowers were substantially the same as the amounts the borrowers owed the University. The University is indemnified by its lending agents against any losses incurred as a result of borrower default.

The composition of the securities lending programs at June 30, 2014 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNIT	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM
SECURITIES LENT			
For cash collateral:			
Equity securities:			
Domestic	$ 403,073		$ 1,890,525
Foreign	126,557		656,426
Fixed-income securities:			
U.S. government guaranteed	67,567		2,112,140
Other U.S. dollar denominated	642,358		1,754,525
Discretely presented component unit	(51,249)	$51,249	
Lent for cash collateral	**1,188,306**	**51,249**	**6,413,616**
For securities collateral:			
Equity securities:			
Domestic	188,486		1,209,300
Foreign	186,121		954,801
Fixed-income securities:			
U.S. government guaranteed	117,036		3,694,573
Other U.S. dollar denominated	12,722		17,246
Lent for securities collateral	**504,365**		**5,875,920**
Total securities lent	**$1,692,671**	**$51,249**	**$12,289,536**
COLLATERAL RECEIVED			
Cash	$1,269,083		$ 6,561,614
Discretely presented component units' share	(51,249)	$51,249	
Total cash collateral received	**1,217,834**	**51,249**	**6,561,614**
Securities	544,981		6,349,117
Total collateral received	**$1,762,815**	**$51,249**	**$12,910,731**
INVESTMENT OF CASH COLLATERAL			
Fixed-income securities:			
Other U.S. dollar denominated:			
Corporate bonds	$ 141,554		$ 731,891
Commercial paper	102,751		531,262
Repurchase agreements	380,043		1,964,957
Corporate-asset-backed securities	280,122		1,448,330
Certificates of deposit/time deposits	106,966		553,052
Supranational/foreign	252,637		1,306,222
Other assets (liabilities), net*	5,330		27,558
Discretely presented component units' share	(51,249)	$51,249	
Investment of cash collateral	**1,218,154**	**51,249**	**$6,563,272**
Less: Current portion	(848,436)	(35,695)	
Noncurrent portion	**$ 369,718**	**$15,554**	

** Other assets (liabilities), net is comprised of pending settlements of cash collateral investments.*

The University earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and is obligated to pay a fee and rebate to the borrower. The University receives the net investment income. The securities lending income and fees and rebates for the year ended June 30, 2014 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM
Securities lending income	$8,237	$431	$47,664
Securities lending fees and rebates	(1,288)	(68)	(7,454)
Securities lending investment income, net	**$6,949**	**$363**	**$40,210**

Investment Risk Factors

There are a variety of potential risk factors involved in a securities lending program. Risks associated with the investment of cash collateral may include the credit risk from fixed-income securities, concentration of credit risk, interest rate risk and foreign currency risk. In addition, there may be custodial credit risk associated with both cash and securities received as collateral for securities lent.

The University's and UCRS' investment policies and other information related to each of these risks are summarized below. Discretely presented component units that participate in a securities lending program may have their own individual investment policies designed to limit the same risks.

Credit Risk

The University's and UCRS' investment policies for the investment of cash collateral maintained in separately managed collateral pools restrict the credit rating of issuers to no less than A-1, P-1 or F-1 for short-term securities and no less than A2/A for long-term securities. Asset-backed securities must have a rating of AAA.

The credit risk profile for fixed- or variable-income securities associated with the investment of cash collateral at June 30, 2014 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM
Fixed- or variable-income securities:			
Other U.S. dollar denominated:			
AAA	$285,038		$1,473,753
AA+	24,358		125,939
AA	5,346		27,639
AA-	192,176		993,620
A+	85,278		440,918
A	66,443		343,534
A-1 / P-1 / F-1	605,434		3,130,311
Commingled funds:			
Money market funds: Not rated			
Other assets (liabilities), net* : Not rated	5,330		27,558
Discretely presented component units' share	(51,249)	$51,249	

** Other assets (liabilities), net is comprised of pending settlements of cash collateral investments.*

Custodial Credit Risk

Cash collateral received for securities lent is invested in pools by the University's lending agents. The University and UCRS securities related to the investment of cash collateral are registered in the University's name by the lending agents. Securities collateral received for securities lent are held in investment pools by the University's lending agents. As a result, custodial credit risk is remote.

Concentration of Credit Risk

The University's and UCRS' investment policy with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pools restricts investments in any single issuer of corporate debt securities, time deposits, certificates of deposit, bankers acceptances and money market funds to no more than 5 percent of the portfolio value at the time of purchase. Discretely presented component units that directly participate in a securities lending program do not have specific investment policies related to concentration of credit risk, although the lending agreements with the agents establish restrictions for the type of investments and minimum credit ratings.

Investments in issuers other than U.S. government guaranteed securities that represent 5 percent or more of the total investment of cash collateral held by individual component units at June 30, 2014 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM
Citibank	$91,499	$473,081

Interest Rate Risk

The nature of individual securities in the collateral pools allows for the use of weighted average maturity as an effective risk management measure. The University's and UCRS' investment policy with respect to the interest rate risk associated with the investment of cash collateral in the separately managed collateral pools requires the weighted average maturity of the entire collateral pool to be less than 120 days. The maturity of securities issued by the U.S. government and asset-backed securities must be less than five years, corporate debt obligations must be less than two years and time deposits must be less than 190 days. Floating rate debt may be used, but it is limited to 65 percent of the market value of the portfolio.

The weighted average maturity expressed in days for fixed- or variable-income securities associated with the investment of cash collateral at June 30, 2014 is as follows:

(in days)

	UNIVERSITY OF CALIFORNIA	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM
Fixed- or variable-income securities:		
Other U.S. dollar denominated:		
Corporate bonds	37	37
Commercial paper	29	29
Repurchase agreements	7	7
Corporate-asset-backed securities	20	20
Certificates of deposit/time deposits	87	87
Supranational/foreign	51	51

Investment of cash collateral may include various asset-backed securities, structured notes and variable-rate securities that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the weighted average maturity may be short.

At June 30, 2014, the fair value of investments that are considered to be highly sensitive to changes in interest rates is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM
Other asset-backed securities	$297,469		$1,538,022
Variable-rate investments	141,555		731,891
Discretely presented component units' share	(17,965)	$17,965	
Total	**$421,059**	**$17,965**	**$2,269,913**

At June 30, 2014, the weighted average maturity expressed in days for asset-backed securities was 19 days and for variable-rate investments was 37 days.

Foreign Currency Risk

The University's and UCRS' investment policy with respect to the foreign currency risk associated with the investment of cash collateral maintained in separate collateral pools restricts investments to U.S. dollar denominated securities. Therefore, there is no foreign currency risk.

4. DERIVATIVE FINANCIAL INSTRUMENTS

The University may use derivatives including futures, forward contracts, options and interest rate swap contracts as a substitute for investment in equity and fixed-income securities, to reduce the effect of fluctuating foreign currencies on foreign currency-denominated investments, or to limit its exposure of variable-rate bonds to changes in market interest rates. The Board of Trustees for each campus foundation may also authorize derivatives in its investment policy.

The University enters into futures contracts for the purpose of acting as a substitute for investment in equity and fixed-income securities. A futures contract is an agreement between two parties to buy and sell a security or financial index, interest rate or foreign currency at a set price on a future date. They are standardized contracts that can be easily bought and sold and are exchange-traded. Upon entering into such a contract, the University is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contract is traded. Pursuant to the contract, the University agrees to receive from, or pay to, the counterparty an amount of cash equal to the daily fluctuation in the value of the contract. These contracts are settled on a daily basis, with the resulting realized gain or loss included in the statement of revenues, expenses and changes in net position. The settlement amount at the end of each day for each of the contracts, or variation margin, is included in investments and represents the fair value of the contracts.

Forward contracts are similar to futures contracts, although they are not exchange-traded. Foreign currency exchange contracts are forward contracts used to hedge against foreign currency exchange rate risks on non-U.S. dollar denominated investment securities and to increase or decrease exposure to various foreign currencies.

An option contract gives the University the right, but not the obligation, to buy or sell a specified security or index at a fixed price during a specified period for a nonrefundable fee (the “premium”). The maximum loss to the University is limited to the premium originally paid for covered options. The University initially records premiums paid for the purchase of these options in the statement of net position as an investment which is subsequently adjusted to reflect the fair value of the options, with unrealized gains and losses included in the statement of revenues, expenses and changes in net position.

Rights and warrants provide the holder with the right, but not the obligation, to buy a stock at a predetermined price for a finite period of time. Warrants usually have a longer time period to expiration. The holder of a right or warrant is permitted to buy at a price that may be below the actual market price for that stock. Warrants and rights cease to exist and become worthless if not used by their expiration date.

A swap is a contractual agreement entered into between the University and a counterparty under which each agrees to exchange periodic fixed or variable payments for an agreed period of time based upon a notional amount of principal or value of the underlying contract. The payments correspond to an equity index, an interest rate or to currency. The University considers its futures, forward contracts, options, rights, warrants and certain interest rate swaps to be investment derivatives.

As a means to lower the University’s borrowing costs, when compared against fixed-rate bonds at the time of issuance, the University entered into interest rate swap agreements in connection with certain of its variable-rate Medical Center Pooled Revenue Bonds and General Revenue Bonds. The University has determined that certain of its interest rate swaps are derivative instruments that meet the criteria for an effective hedge. Certain of the interest rate swaps are considered hybrid instruments since, at the time of execution, the fixed rate on each of the swaps was off-market and the University received an up-front payment. As such, these swaps are comprised of a derivative instrument, an at-the-market swap that is an effective hedge, and a companion instrument, a borrowing represented by the up-front payment. The unamortized amount of the borrowing under the companion instruments was $42.1 million at June 30, 2014.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2014, categorized by type, and the changes in fair value of such derivatives for the years then ended are as follows:

University of California

(in thousands of dollars)

CATEGORY	NOTIONAL AMOUNT	FAIR VALUE–POSITIVE (NEGATIVE)		CHANGES IN FAIR VALUE	
		CLASSIFICATION	2014	CLASSIFICATION	2014
INVESTMENT DERIVATIVES					
Futures contracts:					
Domestic equity futures:					
Long positions	705,119	Investments	$ 765	Net appreciation (depreciation)	$148,657
Short positions	(463)	Investments	(7)	Net appreciation (depreciation)	(79)
Foreign futures:					
Long positions	68,905	Investments	91	Net appreciation (depreciation)	10,484
Futures contracts, net			**849**		**159,062**
Foreign currency exchange contracts, net:					
Long positions	1,021,285	Investments	456	Net appreciation (depreciation)	(1,921)
Short positions	(28,599)	Investments	(158)	Net appreciation (depreciation)	(8,435)
Foreign currency exchange contracts, net			**298**		**(10,356)**
Swaps:					
Fixed interest rate swaps	500,000	Investments	(3,505)	Net appreciation (depreciation)	2,066
Total return swaps equity	6,382	Investments	(5)	Net appreciation (depreciation)	(66)
Swaps, net			**(3,510)**		**2,000**
Stock rights/warrants	1,772	Investments	11,353	Net appreciation (depreciation)	2,565
Options/swaptions	11,046	Investments	4,054	Net appreciation (depreciation)	1,923
Total investment derivatives			**$13,044**		**$155,194**
CASH FLOW HEDGES					
Effective interest rate swaps:					
Pay fixed, receive variable	851,995	Other assets (liabilities)	$(75,240)	Deferred (inflows) outflows	$ (29,481)

University of California Discretely Presented Component Units

(in thousands of dollars)

CATEGORY	NOTIONAL AMOUNT	FAIR VALUE–POSITIVE (NEGATIVE) CLASSIFICATION	FAIR VALUE–POSITIVE (NEGATIVE) 2014	CHANGES IN FAIR VALUE CLASSIFICATION	CHANGES IN FAIR VALUE 2014
INVESTMENT DERIVATIVES					
Futures contracts:					
Domestic commodity futures:					
Short positions	(2,800)	Investments	$(3,603)	Net appreciation (depreciation)	$ (8)
Foreign equity futures:					
Long positions		Investments		Net appreciation/ (depreciation)	(1,118)
Short positions		Investments		Net appreciation/ (depreciation)	(2,974)
Futures contracts, net			**(3,603)**		**(4,100)**
Options/swaptions	19,950	Investments	234	Net appreciation/ (depreciation)	(1,234)
Total investment derivatives			**$(3,369)**		**$(5,334)**

University of California Retirement System

(in thousands of dollars)

CATEGORY	NOTIONAL AMOUNT	FAIR VALUE–POSITIVE (NEGATIVE) CLASSIFICATION	FAIR VALUE–POSITIVE (NEGATIVE) 2014	CHANGES IN FAIR VALUE CLASSIFICATION	CHANGES IN FAIR VALUE 2014
INVESTMENT DERIVATIVES					
Futures contracts:					
Domestic equity futures:					
Long positions	1,548,947	Investments	$ 1,647	Net appreciation (depreciation)	$311,241
Short positions	(1,807)	Investments	(12)	Net appreciation (depreciation)	(118)
Foreign equity futures:					
Long positions	175,412	Investments	315	Net appreciation (depreciation)	26,328
Futures contracts, net			**1,950**		**337,451**
Foreign currency exchange contracts, net:					
Long positions	2,574,058	Investments	619	Net appreciation (depreciation)	4,809
Short positions	(190,984)	Investments	(1,019)	Net appreciation (depreciation)	(7,170)
Foreign currency exchange contracts, net			**(400)**		**(2,361)**
Swaps:					
Fixed interest rate swaps		Investments	1,194	Net appreciation (depreciation)	673
Total return swaps equity	7,818	Investments	(6)	Net appreciation (depreciation)	(81)
Swaps, net			**1,188**		**592**
Stock rights/warrants	4,550	Investments	33,332	Net appreciation (depreciation)	7,215
Options/swaptions	13,534	Investments	4,966		2,355
Total investment derivatives			**$41,036**		**$345,252**

Objectives and Terms of Hedging Derivative Instruments

The objectives and terms of the hedging derivative instruments outstanding at June 30, 2014, along with the credit rating of the associated counterparty, are as follows:

(in thousands of dollars)

TYPE	OBJECTIVE	NOTIONAL AMOUNT	EFFECTIVE DATE	MATURITY DATE	CASH PAID OR RECEIVED	TERMS	COUNTERPARTY CREDIT RATING	FAIR VALUE
UNIVERSITY OF CALIFORNIA								
Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate Medical Center Pooled Revenue Bonds	77,220	2007	2032	None	Pay fixed 3.5897%; receive 58% of 1-Month LIBOR* plus 0.48%	A2/A	$(10,862)
Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate Medical Center Pooled Revenue Bonds	124,775	2008	2030 through 2043	None	Pay fixed |4.6359%;** receive 67% of 3-Month LIBOR* plus 0.69%**	A2/A	(35,966)
Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate Medical Center Pooled Revenue Bonds	24,250	2013	2045	None	Pay fixed 4.741 percent; receive 67 percent of 3-Month LIBOR* + 0.79 percent	A2/A	(8,400)
Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate Medical Center Pooled Revenue Bonds	25,750	2013	2047	None	Pay fixed 4.741 percent; receive 67 percent of 3-Month LIBOR* + 0.79 percent	A2/A	(9,156)
Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate General Revenue Bonds	400,000	2013	2023	None	Pay fixed 1.8982%; receive 70% of 1-Month LIBOR*	Aa2/AA-	(7,196)
Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate General Revenue Bonds	100,000	2013	2023	None	Pay fixed 1.9057%; receive 70% of 1-Month LIBOR*	Aa2/AA-	(1,863)
Pay fixed, receive variable interest rate swap	Hedge of changes in cash flows on variable-rate General Revenue Bonds	100,000	2013	2023	None	Pay fixed 1.8980%; receive 70% of 1-Month LIBOR*	Aa3/AA-	(1,797)
Interest rate swaps, net		**851,995**						**$(75,240)**

** London Interbank Offered Rate (LIBOR)*
***Weighted average spread*

Hedging Derivative Financial Instrument Risk Factors

Credit Risk

The University could be exposed to credit risk if the interest rate swap counterparties to the contracts are unable to meet the terms of the contracts. Contracts with positive fair values are exposed to credit risk. The University faces a maximum possible loss equivalent to the amount of the derivative's fair value, less any collateral held by the University provided by the counterparty. Contracts with negative fair values are not exposed to credit risk.

Although the University has entered into the interest rate swaps with creditworthy financial institutions to hedge its variable-rate debt, there is credit risk for losses in the event of non-performance by counterparties or unfavorable interest rate movements.

There are no collateral requirements related to the interest rate swap with the $77.2 million notional amount. Depending on the fair value related to the swap with the $174.8 million notional amount, the University may be entitled to receive collateral from the counterparty to the extent the positive fair value exceeds $15.0 million, or be obligated to provide collateral to the counterparty if the negative fair value of the swap exceeds $125.0 million or the cash and investments held by the medical centers fall below $250.0 million.

Depending on the fair value related to the swaps with the counterparty that is currently rated Aa2/AA- with combined notional amount of 500.0 million and the swap with the counterparty that is currently rated Aa3/AA- with a notional amount of 100.0 million, the University may be entitled to receive collateral from each counterparty to the extent the positive fair value of the swap or swaps with each counterparty swap exceeds $30.0 million. As of June 30, 2014, there was no collateral required.

Interest Rate Risk

There is a risk the value of the interest rate swaps will decline because of changing interest rates. The values of the interest rate swaps with longer maturities tend to be more sensitive to changing interest rates and, therefore, more volatile than those with shorter maturities.

Basis Risk

There is a risk that the basis for the variable payment received on interest rate swaps will not match the variable payment on the bonds. This exposes the University to basis risk whenever the interest rates on the bonds are reset. The interest rate on the bonds is a tax-exempt interest rate, while the basis of the variable receipt on the interest rate swaps is taxable. Tax-exempt interest rates can change without a corresponding change in the LIBOR rate due to factors affecting the tax-exempt market which do not have a similar effect on the taxable market. However, there is no basis or tax risk related to the swap with the 149.1 million notional amount since the variable rate the University pays to the bond holders matches the variable-rate payments received from the swap counterparty and the interest rates are reset at the same intervals.

Termination Risk

There is termination risk for interest rate swaps associated with variable-rate bonds in the event of non-performance by counterparties in an adverse market resulting in cancellation of the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. In addition, depending on the agreement, certain interest rate swaps may be terminated if a counterparty's credit quality rating, as issued by Moody's or Standard & Poor's, falls below certain thresholds. For the interest rate swap with the 77.2 million notional amount, the termination threshold is reached when the credit quality rating for either the underlying Medical Center Pooled Revenue Bonds or swap counterparty falls below Baa2 or BBB. For the swap with the 174.8 million notional amount, the termination threshold is reached when the credit quality rating for the underlying Medical Center Pooled Revenue Bonds falls below Baa3/BBB-, or the interest rate swap counterparty's rating falls below Baa2 or BBB.

For the swaps with notional amounts of 400.0 million and 100.0 million with the counterparty that is currently rated Aa2/AA-, the termination threshold is reached when the credit quality rating for the underlying General Revenue Bonds falls below Baa2 or BBB, or the swap counterparty's rating falls below A3 or A-. For the swap with a notional amount of $100 million with the counterparty that is currently rated Aa3/AA-, the termination threshold is reached when the credit quality rating for the underlying General Revenue Bonds falls below Baa2 or BBB, or the swap counterparty's rating falls below A3 or A-. Upon termination, the University may also owe a termination payment if there is a realized loss based on the fair value of each interest rate swap.

Rollover Risk

The University is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, the University will be re-exposed to the risks being hedged by the hedging derivative instruments. The University is exposed to rollover risk on the interest rate swaps that mature in October 2023 because the hedged debt is scheduled to mature in May 2048.

5. INVESTMENTS HELD BY TRUSTEES

The University has entered into agreements with trustees to maintain trusts for the University's self-insurance programs, long-term debt requirements, capital projects and certain other requirements. In addition, the state of California retained on deposit certain proceeds from the sale of lease-revenue bonds to be used for capital projects.

Self-Insurance Programs

Investments held by trustees for self-insurance programs include separate trusts for the workers' compensation and professional medical and hospital liability programs. Securities are held by the trustees in the name of the University. The trust agreements permit the trustees to invest in equity securities, long-term and short-term debt securities, commercial paper and other securities including any common or commingled trust funds.

The composition of cash and investments and the modified duration associated with fixed-income securities for self-insurance programs at June 30, 2014 are as follows:

(in thousands of dollars)

	INVESTMENTS AT FAIR VALUE	MODIFIED DURATION
Cash	$ (368)	
Commingled funds:		
U.S. bond funds	535,515	6.0
Money market funds	71,289	
U.S. equity funds	103,898	
Total	**$710,334**	

Self-insurance investments are held in externally-managed commingled funds with underlying credit ratings ranging from B to AAA, where applicable.

Long-Term Debt

Investments held by trustees for future payment of principal and interest in accordance with various Indenture and other long-term debt requirements totaled $2.9 million at June 30, 2014. Securities held by trustees are held in the name of the University and these 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.

Capital Projects

Proceeds from the sale of the state of California's lease revenue bonds to be used for financing certain University capital projects were deposited in a commingled U.S. bond fund managed by the state of California Treasurer's Office, as trustee, and distributed to the University as the projects are constructed. The fair value of these deposits was $109.2 million at June 30, 2014.

In addition, proceeds from the sale of bonds and certain University funds are held by trustees to be used for financing and operating third-party capital projects. The fair value of these investments was $63.1 million at June 30, 2014. Substantially, all of these investments are of a highly liquid, short-term nature.

6. ACCOUNTS RECEIVABLE

Accounts receivable and the allowance for doubtful accounts at June 30, 2014 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA							DISCRETELY PRESENTED COMPONENT UNITS
	STATE AND FEDERAL GOVERNMENT	MEDICAL CENTERS	INVESTMENT INCOME	PRIVATE GRANTS AND CONTRACTS	MEDICAL PROFESSIONAL FEES	OTHER	TOTAL	
Accounts receivable	$577,852	$ 1,753,698	$63,320	$297,441	$279,510	$351,697	$ 3,323,518	$115,755
Allowance for doubtful accounts	(2,333)	(251,066)		(5,605)	(37,272)	(26,469)	(322,745)	(12,702)
Accounts receivable, net	**$575,519**	**$1,502,632**	**$63,320**	**$291,836**	**$242,238**	**$325,228**	**$ 3,000,773**	**$103,053**

The University's other accounts receivable are primarily related to investment sales, tuition and fees, auxiliary enterprises, insurance rebates and legal settlements. Other receivables includes $58.1 million loaned by the University to CHRCO.

The campus foundations' accounts receivable are primarily related to investment income. CHRCO's receivables primarily include patient receivables.

The expense for doubtful accounts have either increased (decreased) the following revenues for the year ended June 30, 2014:

(in thousands of dollars)

Student tuition and fees	$ (2,257)
Grants and contracts:	
Federal	(208)
State	342
Private	(1,113)
Local	7
Medical centers	(309,085)
Educational activities	(8,595)
Auxiliary enterprises	(501)
Other operating revenues	(1,960)
Expense for doubtful accounts	**$ (323,370)**

Retirement System Contribution

The state of California agreed to make contributions related to certain prior years to the University for UCRP in annual installments over 30 years. During the year ended June 30, 2014, under the terms of these agreements, the state of California contributed $6.1 million, including interest at rates ranging from 8.0 percent to 8.5 percent. At June 30, 2014, the remaining amount owed to UCRP by the state was $24.3 million. These amounts are recorded in the University's statement of net position as a receivable from the state of California and as a liability owed to UCRP.

7. PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2014 is summarized as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS
Total pledges receivable outstanding	$85,542	$1,064,170
Less: Unamortized discount to present value	(2,754)	(112,116)
Allowance for uncollectible pledges	(21,175)	(87,186)
Total pledges receivable, net	**61,613**	**864,868**
Less: Current portion of pledges receivable	(26,833)	(222,531)
Noncurrent portion of pledges receivable	**$34,780**	**$ 642,337**

Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2014 and thereafter are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS
Year Ending June 30		
2015	$40,993	$ 250,222
2016	26,385	119,586
2017	8,834	153,698
2018	4,693	72,119
2019	1,037	59,232
2020 - 2024	2,350	258,093
Beyond 2024	1,250	151,220
Total payments on pledges receivable	**$85,542**	**$1,064,170**

Adjustments to the allowance for uncollectible pledges for the University have increased (decreased) the following revenues for the year ended June 30, 2014:

(in thousands of dollars)

Private gifts	$(11,526)
Capital gifts and grants	353

8. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2014, along with the allowance for uncollectible amounts, are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				DISCRETELY PRESENTED COMPONENT UNITS	
		NONCURRENT				
	CURRENT	NOTES	MORTGAGES	TOTAL	CURRENT	NONCURRENT
Notes and mortgages receivable	$49,986	$317,930	$24,713	$342,643	$5	$1,296
Allowance for uncollectible amounts	(6,489)	(20,838)	(140)	(20,978)		
Notes and mortgages receivable, net	**$43,497**	**$297,092**	**$24,573**	**$321,665**	**$5**	**$1,296**

9. DOE NATIONAL LABORATORY CONTRACTS

Los Alamos National Security, LLC (LANS)

LANS operates and manages the DOE's LANL. LANS' current earnings or losses are dependent on the percentage of base and incentive fees earned under the terms of the contract, offset by any unallowable or disallowed costs. While the University has a 50 percent membership interest in LANS, its equity in the current earnings or losses is subject to certain limitations and special allocations of both the fees and costs. As a result, the University's equity in the current earnings or losses may range from 17.0 to 50.0 percent. For the year ended June 30, 2014, the University recorded $12.7 million, as its equity in the current earnings of LANS and received $13.3 million in cash distributions in 2014.

Lawrence Livermore National Security, LLC (LLNS)

LLNS manages and operates the DOE's LLNL. LLNS' current earnings or losses are dependent on the percentage of base and incentive fees earned under the terms of the contract, offset by any unallowable or disallowed costs. While the University has a 50 percent membership interest in LLNS, its equity in the current earnings or losses is 36.3 percent as of June 30, 2014. For the year ended June 30, 2014, the University recorded $12.4 million, as its equity in the current earnings of LLNS and received $12.0 million in cash distributions.

10. CAPITAL ASSETS

The University's capital asset activity for the year ended June 30, 2014 is as follows:

(in thousands of dollars)

	2013	ADDITIONS	DISPOSALS	2014
ORIGINAL COST				
Land	$ 840,050	$ 11,825	$ (4,710)	$ 847,165
Infrastructure	585,270	18,349	(51)	603,568
Buildings and improvements	29,514,691	1,509,912	(27,254)	30,997,349
Equipment, software and intangibles	6,237,146	494,632	(337,050)	6,394,728
Libraries and collections	3,699,125	138,486	(20,178)	3,817,433
Special collections	354,109	28,304	(136)	382,277
Construction in progress	2,898,206	718,076		3,616,282
Capital assets, at original cost	**$44,128,597**	**$2,919,584**	**$(389,379)**	**$46,658,802**
	2013	**DEPRECIATION AND AMORTIZATION**	**DISPOSALS**	**2014**
ACCUMULATED DEPRECIATION AND AMORTIZATION				
Infrastructure	$ 284,911	$ 20,454	$ (22)	$ 305,343
Buildings and improvements	10,958,368	1,099,747	(13,615)	12,044,500
Equipment, software and intangibles	4,007,422	463,231	(297,079)	4,173,574
Libraries and collections	2,698,011	126,240	(50,391)	2,773,860
Accumulated depreciation and amortization	**$17,948,712**	**$1,709,672**	**$(361,107)**	**$19,297,277**
Capital assets, net	**$26,179,885**			**$27,361,525**

Service concession arrangements, reported as buildings and improvements, are $48.3 million of original cost and $17.6 million of accumulated depreciation at June 30, 2014.

The discretely presented component units' capital asset activity for the year ended June 30, 2014 is as follows:

(in thousands of dollars)

	2013	ADDITIONS	DISPOSALS	2014
ORIGINAL COST				
Land	$ 16,290			$ 16,290
Buildings and improvements	255,317	$ 15,320	$ (70)	270,567
Equipment, software and intangibles	141,973	104,947	(4,191)	242,729
Construction in progress	74,215	64,032	(112,364)	25,883
Capital assets, at original cost	**$487,795**	**$184,299**	**$(116,625)**	**$555,469**
	2013	**DEPRECIATION AND AMORTIZATION**	**DISPOSALS**	**2014**
ACCUMULATED DEPRECIATION AND AMORTIZATION				
Buildings and improvements	$142,483	$ 7,940	$ (50)	$150,373
Equipment, software and intangibles	103,439	22,000	(3,975)	121,464
Accumulated depreciation and amortization	**$245,922**	**$29,940**	**$ (4,025)**	**$271,837**
Capital assets, net	**$241,873**			**$283,632**

11. SELF-INSURANCE, OBLIGATIONS UNDER LIFE INCOME AGREEMENTS AND OTHER LIABILITIES

The University's self-insurance and other liabilities at June 30, 2014 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		DISCRETELY PRESENTED COMPONENT UNITS	
	CURRENT	NONCURRENT	CURRENT	NONCURRENT
Self-insurance programs	$ 201,538	**$443,040**		**$ 16,091**
Obligations under life income agreements	1,010	**$ 28,700**	$20,710	**$140,818**
Other liabilities:				
Compensated absences	485,105	262,593	21,149	
UCRP*	3,258	20,925		
Accrued interest	92,142			
Fair value of interest rate swaps		75,239		
Payable to University			2,205	55,915
Other	490,350	151,490	26,675	25,762
Total	**$1,273,403**	**$510,247**	**$70,739**	**$ 81,677**

** UCRP has an equivalent amount recorded as a contribution receivable from the University in its statement of fiduciary net position.*

CHRCO's long-term debts were defeased or retired with advances from the University's commercial paper program in June 2014.

Self-Insurance Programs

Changes in liabilities for self-insurance or insured through a wholly-owned captive insurance company changed as follow for the year ended June 30, 2014:

(in thousands of dollars)

	MEDICAL MALPRACTICE	WORKERS' COMPENSATION	EMPLOYEE & STUDENT HEALTH CARE	GENERAL LIABILITY	TOTAL
Year Ended June 30, 2014					
Liabilities at June 30, 2013	$190,594	$311,581	$ 39,685	$89,938	$631,798
Claims incurred and changes in estimates	41,522	74,114	329,892	21,663	467,191
Claim payments	(55,411)	(73,981)	(301,195)	(23,824)	(454,411)
Liabilities at June 30, 2014	**$176,705**	**$311,714**	**$ 68,382**	**$87,777**	**$644,578**
Discount rate	**5.0%**	**5.0%**	**Undiscounted**	**2.0%**	

	MEDICAL MALPRACTICE	WORKERS' COMPENSATION	EMPLOYEE & STUDENT HEALTH CARE	GENERAL LIABILITY	TOTAL
Year Ended June 30, 2013					
Liabilities at June 30, 2012	$178,289	$299,193	$ 34,876	$86,818	$599,176
Claims incurred and changes in estimates	63,767	87,378	250,270	20,417	421,832
Claim payments	(51,462)	(74,990)	(245,461)	(17,297)	(389,210)
Liabilities at June 30, 2013	**$190,594**	**$311,581**	**$ 39,685**	**$89,938**	**$631,798**
Discount rate	**5.0%**	**5.0%**	**Undiscounted**	**2.0%**	

Changes in self-insurance or insured liabilities for the discretely presented component units for the year ended June 30, 2014 are as follows:

(in thousands of dollars)

	MEDICAL MALPRACTICE	WORKERS' COMPENSATION	EMPLOYEE HEALTH CARE	TOTAL
Year Ended June 30, 2014				
Liabilities at June 30, 2013	$4,078	$7,523	$ 1,872	$13,473
Claims incurred and changes in estimates	700	4,113	10,247	15,060
Claim payments	(159)	(2,295)	(9,988)	(12,442)
Liabilities at June 30, 2014	**$4,619**	**$9,341**	**$ 2,131**	**$16,091**
Discount rate	**5.0%**	**5.0%**	**Undiscounted**	
Year Ended June 30, 2013				
Liabilities at June 30, 2012	$4,050	$5,229	$ 2,077	$11,356
Claims incurred and changes in estimates	244	4,993	9,919	15,156
Claim payments	(216)	(2,699)	(10,124)	(13,039)
Liabilities at June 30, 2013	**$4,078**	**$7,523**	**$ 1,872**	**$13,473**
Discount rate	**5.0%**	**5.0%**	**Undiscounted**	

Obligations Under Life Income Agreements

Changes in current and noncurrent obligations under life income agreements for the year ended June 30, 2014 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		DISCRETELY PRESENTED COMPONENT UNITS	
	ANNUITIES	LIFE BENEFICIARIES	ANNUITIES	LIFE BENEFICIARIES
Year Ended June 30, 2014				
Balance at June 30, 2013	$14,271	$15,530	$53,388	$116,379
New obligations to beneficiaries and change in liability, net	1,265	3,097	5,491	4,862
Payments to beneficiaries	(1,978)	(2,475)	(6,907)	(11,685)
Obligations under life income agreements at June 30, 2014	**13,558**	**16,152**	**51,972**	**109,556**
Less: Current portion	(540)	(470)	(7,050)	(13,660)
Noncurrent portion at June 30, 2014	**$13,018**	**$15,682**	**$44,922**	**$95,896**

12. DEBT

The University directly finances the construction, renovation and acquisition of facilities and equipment, or for such other purposes as are authorized by The Regents through the issuance of debt obligations or indirectly through structures that involve legally separate entities reported as blended component units. Commercial paper and bank loans provide for interim financing. Long-term financing includes revenue bonds, capital lease obligations and other borrowings.

The University's outstanding debt at June 30, 2014 is as follows:

(in thousands of dollars)

	WEIGHTED AVERAGE INTEREST RATE	INTEREST RATE RANGE	MATURITY YEARS	2014
INTERIM FINANCING:				
Commercial paper		0.1 - 0.2%	2014	$ 993,650
LONG-TERM FINANCING:				
University of California General Revenue Bonds				
Fixed Rate	4.4%	0.2 - 7.6%	2015-2112	9,222,595
Variable Rate	0.3%	0.0 - 0.7%	2037-2048	1,250,000
University of California Limited Project Revenue Bonds	5.0%	3.0 - 6.3%	2015-2050	1,966,650
University of California Medical Center Pooled Revenue Bonds				
Fixed Rate	5.6%	2.0 - 6.6%	2015-2049	2,523,200
Variable Rate	0.5%	0.0 - 1.0%	2015-2047	257,545
University of California Medical Center Revenue Bonds	5.2%	4.0 - 5.0%	2015-2039	47,265
Adjusted by: Unamortized bond premium				595,728
University of California revenue bonds	**4.3%**			**15,862,983**
Capital lease obligations		0.0 - 7.8%	2014-2042	113,224
Other University borrowings		Various	2014-2049	362,823
Blended component unit revenue bonds, net	5.7%	4.0 - 6.5%	2015-2049	698,069
Total outstanding debt				**18,030,749**
Less: Commercial paper				(993,650)
Current portion of outstanding debt				(1,186,884)
Noncurrent portion of outstanding debt				**$ 15,850,215**

Interest expense associated with financing projects during construction, net of any investment income earned on tax-exempt bond proceeds during construction, is capitalized. Total interest expense during the year ended June 30, 2014 was $692.4 million. Interest expense, net of investment income, totaling $76.8 million was capitalized during the year ended June 30, 2014. The remaining $615.6 million in 2014 is reported as interest expense in the statement of revenues, expenses and changes in net position.

Outstanding Debt Activity

The activity with respect to the University's current and noncurrent debt, including the revenue bonds associated with blended component units, for the year ended June 30, 2014 is as follows:

(in thousands of dollars)

	UNIVERSITY REVENUE BONDS	CAPITAL LEASE OBLIGATIONS	OTHER UNIVERSITY BORROWINGS	BLENDED COMPONENT UNIT REVENUE BONDS	TOTAL
Year Ended June 30, 2014					
Long-term debt and capital leases at June 30, 2013	$12,233,122	$2,582,411	$395,279	$705,413	$15,916,225
New obligations	4,078,840	36,470	13,904		4,129,214
Bond premium	185,534				185,534
Refinancing or prepayment of outstanding debt	(28,295)	(2,389,830)	(15,383)		(2,433,508)
Scheduled principal payments	(564,085)	(115,827)	(30,977)	(6,706)	(717,595)
Amortization of bond premium	(42,133)			(638)	(42,771)
Long-term debt and capital leases at June 30, 2014	**15,862,983**	**113,224**	**362,823**	**698,069**	**17,037,099**
Less: Current portion	(1,128,456)	(24,602)	(25,738)	(8,088)	(1,186,884)
Noncurrent portion at June 30, 2014	**$14,734,527**	**$ 88,622**	**$337,085**	**$689,981**	**$15,850,215**

Commercial Paper

The University has available a $2.0 billion commercial paper program, issued in two series, with tax-exempt and taxable components. Commercial paper may be issued for interim/permanent financing for capital projects, interim financing of equipment, financing of working capital for the medical centers, standby or interim financing for gift financed projects and working capital for the University. Proceeds from commercial paper of $58.1 million were loaned to CHRCO by the University as of June 30, 2014.

The program's liquidity is supported by available investments in STIP and TRIP. Commercial paper is collateralized by a pledge of the revenues derived from the ownership or operation of the projects financed and constitute limited obligations of the University. There is no encumbrance, mortgage or other pledge of property securing commercial paper and the paper does not constitute general obligations of the University.

Commercial paper outstanding, including interest rates, at June 30, 2014 is as follows:

(in thousands of dollars)

	INTEREST RATES	OUTSTANDING
Taxable	0.08-0.2%	$993,650
Total outstanding		**$993,650**

The expectation is that the University will continue to utilize available investments for liquidity support for the commercial paper program. Alternatively, the University may utilize lines of credit from external banks for the purpose of providing additional liquidity support for the commercial paper program. As of June 30, 2014, the University has two revolving credit agreements totaling $700.0 million. There were no borrowings against the revolving credit lines as of June 30, 2014. In August 2014, the University amended its existing revolving credit agreement totaling $400.0 million that provides additional liquidity support to the University's commercial paper program to extend the termination date to December 7, 2016.

University of California Revenue Bonds

Revenue bonds have financed various auxiliary, administrative, academic, medical center and research facilities of the University. They generally have annual principal and semiannual or monthly interest payments, serial and term maturities, contain sinking fund requirements and may have optional redemption provisions. Revenue 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. Revenue Bond Indentures require the University to use the facilities in a way which will not cause the interest on the tax-exempt bonds to be included in the gross income of the bondholders for federal tax purposes.

General Revenue Bonds are collateralized solely by General Revenues as defined in the Indenture. General Revenues are certain operating and nonoperating revenues of the University 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, as defined in the Indenture, have been amended to include certain state appropriations as to secure payment of the General Revenue Bonds. General Revenues for the year ended June 30, 2014 were $13.0 billion. The pledge of General Revenues for interest rate swap agreements is on a parity basis with the University's General Revenue Bonds.

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 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. Pledged revenues for the year ended June 30, 2014 were $729.8 million.

Medical Center Pooled Revenue Bonds are issued to finance the University's medical center facilities 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. Gross revenues of the medical centers for the year ended June 30, 2014 was $8.6 billion.

Medical Center Revenue Bonds have also financed certain facilities of one of the University's five medical centers and are collateralized by a pledge of the specific gross revenues associated with the medical center. The Medical Center Revenue Bond Indenture requires one medical center to achieve debt service coverage of 1.1 times, set limitations on encumbrances, indebtedness, disposition of assets and transfer services, as well as maintain certain other financial covenants.

The pledge of revenues under Limited Project Revenue Bonds is subordinate to the pledge of revenues associated with General Revenue Bonds, but senior to pledges under commercial paper agreements or bank loans.

Medical center gross revenues are pledged under the Indentures for the Medical Center Pooled Revenue Bonds and the UCLA Medical Center Revenue Bonds and certain interest rate swap agreements. The pledge of medical center revenues under Medical Center Pooled Revenue Bonds is subordinate to the specific Medical Center Revenue 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.

2014 Activity

In August 2013, tax-exempt Medical Center Pooled Revenue Bonds totaling $649.9 million, including $618.6 million of fixed-rate bonds and $31.3 million of variable-rate demand bonds, were issued to finance and refinance certain facilities and projects of the medical centers. Proceeds, including a bond premium of $6.3 million, were used to pay for project construction, issuance costs and refund $28.3 million of outstanding Medical Center Revenue Bonds. The fixed-rate bonds mature at various dates through 2048 and the variable-rate bonds mature in 2047. The interest rates on the variable-rate demand bonds reset weekly and an interest rate swap, previously classified as an investment derivative, is being used to limit exposure to changes in market interest rates. In the event of a failed remarketing, the variable-rate demand bonds can be put back to The Regents for tender. The tax-exempt bonds have a stated weighted average interest rate of 5.0 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. The refinancing and refunding of previously outstanding Medical Center Revenue Bonds resulted in cash flow savings of $5.1 million and an economic gain of $3.6 million.

In October 2013, General Revenue Bonds totaling $2.5 billion, including $1.1 billion tax-exempt bonds, $712.3 million taxable bonds, and $600.0 million tax-exempt variable-rate demand bonds, were used to refinance debt issued by the state of California or for such other purposes as authorized by The Regents. Proceeds, including a bond premium of $124.9 million, were used to pay $2.4 billion in Lease Revenue Bonds issued by the State Public Works Board of the state of California, which are reported as lease-purchase agreements by the University and bond issuance costs. The fixed-rate bonds mature at various dates through 2048 and the variable-rate demand bonds mature at 2048. The tax-exempt bonds have a stated weighted average interest rate of 3.5 percent. The taxable bonds have a stated weighted average interest rate of 4.3 percent. The interest rates on the variable-rate demand bonds reset weekly and, in the event of a failed remarketing, can be put back to The Regents for tender. Interest rate swap agreements were executed to limit exposure to changes in market interest rates. General Revenues, as defined in the Indenture, have been amended to include certain state appropriations to secure payment of the General Revenue Bonds. The refunding resulted in a loss of $253.5 million, recorded as a deferred inflow of resources, that will be amortized as interest expense over the remaining life of the refunded bonds. The refinancing and refunding of previously outstanding Lease Revenue Bonds issued by the State Public Works Board of the state of California resulted in additional cash flow requirements of $1.0 billion and an economic gain of $27.7 million. Bonds were issued to achieve estimated annual cash flow savings of $17.6 million to $100.0 million between 2014 and 2030.

In April 2014, General Revenue Bonds totaling $970.4 million, including $559.2 million tax-exempt bonds and $411.2 taxable bonds, were used to finance and refinance certain facilities and projects of the University. The bonds mature at various dates through 2049. The tax-exempt bonds have a stated weighted average interest rate of 4.9 percent. The taxable bonds have a stated weighted average interest rate of 3.9 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In April 2014, the University remarketed General Revenue Bonds totaling $500.0 million of taxable bonds which were used to finance pension contributions to UCRP and operating costs on an interim basis. The scheduled mandatory tender for purchase is on July 1, 2017. The University pays an interest rate equal to 1-month LIBOR plus of 0.50% on these remarketed bonds starting on May 1, 2014.

Capital Leases

The University entered into lease-purchase agreements with the state of California that were recorded as capital leases. The state sold lease revenue bonds to finance construction of certain state-owned buildings to be used by the University. At the conclusion of the lease term, ownership transferred to the University.

In October 2013, the University refinanced all the lease revenue bonds issued by the state of California with University General Revenue Bonds and ownership of all the properties transferred to the University.

The state of California financing appropriation to the University under the terms of the lease-purchase agreements, recorded as nonoperating revenue, for the year ended June 30, 2014 was $0.5 million. The scheduled principal and interest, including accrued interest, reported in the University's financial statements for the year ended June 30, 2014 contain amounts related to these lease-purchase agreements with the state of California as follows:

(in thousands of dollars)	
Capital lease principal	$16,910
Capital lease interest	7,942
Total	**$24,852**

Capital leases entered into with other lessors, typically for equipment, totaled $36.5 million for the year ended June 30, 2014.

Other University Borrowings

Other University borrowings consist of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities, along with the borrowing component associated with a hybrid derivative instrument.

The University may use uncollateralized revolving lines of credit with commercial banks for general corporate purposes and to provide interim financing for buildings and equipment. Lines of credit commitments for general corporate purposes, with various expiration dates through February 15, 2017, totaled $345.0 million at June 30, 2014. Outstanding borrowings under these bank lines totaled $262.0 million at June 30, 2014. Lines of credit that provide interim financing for buildings and equipment, with various expiration dates through April 30, 2016, totaled $3.0 million. There were no outstanding borrowings under these bank lines at June 30, 2014.

Certain of the interest rate swaps are considered hybrid instruments. As such, the interest rate swaps are comprised of a derivative instrument and a companion instrument recorded as a borrowing. The unamortized amount of the borrowing was $42.1 million at June 30, 2014.

Blended Component Unit Revenue Bonds

Student Housing

The University has entered into ground leases with a legally separate, non-profit corporation that develops and owns student housing projects and related amenities and improvements on a University campus through the use of a single-project limited liability corporation (LLC). The LLC manages the premises. The University's reversionary interest in the land is not subordinated. All costs associated with the ownership, operation and management of the improvements are the obligation of the LLC. Student rental rates are established in order to provide for operating expenses and maintain the required debt service coverage ratios. The University is not responsible for any payments related to the ownership, operation or financing of the student housing. However, under GASB requirements, the financial position and operating results of this legally separate organization are blended into the University's financial reporting entity.

The LLC, through its conduit issuer, has outstanding Student Housing LLC Revenue Bonds to finance the construction of the student housing facilities. The bonds generally have annual principal and semiannual interest payments, serial and term maturities, certain sinking fund requirements and optional redemption provisions. They are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues of the student housing projects, and do not constitute general obligations of The Regents.

At June 30, 2014, the LLC, through its conduit issuer, has outstanding Student Housing LLC Revenue Bonds totaling $410.5 million. The bonds mature at various dates through 2040 and have a weighted average interest rate of 5.5 percent.

Research Facilities

The University has a public/private partnership, for the purpose of developing, constructing and managing a neuroscience research laboratory building with a legally separate, non-profit corporation. In connection with the research laboratory building, the University entered into a ground lease with the corporation. The corporation has entered into a sub-ground lease with a developer to construct, own and manage the building. The University agreed to lease all of the space in the building from the developer. The University's base rent payments are equal to the principal and interest payments on the bonds issued by the corporation to finance the construction of the building. As security on the bonds, the developer has assigned all payments received from the University for the space lease to the bond trustee.

All of the board members of the non-profit corporation are appointed by the University and the University has the authority to determine the budget for the corporation. Under GASB requirements, the financial position and operating results of this legally separate organization are blended into the University's financial reporting entity.

The corporation, through a conduit issuer, has outstanding tax-exempt revenue bonds totaling $19.7 million and taxable revenue bonds totaling $188.0 million. The tax-exempt revenue bonds mature at various dates from 2021 through 2025 and have a weighted average interest rate of 5.0 percent. They generally have annual serial maturities, semi-annual interest payments and optional redemption provisions. The taxable bonds mature in 2049 and have an interest rate of 6.5 percent. The taxable bonds were issued as Build America Bonds, under which the U.S. Treasury is expected to send the non-profit corporation 35.0 percent of the semi-annual interest cost on the taxable bonds, making the net interest rate 4.2 percent post-subsidy. The bonds have a term maturity with various certain annual sinking fund requirements, semi-annual interest payments and optional redemption provisions.

In addition, the University entered into a ground lease with a legally separate, non-profit corporation (the Consortium). The Consortium entered into an agreement with a developer to develop and own a research laboratory facility designed to expand collaborative work in stem cell research and facilitate its translation into tools and techniques to diagnose and treat degenerative diseases and other ailments. The developer constructed the research laboratory facility. All costs associated with the ownership, operation and management of the laboratory research facility are the obligation of the Consortium. The University, along with the other collaborative research partners, will lease space in the building.

Under GASB requirements, the financial position and operating results of this legally separate organization are blended into the University's financial reporting entity.

The Consortium, through its conduit issuer, has outstanding revenue bonds totaling $58.7 million. The bonds mature at various dates through 2040 and have a weighted average interest rate of 4.9 percent. The bonds generally have annual principal and semiannual interest payments, serial and term maturities, certain sinking fund requirements and optional redemption provisions. Lease payments from the occupants of the building are pledged as collateral on the bonds. To the extent the lease payments are not sufficient to pay the debt service, the University is obligated to pay the shortfall.

Future Debt Service and Hedging Derivative Interest Rate Swaps

Future debt service payments for the University's fixed- and variable-rate debt and net receipts or payments on associated hedging derivative instruments for each of the five fiscal years subsequent to June 30, 2014, and thereafter are as presented below. Although not a prediction by the University of the future interest cost of the variable-rate bonds or the impact of the hedging derivative interest rate swaps, these amounts assume that current interest rates on variable-rate bonds and the current reference rates of the hedging derivative interest rate swaps will remain the same. As these rates vary, variable-rate bond interest payments and net hedging derivative interest rate swap payments will vary.

(in thousands of dollars)

	COMMERCIAL PAPER	UNIVERSITY REVENUE BONDS	CAPITAL LEASES	OTHER UNIVERSITY BORROWINGS	BLENDED COMPONENT UNIT REVENUE BONDS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year Ending June 30								
2015	$993,949	$ 1,010,992	$ 28,517	$ 26,821	$ 47,209	$ 2,107,488	$ 1,354,174	$ 753,314
2016		1,003,850	18,933	280,969	48,122	1,351,874	618,672	733,202
2017		984,069	12,065	12,403	62,752	1,071,289	351,497	719,792
2018		971,795	6,995	4,109	48,209	1,031,108	324,945	706,163
2019		972,149	4,284	3,469	48,210	1,028,112	335,277	692,835
2020-2024		5,131,037	20,624	7,633	255,276	5,414,570	2,235,999	3,178,571
2025-2029		4,598,977	24,687	7,226	258,561	4,889,451	2,323,474	2,565,977
2030-2034		4,219,740	30,036	7,414	255,994	4,513,184	2,552,944	1,960,240
2035-2039		3,812,376	36,543	7,282	237,770	4,093,971	2,818,450	1,275,521
2040-2044		2,992,474	22,291	6,064	93,047	3,113,876	2,460,920	652,956
2045-2049		1,426,220		1,846	66,923	1,494,989	1,174,951	320,038
2050-2112		3,513,779				3,513,779	880,430	2,633,349
Total future debt service	**993,949**	**30,637,458**	**204,975**	**365,236**	**1,422,073**	**33,623,691**	**$17,431,733**	**$16,191,958**
Less: Interest component of future payments	(299)	(15,370,203)	(88,591)	(2,413)	(730,452)	(16,191,958)		
Principal portion of future payments	**993,650**	**15,267,255**	**116,384**	**362,823**	**691,621**	**17,431,733**		
Adjusted by:								
Unamortized bond premium		595,728			6,448	602,176		
Present value of net minimum leases included in long-term debt			(3,160)			(3,160)		
Total debt	**$993,650**	**$15,862,983**	**$113,224**	**$362,823**	**$698,069**	**$18,030,749**		

Long-term debt does not include $2.3 billion of defeased liabilities at June 30, 2014. Investments that have maturities and interest rates sufficient to fund retirement of these liabilities are being held in irrevocable trusts for the debt service payments. Neither the assets of the trusts nor the outstanding obligations are included in the University's statement of net position.

Medical Center Pooled Revenue Bonds of $108.5 million are variable-rate demand bonds which give the debt holders the ability to tender the bonds back to the University upon demand. In connection with $77.2 million of these outstanding variable-rate demand bonds, the University has entered into a bank standby bond purchase agreement to provide funds for the purchase of the bonds that have been tendered and not remarketed. The standby bond purchase agreement is scheduled to terminate on June 30, 2015. The University is required to repurchase any bonds held by the bank on the termination date of the agreement. The University has classified $31.3 million of these bonds as current liabilities as of June 30, 2014.

General Revenue Bonds of $750.0 million are variable-rate demand bonds which reset weekly and, in the event of a failed remarketing, can be put back to The Regents for tender. The University has classified $750.0 million of these bonds as current liabilities as of June 30, 2014.

As rates vary, variable-rate bond interest payments and net swap payments will vary. Although not a prediction by the University of the future interest cost of the variable-rate bonds or the impact of the interest rate swaps, using rates as of June 30, 2014, combined debt service requirements of the variable-rate debt and net swap payments are as follows:

(in thousands of dollars)

	VARIABLE-RATE BONDS		INTEREST RATE SWAP, NET	TOTAL PAYMENTS
	PRINCIPAL	INTEREST		
Year Ending June 30				
2015	$ 3,110	$ 1,385	$ 19,688	$ 24,183
2016	3,230	1,384	19,594	24,208
2017	3,340	1,384	19,496	24,220
2018	3,465	1,384	19,395	24,244
2019	3,590	1,383	19,290	24,263
2020-2024	26,895	6,887	87,441	121,223
2025-2029	44,065	6,345	34,992	85,402
2030-2034	41,725	5,755	27,202	74,682
2035-2039	31,580	4,791	20,993	57,364
2040-2044	163,910	3,063	12,815	179,788
2045-2049	532,635	534	1,669	534,838
Total	**$857,545**	**$34,295**	**$282,575**	**$1,174,415**

13. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The composition of deferred outflows and inflows of resources at June 30, 2014 is summarized as follows:

(in thousands of dollars)

	SERVICE CONCESSION ARRANGEMENTS	NET PENSION LIABILITY	LOSS ON DEBT REFUNDING	INTEREST RATE SWAP AGREEMENTS	TOTAL
At June 30, 2014					
Deferred outflows of resources		$3,285,031	$339,743	$75,240	$3,700,014
Deferred inflows of resources	$ 30,701	7,047,208			7,077,909

The deferred inflows and outflows of resources for the discretely presented component units are related to the net pension liability for the CHRCO pension plan.

14. THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

Most University employees participate in UCRS. UCRS consists of UCRP, a defined benefit plan funded with University and employee contributions; UCRSP that includes defined contribution plans with options to participate in internally or externally managed investment portfolios generally funded with employee non-elective and elective contributions; PERS-VERIP, a defined benefit plan for University employees who were members of PERS and who elected early retirement; and the Children's Hospital & Research Center at Oakland (CHRCO) Pension Plan, a defined benefit plan fully funded with CHRCO contributions. The Regents has the authority to establish and amend the benefit plans except for the CHRCO Pension Plan. Administration authority with respect to UCRS plans is vested with the President of the University as plan administrator and the President has redelegated that authority within UCRS to the Vice President – Human Resources. CHRCO administers the CHRCO Pension Plan as the Sponsor and plan assets are held by Union Bank, N.A. (the Trustee).

Condensed financial information related to each plan in UCRS and the changes in pension liability for UCRP, PERS-VERIP, and the CHRCO Pension Plan for the year ended June 30, 2014 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA					DISCRETELY PRESENTED COMPONENT UNITS
	UNIVERSITY OF CALIFORNIA RETIREMENT PLAN	UNIVERSITY OF CALIFORNIA PERS-VERIP	SUBTOTAL	UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PROGRAM	TOTAL	CHILDREN'S HOSPITAL & RESEARCH CENTER AT OAKLAND PENSION PLAN
CONDENSED STATEMENT OF PLAN FIDUCIARY NET POSITION						
Investments at fair value	$53,515,771	$ 71,288	$53,587,059	$15,160,545	$68,747,604	$320,064
Participants' interests in mutual funds				5,044,424	5,044,424	
Investment of cash collateral	4,162,452	5,564	4,168,016	2,395,256	6,563,272	
Other assets	261,451	87	261,538	201,873	463,411	
Total assets	**57,939,674**	**76,939**	**58,016,613**	**22,802,098**	**80,818,711**	**320,064**
Collateral held for securities lending	4,161,400	5,563	4,166,963	2,394,651	6,561,614	
Other liabilities	994,407	1,414	995,821	363,293	1,359,114	
Total liabilities	**5,155,807**	**6,977**	**5,162,784**	**2,757,944**	**7,920,728**	
Net position held in trust	**$52,783,867**	**$ 69,962**	**$52,853,829**	**$20,044,154**	**$72,897,983**	**$320,064**
CONDENSED STATEMENT OF CHANGES IN PLANS' FIDUCIARY NET POSITION						
Contributions	$ 2,158,342		$ 2,158,342	$ 1,057,370	$ 3,215,712	$ 14,500
Net appreciation (depreciation) in fair value of investments	7,170,667	$ 9,874	7,180,541	1,957,077	9,137,618	
Investment and other income, net	839,313	1,161	840,474	506,618	1,347,092	48,704
Total additions	**10,168,322**	**11,035**	**10,179,357**	**3,521,065**	**13,700,422**	**63,204**
Benefit payment and participant withdrawals	2,687,540	5,169	2,692,709	1,260,155	3,952,864	6,994
Other deductions	37,641	6	37,647	8,804	46,451	718
Total deductions	**2,725,181**	**5,175**	**2,730,356**	**1,268,959**	**3,999,315**	**7,712**
Increase in net position held in trust	**7,443,141**	**5,860**	**7,449,001**	**2,252,106**	**9,701,107**	**55,492**
Net position held in trust						
Beginning of year	45,340,726	64,102	45,404,828	17,792,048	63,196,876	264,572
End of year	**$52,783,867**	**$ 69,962**	**$52,853,829**	**$20,044,154**	**$72,897,983**	**$320,064**
CHANGES IN TOTAL PENSION LIABILITY						
Service cost	$ 1,519,183		$ 1,519,183			$ 9,274
Interest	4,316,728	$ 2,857	4,319,585			22,453
Difference between expected and actual experience	(320,624)	(436)	(321,060)			2,487
Changes of benefit terms						142
Benefits paid, including refunds of employee contributions	(2,687,540)	(5,169)	(2,692,709)			(6,994)
Net change in total pension liability	**2,827,747**	**(2,748)**	**2,824,999**			**27,362**
Total pension liability						
Beginning of year	57,701,585	41,108	57,742,693			303,914
End of year	**$60,529,332**	**$ 38,360**	**$60,567,692**			**$331,276**
Net pension liability (asset), end of year	**$ 7,745,465**	**$(31,602)**	**$ 7,713,863**			**$ 11,212**

Additional information on the retirement plans can be obtained from the 2013-2014 annual reports of the University of California Retirement System which can be obtained at http://reportingtransparency.universityofcalifornia.edu/.

University of California Retirement Plan

UCRP provides lifetime retirement income, disability protection, death benefits, and post-retirement and pre-retirement survivor benefits to eligible employees of the University, and its affiliates. Membership is required in UCRP for all employees appointed to work at least 50 percent time for one year or more or for an indefinite period or for a definite period of a year or more. An employee may also become eligible by completing 1,000 hours within a 12-month period. Generally, five years of service are required for entitlement to plan benefits. The amount of pension benefit is determined under the basic formula of covered compensation times age factor times years of service credit. The maximum monthly benefit cannot exceed 100 percent of the employee's highest average plan compensation over a 36-month period, subject to certain limits imposed under the Internal Revenue Code. Annual cost-of-living adjustments (COLAs) are made to monthly benefits according to a specified formula based on the Consumer Price Index. Ad hoc COLAs may be granted subject to funding availability.

The University's membership in UCRP consisted of the following at June 30, 2014:

	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
Retirees and beneficiaries receiving benefits	51,249	12,942	64,191
Inactive members entitled to , but not receiving benefits	66,424	11,805	78,229
Active members:			
Vested	74,276	1,672	75,948
Nonvested	43,661	959	44,620
Total active members	**117,937**	**2,631**	**120,568**
Total membership	**235,610**	**27,378**	**262,988**

Contributions

Contributions to UCRP are based upon rates determined by The Regents. The Regents' funding policy provides for contributions at rates to maintain UCRP on an actuarially sound basis. While the University's independent actuary annually determines the total funding policy contributions, the University is not required to contribute an amount equal to the total funding contribution. The actual contributions and the contribution rates of the University and employees are based on numerous factors, including the availability of funds to the University, the impact of employee contributions on the competitiveness of the University's total remuneration package, and collective bargaining agreements.

The Regents determines the portion of the total contribution to be made by the employer and by the employees, and employee contribution rates for represented employees are subject to collective bargaining. Effective July 1, 2013, employee member and employer contributions were 6.5 percent and 12 percent, respectively. Member contributions for the employees in the new benefit tier applicable to employees hired on or after July 1, 2013 are 7.0 percent, and the employer rate is uniform across all members. Effective July 1, 2014, employee member and employer contributions were 8.0 percent and 14.0 percent, respectively.

Employee contributions to UCRP are accounted for separately and currently accrue interest at 6.0 percent annually. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may also elect monthly retirement income or a lump sum equal to the present value of their accrued benefits.

Both current employees and retirees at LBNL participate in UCRP. The University makes contributions to UCRP for LBNL employees and is reimbursed by the DOE based upon rates that are identical to those authorized by The Regents for campus and medical center employees. The University also makes contributions to UCRP for LANL and LLNL retirees and terminated vested members, whose benefits were retained in UCRP at the time the joint ventures were formed. The contributions for the LANL and LLNL are actuarially determined based upon a contractual arrangement with the DOE that incorporates a formula targeted to maintain the LANL and LLNL segments within UCRP at a 100 percent funded level. The University is reimbursed by the DOE for these contributions. To the extent the University has recorded a net pension liability, deferred inflows of resources and deferred outflows of resources that will be reimbursed under DOE contracts, a receivable from the DOE is recorded. As of June 30, 2014, the University reported $1.2 billion as other non-current Department of Energy receivables for pension liabilities.

Net Pension Liability

All UCRP assets are available to pay any member's benefit. However, assets and liabilities for the campus and medical center segment of UCRP are internally tracked separately from the DOE national laboratory segments of UCRP. The net pension liability for UCRP as of June 30, 2014 was as follows:

(in thousands of dollars)	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
UCRP net position	$ 44,484,494	$8,299,373	$ 52,783,867
Total pension liability	51,509,640	9,019,692	60,529,332
Net pension liability	**$ 7,025,146**	**$ 720,319**	**$ 7,745,465**

The University's net pension liability was measured as of June 30, 2014 based upon rolling forward the results of the actuarial valuations as of July 1, 2013. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future. The University's net pension liability was calculated using the following methods and assumptions:

Inflation	3.5 %
Investment rate of return	7.5
Projected salary increases	4.3 - 6.8
Cost-of-living adjustments	2.0

For active members, inactive members and healthy retirees, the RP-2000 Combined Healthy Mortality Table, projected with scale AA to 2025, with ages set back two years is used. For disabled members, rates are based on the RP-2000 Disabled Retiree Mortality Table, projected with Scale AA to 2025, with ages set back two years for males.

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the July 1, 2013 valuations are based upon the results of an experience study conducted for the period of July 1, 2006 through June 30, 2010.

The long-term expected investment rate of return assumption for UCRP was determined based on a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation adopted by The Regents and by adding expected inflation. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption for each major asset class are as follows:

	TARGET ALLOCATION	LONG-TERM EXPECTED REAL RATE OF RETURN
Asset class		
U.S. Equity	23.0%	6.8%
Developed International Equity	24.0	6.9
Emerging Market Equity	5.0	9.3
Core Fixed Income	12.0	1.5
High Yield Bonds	2.5	3.7
Emerging Market Debt	2.5	4.0
TIPS	8.0	1.3
Real Estate	7.0	5.4
Private Equity	6.0	10.4
Absolute Return/Hedge Funds/Real Assets	10.0	4.1
Total	**100.0 %**	

Discount rate

The discount rate used to estimate the net pension liability as of June 30, 2014 was 7.5 percent. To calculate the discount rate, cash flows into and out of UCRP were projected in order to determine whether UCRS has sufficient cash in future periods for projected benefit payments for current members. For this purpose, University contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected University contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are not included. UCRP was projected to have assets sufficient to make projected benefit payments for current members for all future years as of June 30, 2014.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the current-period net pension liability of the University calculated using the current-period discount rate assumption of 7.5 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	1% DECREASE (6.5%)	CURRENT DISCOUNT (7.5%)	1% INCREASE (8.5%)
UCRP	$15,123,395	$7,745,465	$1,540,576
PERS-VERIP	(29,387)	(31,602)	(33,590)

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources for the year ended June 30, 2014:

(in thousands of dollars)	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	TOTAL UCRP	PERS-VERIP	TOTAL
DEFERRED OUTFLOWS OF RESOURCES					
Difference between expected and actual experience		$ 3,418	$ 3,418		$ 3,418
Changes of assumptions or other inputs	$2,072,600		2,072,600		2,072,600
Net difference between projected and actual earnings on pension plan investments	995,092	212,012	1,207,104	$1,909	1,209,013
Total	**$3,067,692**	**$215,430**	**$3,283,122**	**$1,909**	**$3,285,031**
DEFERRED INFLOWS OF RESOURCES					
Difference between expected and actual experience	$ 407,640		$ 407,640		$ 407,640
Changes of assumptions or other inputs	1,874,132		1,874,132		1,874,132
Net difference between projected and actual earnings on pension plan investments	4,018,023	$ 740,671	4,758,694	$6,742	4,765,436
Total	**$6,299,795**	**$740,671**	**$7,040,466**	**$6,742**	**$7,047,208**

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions that will be recognized in pension expense during the next five years and thereafter is as follows:

(in thousands of dollars)	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	TOTAL UCRP	PERS-VERIP	TOTAL
2015	$ (480,867)	$ (89,152)	$ (570,019)	$ (865)	$ (570,884)
2016	(480,867)	(92,570)	(573,437)	(865)	(574,302)
2017	(998,780)	(198,578)	(1,197,358)	(1,819)	(1,199,177)
2018	(1,236,612)	(144,941)	(1,381,553)	(1,284)	(1,382,837)
2019	(34,977)		(34,977)		(34,977)
Total	**$(3,232,103)**	**$(525,241)**	**$(3,757,344)**	**$(4,833)**	**$(3,762,177)**

Defined Contribution Plan

The University makes DC Plan retirement contributions on the summer or equivalent term salaries of eligible academic employees who teach, conduct research or provide administrative service during the summer session or an equivalent term. To be eligible, employees must hold academic year appointments and be active members of UCRP or another defined benefit plan to which the University contributes. The contribution rate is 7.0 percent of eligible salary, of which 3.5 percent is University-paid and 3.5 percent is employee-paid, both on a pretax basis. The University may also contribute on behalf of eligible senior managers. Employer contributions to the DC Plan was $4.7 million for the year ended June 30, 2014.

The DC Plan Pretax Account also includes mandatory contributions from part-time, seasonal and temporary employees at the University who are not currently participating in UCRP or another defined benefit plan to which the University contributes (Safe Harbor participants). Safe Harbor participation includes certain University student employees and resident aliens with F-1 and J-1 visa status. Safe Harbor participants contribute 7.5 percent of their gross salary (up to the Social Security wage base) to the Plan in lieu of deductions for Social Security taxes.

All University employees, except students who normally work fewer than 20 hours per week, are eligible to make voluntary contributions to the DC Plan After-Tax Account and defer taxation on the earnings until the accumulations are withdrawn. The maximum amount participants may contribute annually to the After-Tax Account is determined by the IRC §415(c) limit. The University may also make DC Plan contributions on behalf of eligible senior managers.

The Supplemental Defined Contribution Plan (SDC Plan) accepts employer contributions in behalf of certain designated employees. Employer contributions are fully vested and there is no provision for employee contributions. There were no assets or employer contributions to the SDC Plan for the year ended June 30, 2014.

Tax Deferred 403(b) Plan

The University's Tax-Deferred 403(b) Plan (403(b) Plan) accepts pretax employee contributions. The University may also make contributions in behalf of certain members of management. Employer contributions to the 403(b) Plan were $1.5 million for the year ended June 30, 2014.

457(b) Deferred Compensation Plan

The University's 457(b) Deferred Compensation Plan (457(b) Plan) accepts pretax employee contributions. The University may also make contributions in behalf of certain members of management. There were no employer contributions to the 457(b) Plan for the year ended June 30, 2014.

Participants in the DC Plan, the SDC Plan, the 403(b) Plan and the 457(b) Plan may direct their elective and nonelective contributions to investment funds managed by the Chief Investment Officer. They may also invest account balances in certain mutual funds. The participants' interests in mutual funds is shown separately in the statement of plans' fiduciary net position.

University of California PERS–VERIP

The University of California PERS–VERIP is a defined benefit pension plan providing lifetime supplemental retirement income and survivor benefits to UC–PERS members who elected early retirement under provisions of the plan. The University contributed to PERS on behalf of these UC–PERS members. As of July 1, 2014, there are 614 retirees or beneficiaries receiving benefits under this voluntary early retirement program.

The University and the DOE laboratories previously made contributions to the plan sufficient to maintain the promised benefits. The annual required contribution, net obligation to PERS–VERIP and any changes or adjustments to that obligation are all zero for the year ended June 30, 2014.

Children's Hospital and Research Center at Oakland Pension Plan

CHRCO has a noncontributory defined benefit plan subject to the single employer defined benefit under ERISA rules that substantially covers all full-time employees if they work 1,000 hours or more in a twelve-month eligibility period.

The net pension liability for the plan was calculated based upon the following assumptions: 3.0 percent inflation, 7.2 percent investment rate of return, 3.5 percent projected salary increases and no cost-of-living adjustments.

Membership in the CHRCO Plan consisted of the following at June 30, 2014:

Retirees and beneficiaries receiving benefits	671
Inactive members entitled to, but not yet receiving benefits	1,033
Active members:	
Vested	1,820
Nonvested	286
Total active members	2,106
Total membership	**3,810**

Contributions

Employer contributions are determined under IRC Section 430. Employees are not required or permitted to contribute to the plan.

Net Pension Liability

The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption for each major asset class are as follows:

	PORTFOLIO PERCENTAGE	PROJECTED REAL RATE OF RETURN
Asset class		
U.S. Equity	58.5%	5.3%
Developed International Equity	9.4%	5.4%
Emerging Market Equity	8.5%	6.6%
Core Fixed Income	23.6%	2.4%
Total	**100.0%**	

Discount rate

The discount rate used to measure the total pension liability was 7.25%. To calculate the discount rate, the projection of cash flows into and out of the plan were used to determine whether there was sufficient cash available to make all projected future benefit payments of current active and inactive employees.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the current-period net pension liability calculated using the current-period discount rate assumption of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)	1% DECREASE (6.25%)	CURRENT DISCOUNT (7.25%)	1% INCREASE (8.25%)
Net pension liability (asset)	$56,893	$11,212	$(26,643)

Deferred Outflows of Resources and Deferred Inflows of Resources

As of June 30, 2014, deferred outflows of resources of $5,445 represents the difference between expected and actual experience. Deferred inflows of resources for pensions of $30,653 represents changes in benefit terms and net difference between projected and actual earnings on pension plan investments.

The net amount of deferred outflows of resources and deferred inflows of resources related to pensions that will be recognized in pension expense during the next five years and thereafter is as follows:

(in thousands of dollars)	
Year Ending June 30	
2015	$(7,192)
2016	(7,192)
2017	(7,192)
2018	(4,508)
2019	806
Thereafter	70

15. RETIREE HEALTH BENEFIT COSTS AND OBLIGATIONS

The University administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision, to eligible retirees and their eligible family members (retirees) of the University of California and its affiliates. The Regents has the authority to establish and amend the plans.

Membership in UCRP is required to become eligible for retiree health benefits. Participation in the retiree health benefit plans consisted of the following at July 1, 2013, the date of the latest actuarial valuation:

	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
Retirees who are currently receiving benefits	37,207	1,727	38,934
Employees who may receive benefits at retirement	117,723	3,312	121,035
Total membership	**154,930**	**5,039**	**159,969**

Contribution Policy

The contribution requirements of the University and eligible retirees are established and may be amended by the University. The contribution requirements are based upon projected pay-as-you-go financing. University and retiree contributions toward premiums made under purchased plan arrangements are determined by applying the health plan contract rates across the number of participants in the respective plans. Premium rates for the self-insured plan contributions are set by the University based upon a trend analysis of the historic cost, utilization, demographics and administrative expenses to provide for the claims incurred and the actuarially determined level of incurred but not reported liability.

Contributions toward medical and dental benefits are shared between the University and the retiree. Contributions toward wellness benefits are made by the University. The University does not contribute toward the cost of other benefits available to retirees. Retirees who are employed by the University after July 1, 2013, and retire at the age of 56 or older, become eligible for a percentage of the University's contribution based on age and years of service. Retirees are eligible for the maximum University contribution at age 65 with 20 or more years of service. Retirees employed by the University prior to 1990 and not rehired after that date are eligible for the University's maximum 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 University after 1989 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum University contribution, increasing to 100 percent after 20 years of service.

Active employees do not make any contributions toward the retiree health benefit plans. Retirees pay the excess, if any, of the premium over the applicable portion of the University's contribution.

In addition to the explicit University contribution provided to retirees, there is an "implicit subsidy." The gross premiums for members that are not currently eligible for Medicare benefits are the same for active employees and retirees, based on a blend of their health costs. Retirees, on average, are expected to have higher health care costs than active employees. This is primarily due to the older average age of retirees. Since the same gross premiums apply to both groups, the premiums paid for active employees by the University are subsidizing the premiums for retirees. This effect is called the implicit subsidy. The implicit subsidy associated with retiree health costs paid during the past year is also considered to be a contribution from the University.

Retiree Health Benefit Expense and Obligation for Retiree Health Benefits

The University's retiree health benefit expense is independently calculated for the campuses and medical centers and LBNL based upon the actuarially determined annual required contribution. The annual required contribution represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize unfunded actuarial liabilities over a period of up to 30 years.

The University's annual retiree health benefit expense and related information for the year ended June 30, 2014, segregated between the University and the DOE responsibility, is as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
Actuarial valuation date	July 1, 2013	July 1, 2013	July 1, 2013
Annual required contribution	$1,639,263	$ 55,310	$ 1,694,573
Interest on obligations for retiree health benefits	404,837	11,918	416,755
Adjustment to annual required contribution	(827,452)	(24,290)	(851,742)
Annual retiree health benefit cost	**1,216,648**	**42,938**	**1,259,586**
University contributions:			
To UCRHBT	(294,899)		(294,899)
To health care insurers and administrators		(12,643)	(12,643)
Implicit subsidy	(85,192)	(3,915)	(89,107)
Total contributions	**(380,091)**	**(16,558)**	**(396,649)**
Increase in obligations for retiree health benefits	**836,557**	**26,380**	**862,937**
Obligations for retiree health benefits			
Beginning of year	7,360,673	216,693	7,577,366
End of year	**$8,197,230**	**$243,073**	**$ 8,440,303**
Retiree health care reimbursement from the DOE during the year		**12,643**	**12,643**
DOE receivable for obligations for retiree health benefits			
Noncurrent		243,073	243,073
Total		**$243,073**	**$ 243,073**

The annual retiree health benefit cost, percentage of the annual retiree health benefit cost contributed to the retiree health benefit plan and the net obligation for retiree health benefits for the University for the year ended June 30, 2014, and the preceding years are as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
Annual retiree health benefit cost:			
June 30, 2014	$1,216,648	$42,938	$1,259,586
June 30, 2013	1,409,198	48,644	1,457,842
June 30, 2012	1,498,962	53,301	1,552,263
Percentage of annual cost contributed:			
June 30, 2014	31.2%	38.6%	31.6%
June 30, 2013	22.1	34.8	22.6
June 30, 2012	23.2	29.4	23.4
Net obligation to the health benefit plan:			
June 30, 2014	$8,197,230	$243,073	$8,440,303
June 30, 2013	7,360,673	216,693	7,577,366
June 30, 2012	6,262,682	184,996	6,447,678

Funded Status

Actuarial valuations represent a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment return and health care cost trends. The projection of benefits does not explicitly incorporate the potential effects of the results of collective bargaining discussions on the contribution rate. Actuarially determined amounts are subject to periodic revisions as actual rates are compared with past expectations and new estimates are made about the future.

The funded status of the plan as of July 1, 2013 was as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
Actuarial value of plan assets	$ 44,301		$ 44,301
Actuarial accrued liability	(13,253,215)	$(472,033)	(13,725,248)
Unfunded actuarial accrued liability	**$(13,208,914)**	**$(472,033)**	**$(13,680,947)**
Value of the implicit subsidy included in the actuarial accrued liability	$ 2,571,587	$ 95,290	$ 2,666,877
Funded ratio	0.3%	0.0%	0.3%
Covered payroll	$ 8,569,794	$ 266,976	$ 8,836,770
Unfunded actuarial accrued liability as a percentage of covered payroll	(154.1%)	(176.8%)	(154.8%)

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, includes multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based upon the plan as understood by the University and plan members, and include the types of benefits provided at the time of each valuation and the historical cost pattern of sharing of benefit costs between the University and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant actuarial methods and assumptions used in the valuation were:

- assumed return on investment of 5.5 percent per year, representing the return on the University's assets expected to be used to finance benefits;
- market value of assets smoothed over a five-year period;
- health care cost trend rate ranging from 7.5 to 10.5 percent for non-Medicare and 6.8 to 8.5 percent for Medicare initially, depending on the type of plan, reduced by increments to an ultimate rate of 5 percent over 15 years;
- projected inflation at 3.5 percent;
- amortization of the initial unfunded actuarial accrued liability over 30 years as a flat dollar amount on a closed basis;
- amortization of future actuarial gains and losses over 15 years as a flat dollar amount on a closed basis;
- amortization of the effects of changes in the plan design, or changes in assumptions, over 30 years as a flat dollar amount on a closed basis;
- entry age normal level-dollar actuarial cost method;
- future life expectancy based upon recent group mortality experience; and
- assumed retirement ages, employee turnover and disability rates based on actual plan experience and future expectations.

16. ENDOWMENTS AND GIFTS

Endowments and gifts are held and administered either by the University or by the discretely presented component units.

University of California

The value of endowments and gifts held and administered by the University, exclusive of income distributed to be used for operating purposes, at June 30, 2014 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
At June 30, 2014				
Endowments	$1,108,300	$2,551,694	$ 5,040	$3,665,034
Funds functioning as endowments		2,388,077	1,774,858	4,162,935
Annuity and life income	12,068	17,233		29,301
Gifts		1,098,390	25,188	1,123,578
University endowments and gifts	**$1,120,368**	**$6,055,394**	**$1,805,086**	**$8,980,848**

The University's endowment income distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution provided by dividend and interest income and by capital gains may vary significantly from year to year. The University's policy is to retain the realized and unrealized appreciation with the endowment after the annual income distribution has been made. The net appreciation available to meet future spending needs, subject to the approval of The Regents, amounted to $2.1 billion at June 30, 2014.

The portion of investment returns earned on endowments held by the University and distributed at the end of each year to support current operations for the following year is based upon a rate that is approved by The Regents. The annual income distribution transferred to the campuses from endowments held by the University was $228.7 million for the year ended June 30, 2014. The portion of this annual income distribution from accumulated capital gains, in addition to the dividend and interest income earned during the year, was $197.8 million for the year ended June 30, 2014. Accumulated endowment income available for spending in the future, including the annual income distribution, was $527.4 million at June 30, 2014.

Discretely presented component units

The value of endowments and gifts held by the discretely presented component units and administered by each of their independent Board of Trustees at June 30, 2014 are as follows:

(in thousands of dollars)

	DISCRETELY PRESENTED COMPONENT UNITS			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
At June 30, 2014				
Endowments	$3,081,899	$1,205,117		$4,287,016
Funds functioning as endowments		1,333,831		1,333,831
Annuity and life income	98,041	57,342		155,383
Gifts		1,251,864	$272,054	1,523,918
Discretely presented component units' endowments and gifts	**$3,179,940**	**$3,848,154**	**$272,054**	**$7,300,148**

17. SEGMENT INFORMATION

The University's significant identifiable activities for which revenue bonds may be outstanding where revenue is pledged in support of revenue bonds are related to the University's medical centers, including the discretely presented CHRCO. The medical centers' operating revenues and expenses consist primarily of revenues associated with patient care and the related costs of providing that care.

Condensed financial statement information related to each of the University's medical centers for the year ended June 30, 2014 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA MEDICAL CENTERS					DISCRETELY PRESENTED COMPONENT UNIT
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	CHRCO
Year Ended June 30, 2014						
Revenue bonds outstanding	$ 318,059	$ 281,310	$ 719,140	$ 668,847	$ 840,654	
Related debt service payments	$33,198	$23,885	$72,696	$33,413	$54,214	
Bonds due serially through	2047	2049	2049	2048	2049	
CONDENSED STATEMENT OF NET POSITION						
Current assets	609,403	460,431	1,230,184	588,347	894,050	$129,743
Capital assets, net	1,044,562	734,373	1,871,926	1,117,283	1,913,427	283,632
Other assets	20,638	3,232	45,603	231,812	16,703	217,857
Total assets	**1,674,603**	**1,198,036**	**3,147,713**	**1,937,442**	**2,824,180**	**631,232**
Total deferred outflows of resources	**251,415**	**124,238**	**329,765**	**139,639**	**256,587**	**5,445**
Current liabilities	259,435	231,659	308,007	167,397	283,370	82,943
Long-term debt	323,879	285,473	820,828	677,705	837,536	
Other noncurrent liabilities	600,375	301,596	787,976	353,201	681,826	91,927
Total liabilities	**1,183,689**	**818,728**	**1,916,811**	**1,198,303**	**1,802,732**	**174,870**
Total deferred inflows of resources	**418,123**	**214,356**	**457,905**	**262,977**	**495,366**	**30,653**
Net investment in capital assets	697,588	431,649	1,042,789	634,869	1,075,700	282,434
Restricted		3,232	12,670		9,959	55,216
Unrestricted	(373,382)	(145,691)	47,303	(19,068)	(302,990)	93,504
Total net position	**$ 324,206**	**$ 289,190**	**$1,102,762**	**$ 615,801**	**$ 782,669**	**$431,154**

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA MEDICAL CENTERS					DISCRETELY PRESENTED COMPONENT UNIT
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	CHRCO
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION						
Operating revenues	$ 1,585,658	$ 888,775	$ 1,988,037	$ 1,292,864	$ 2,390,273	$428,176
Operating expenses	(1,442,984)	(746,475)	(1,738,753)	(1,089,799)	(2,132,346)	(454,066)
Depreciation expense	(85,928)	(65,366)	(126,069)	(56,149)	(98,523)	(29,940)
Operating income (loss)	**56,746**	**76,934**	**123,215**	**146,916**	**159,404**	**(55,830)**
Nonoperating revenues (expenses), net	(9,761)	(10,940)	(20,098)	(2,810)	22,400	26,474
Income (loss) before other changes in net position	**46,985**	**65,994**	**103,117**	**144,106**	**181,804**	**(29,356)**
Health systems support	(38,256)	(60,386)	(117,082)	(57,007)	(61,279)	
Transfers from University, net	(5,077)	(546)		(8,530)		
Changes in allocation for pension payable to University	(29)	44	(4,759)	(645)	8,973	
Other, including donated assets	944	36,339	7,592	17,230	254,529	41,628
Increase (decrease) in net position	**4,567**	**41,445**	**(11,132)**	**95,154**	**384,027**	**12,272**
Net position – beginning of year						
Beginning of year, as previously reported	1,081,724	629,431	1,927,153	985,016	1,322,592	418,882
Cumulative effect of accounting change	(762,085)	(381,686)	(813,259)	(464,369)	(923,950)	
Beginning of year, as restated	319,639	247,745	1,113,894	520,647	398,642	418,882
Net position – June 30, 2014	**$ 324,206**	**$ 289,190**	**$ 1,102,762**	**$ 615,801**	**$ 782,669**	**$431,154**
CONDENSED STATEMENT OF CASH FLOWS						
Net cash provided (used) by:						
Operating activities	$ 181,224	$ 223,315	$ 357,784	$ 196,541	$ 287,903	$ (15,152)
Noncapital financing activities	(50,406)	(60,923)	(116,865)	(65,537)	(61,279)	9,194
Capital and related financing activities	(101,334)	(70,113)	(135,114)	154,569	(170,831)	(38,223)
Investing activities	13,912	20,923	14,550	(216,465)	26,082	22,503
Net increase (decrease) in cash and cash equivalents	**43,396**	**113,202**	**120,355**	**69,108**	**81,875**	**(21,678)**
Cash and cash equivalents* – June 30, 2013	254,609	158,830	700,743	185,552	413,486	33,352
Cash and cash equivalents* – June 30, 2014	**$ 298,005**	**$ 272,032**	**$ 821,098**	**$ 254,660**	**$ 495,361**	**$ 11,674**

** Cash and cash equivalents on the medical centers' financial statements are included in the University's Short Term Investment Pool, except for CHRCO as of June 30, 2014*

Summarized financial information for each medical center is from their separately issued audited financial statements. Certain revenue, such as financial support from the state for clinical teaching programs, is classified as state educational appropriations rather than medical center revenue in the University's statement of revenues, expenses and changes in net position. However, in the medical centers' audited financial statements and for segment reporting purposes, these revenues are classified as operating revenue. Additional information on the individual University of California medical centers can be obtained from their audited financial statements which are available at http://reportingtransparency.universityofcalifornia.edu/.

Multiple purpose and housing system projects (including student and faculty housing, parking facilities, student centers, recreation and events facilities, student health service facilities and certain academic and administrative facilities) are also financed by revenue bonds; however, assets and liabilities are not required to be accounted for separately.

18. DISCRETELY PRESENTED COMPONENT UNIT INFORMATION

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 missions of the campus and the University. Although independent boards govern these foundations, their assets are dedicated for the benefit of the University of California.

On January 1, 2014, The Regents became the sole corporate member of CHRCO, now known as UCSF Benioff Children's Hospital Oakland. CHRCO operates a 190-bed inpatient acute care hospital, a NICU at another medical facility, and outpatient facilities and clinics throughout the Bay Area, as well as a pediatric research institute. CHRCO serves as the primary safety net health care provider for children in Contra Costa and Alameda counties, and is one of only two pediatric trauma centers in the greater San Francisco Bay Area. Following its affiliation with UCSF, CHRCO has retained its separate corporate status, its federal and state tax exemptions, separate hospital licensure, and Medicare and Medi-Cal enrollment. San Francisco Medical Center also provides certain management services to CHRCO.

Condensed financial statement information related to the University's discretely presented component units, including their allocated share of the assets and liabilities associated with securities lending transactions in the University's investment pools, for the year ended June 30, 2014 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS					DISCRETELY PRESENTED COMPONENT UNIT	
	BERKELEY	SAN FRANCISCO	LOS ANGELES	ALL OTHER	SUBTOTAL	CHRCO	TOTAL
CONDENSED STATEMENT OF NET POSITION							
Current assets	$ 95,977	$ 194,935	$ 398,955	$ 213,885	$ 903,752	$ 129,743	$ 1,033,495
Noncurrent assets	1,767,054	1,107,410	2,157,731	1,684,617	6,716,812	501,489	7,218,301
Total assets	**1,863,031**	**1,302,345**	**2,556,686**	**1,898,502**	**7,620,564**	**631,232**	**8,251,796**
Total deferred outflows of resources						**5,445**	**5,445**
Current liabilities	15,823	65,550	227,458	58,949	367,780	82,943	450,723
Noncurrent liabilities	77,200	15,644	33,646	31,381	157,871	91,927	249,798
Total liabilities	**93,023**	**81,194**	**261,104**	**90,330**	**525,651**	**174,870**	**700,521**
Total deferred inflows of resources						**30,653**	**30,653**
Net investment of capital assets						282,434	282,434
Restricted	1,769,961	1,220,718	2,191,645	1,792,838	6,975,162	55,216	7,030,378
Unrestricted	47	433	103,937	15,334	119,751	93,504	213,255
Total net position	**$1,770,008**	**$1,221,151**	**$2,295,582**	**$1,808,172**	**$7,094,913**	**$431,154**	**$ 7,526,067**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION							
Operating revenues	$ 113,007	$ 283,049	$ 284,583	$ 112,843	$ 793,482	$ 428,176	$ 1,221,658
Operating expenses	(142,268)	(399,134)	(238,890)	(199,814)	(980,106)	(484,006)	(1,464,112)
Operating income (loss)	**(29,261)**	**(116,085)**	**45,693**	**(86,971)**	**(186,624)**	**(55,830)**	**(242,454)**
Nonoperating revenues	201,198	125,832	201,134	234,048	762,212	26,474	788,686
Income (loss) before other changes in net position	**171,937**	**9,747**	**246,827**	**147,077**	**575,588**	**(29,356)**	**546,232**
Permanent endowments	89,467	38,467	74,000	71,569	273,503		273,503
Other						41,628	41,628
Increase in net position	**261,404**	**48,214**	**320,827**	**218,646**	**849,091**	**12,272**	**861,363**
Net position – June 30, 2013	1,508,604	1,172,937	1,974,755	1,589,526	6,245,822	418,882	6,664,704
Net position – June 30, 2014	**$1,770,008**	**$1,221,151**	**$2,295,582**	**$1,808,172**	**$7,094,913**	**$431,154**	**$7,526,067**
CONDENSED STATEMENT OF CASH FLOWS							
Net cash provided (used) by:							
Operating activities	$ (40,660)	$ (222,490)	$ (85,375)	$ (73,913)	$ (422,438)	$(15,152)	$(437,590)
Noncapital financing activities	78,311	33,547	62,714	52,266	226,838	9,194	236,032
Capital and related financing activities						(38,223)	(38,223)
Investing activities	(38,690)	222,584	23,145	19,382	226,421	22,503	248,924
Net increase (decrease) in cash and cash equivalents	**(1,039)**	**33,641**	**484**	**(2,265)**	**30,821**	**(21,678)**	**9,143**
Cash and cash equivalents – June 30, 2013	2,743	99,099	2,131	35,814	139,787	33,352	173,139
Cash and cash equivalents – June 30, 2014	**$ 1,704**	**$ 132,740**	**$ 2,615**	**$ 33,549**	**$ 170,608**	**$11,674**	**$182,282**

Additional information on the foundations or CHRCO can be obtained from the annual reports, which can be obtained by contacting the individual foundation or CHRCO.

19. COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled $2.0 billion at June 30, 2014.

The University and UCRS have also made commitments to make investments in certain investment partnerships pursuant to provisions in the various partnership agreements. These commitments at June 30, 2014 totaled $3.6 billion: $0.7 billion and $2.9 billion for the University and UCRS, respectively.

The University leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the year ended June 30, 2014 were $242.1 million. The terms of operating leases extend through June 2047.

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)

	UNIVERSITY OF CALIFORNIA	DISCRETELY PRESENTED COMPONENT UNITS
Year Ending June 30		
2015	$ 201,522	$ 4,111
2016	171,073	3,394
2017	143,710	2,953
2018	119,043	1,875
2019	97,091	1,223
2020-2024	241,749	13
2025-2029	105,492	
2030-2034	99,958	
2035-2039	100,563	
2040-2044	96,158	
2045-2049	54,145	
Total	**$1,430,504**	**$13,569**

Contingencies

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

The University and the discretely presented component units are 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, University management and general counsel are of the opinion that the outcome of such matters will not have a material effect on the University's financial position.

As of June 30, 2014, CHRCO had no amounts outstanding under its revolving credit facility for $25.0 million. The interest rate on the credit is 1.4 percent as of June 30, 2014 and the facility expires on August 31, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

UCRP

The schedule of changes in net pension liability includes multi-year trend information about whether the pension assets are increasing or decreasing over time relative to the pension liabilities. The University's schedule of changes in the net pension liability for UCRP as of June 30 is:

(in thousands of dollars)	2014	2013	2012
TOTAL PENSION LIABILITY			
Service cost	$ 1,519,183	$ 1,456,761	$ 1,531,094
Interest on the total pension liability	4,316,728	4,112,461	3,871,146
Difference between expected and actual experience	(320,624)	(183,253)	(212,758)
Changes of assumptions or other inputs		(3,312,815)	4,923,778
Benefits paid, including refunds of employee contributions	(2,687,540)	(2,487,369)	(2,273,071)
Net change in total pension liability	**2,827,747**	**$ (414,215)**	**$7,840,189**
Total pension liability - beginning of year	57,701,585	58,115,800	50,275,611
Total pension liability - end of year	**60,529,332**	**57,701,585**	**58,115,800**
PLAN NET POSITION			
Contributions - employer	1,580,876	810,056	1,851,460
Contributions - member	577,466	415,641	272,420
Net investment income	8,009,980	4,833,339	115,863
Benefits paid, including refunds of employee contributions	(2,687,540)	(2,487,369)	(2,273,071)
Administrative expense	(37,641)	(37,427)	(32,839)
Other changes			
Net change in plan net position	**7,443,141**	**3,534,240**	**(66,167)**
Plan net position - beginning of year	45,340,726	41,806,486	41,872,653
Plan net position - end of year	**52,783,867**	**45,340,726**	**41,806,486**
Net pension liability - end of year	**$ 7,745,465**	**$12,360,859**	**$16,309,314**

The University's schedule of net pension liability for UCRP as of June 30 is:

(in thousands of dollars)	2014	2013	2012
Total pension liability	$60,529,332	$57,701,585	$58,115,800
Plan net position	52,783,867	45,340,726	41,806,486
Net pension liability	**$ 7,745,465**	**$12,360,859**	**$16,309,314**
Ratio of plan net position to total pension liability	87%	79%	72%
Covered-employee payroll	$9,372,583	$8,921,077	$8,594,147
Net pension liability as a percentage of covered-employee payroll	82.6%	138.6%	189.8%

The University's schedule of employer contributions for UCRP as of June 30 is:

(in thousands of dollars)

Year Ended June 30	Actuarially Determined Contributions	Contributions in Relation to Actuarial Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	$2,472,697	$1,580,876	$ 891,821	$9,372,583	17%
2013	2,062,022	810,056	1,251,966	8,921,077	9%
2012	1,806,205	1,851,460	(45,255)	8,594,147	22%
2011	1,695,137	1,677,921	17,216	8,140,629	21%
2010	454	148,445	(147,991)	7,973,921	2%
2009	2,657	454	2,203	7,468,809	0%
2008	23,934	2,657	21,277	7,612,726	0%
2007		23,934	(23,934)	8,258,985	0%
2006				8,149,640	0%
2005				7,835,249	0%

Notes to Schedule

Valuation date: Actuarially calculated contribution rates are calculated as of July 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age actuarial cost method
Amortization method	Level dollar, closed
Remaining amortization period	24.26 years The July 1, 2010 amortization bases were combined into a single amortization base and amortized over 30 years. Any changes in UAAL due to actuarial experience gains or losses after July 1, 2010 will be separately amortized over a fixed (closed) 30-year period effective with that valuation. Any changes in UAAL due to a change in actuarial assumptions or plan provisions will be separately amortized over a fixed (closed) 15-year period.
Asset valuation method	The market value of asset less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual and the expected returns on a market value basis and is recognized over a five-year period.
Inflation	3.50%
Investment rate of return	7.50%, net of investment expenses, includes inflation
Projected salary increases	4.30 - 6.75%, includes inflation
Cost-of-living adjustments	2.00%
Mortality	Healthy: RP-2000 Combined Healthy Mortality Table projected with scale AA to 2025, set back two years. Disabled: RP-2000 Disabled Retiree Mortality Table projected with scale AA to 2025. Ages are set back two years for males.
Other assumptions	Same as those used in the July 1, 2013 funding actuarial valuation and were also used in the July 1, 2012 funding actuarial valuation.

PERS - VERIP

The University's schedule of changes in net pension liability for PERS-PLUS 5 Plan as of June 30 is:

(in thousands of dollars)	**2014**	**2013**	**2012**
TOTAL PENSION LIABILITY			
Interest on the total pension liability	$ 2,857	$ 3,052	$ 3,227
Changes of benefit terms			11,186
Difference between expected and actual experience	(436)	(241)	172
Changes of assumptions or other inputs			1,267
Benefits paid, including refunds of employee contributions	(5,169)	(5,278)	(5,368)
Net change in total pension liability	**(2,748)**	**(2,467)**	**10,484**
Total pension liability - beginning of year	41,108	43,575	33,091
Total pension liability - end of year	**38,360**	**41,108**	**43,575**
PLAN NET POSITION			
Net investment income	11,035	7,144	90
Benefits paid, including refunds of employee contributions	(5,169)	(5,278)	(5,368)
Administrative expense	(6)	(7)	(7)
Net change in plan net position	**5,860**	**1,859**	**(5,285)**
Plan net position - beginning of year	64,102	62,243	67,528
Plan net position - end of year	**69,962**	**64,102**	**62,243**
Net pension liability (asset) - end of year	**$(31,602)**	**$(22,994)**	**$(18,668)**

The University's schedule of net pension liability (asset) for PERS-PLUS 5 Plan as of June 30 is:

(in thousands of dollars)	**2014**	**2013**	**2012**
Total pension liability	$ 38,360	$ 41,108	$ 43,575
Plan net position	69,962	64,102	62,243
Net pension liability (asset)	**$(31,602)**	**$(22,994)**	**$(18,668)**
Ratio of plan net position to total pension liability (asset)	182.4%	155.9%	142.8%

The University is not required to make contributions to the PERS-Plus 5 Plan due to its fully funded status.

CHRCO PENSION PLAN

The schedule of changes in the net pension liability for the CHRCO Pension Plan as of June 30, 2014 is:

(in thousands of dollars)	JUNE 30, 2014
TOTAL PENSION LIABILITY	
Service cost	$ 9,274
Interest on the total pension liability	22,453
Changes of benefit terms	142
Difference between expected and actual experience	2,487
Changes of assumptions or other inputs	
Benefits paid, including refunds of employee contributions	(6,994)
Other Changes	
Net change in total pension liability	**27,362**
Total pension liability - beginning of year	303,914
Total pension liability - end of year	**331,276**
PLAN NET POSITION	
Contributions - employer	14,500
Contributions - member	
Net investment income	48,704
Benefits paid, including refunds of employee contributions	(6,994)
Administrative expense	(718)
Other changes	
Net change in plan net position	**55,492**
Total plan net position - beginning of year	264,572
Total plan net position - end of year	**320,064**
Net pension liability - end of year	**$ 11,212**

The schedule of net pension liability for the CHRCO Pension Plan as of June 30, 2014 is:

(in thousands of dollars)	JUNE 30, 2014
Total pension liability	$331,276
Plan net position	320,064
Net pension liability	**$ 11,212**
Ratio of plan net position to total pension liability	96.6%
Covered-employee payroll	$175,189
Net pension liability as a percentage of covered-employee payroll	6.4%

The schedule of employer contributions for the CHRCO Pension Plan as of June 30, 2014 is:

(in thousands of dollars)	**JUNE 30, 2014**
Actuarially calculated employer contributions	$ 21,300
Contributions in relation to the actuarially calculated employer contribution	14,500
Annual contribution deficiency	**$ 6,800**
Covered-employee payroll	$175,189
Actual contributions as a percentage of covered-employee payroll	8.3%

Notes to Schedule

Valuation date:

Actuarially calculated contributions are calculated as of January 1 of the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarially determined contribution	The Plan is subject to funding requirements under ERISA. The contribution shown is the IRC Section 430 minimum contribution prior to offset by credit balances. For 2014, the amount shown is the most recent contribution estimate since the valuation will be completed in September 2014; the amount has been prorated for the number of months in the fiscal year.
Contributions in relation to the actuarially determined contribution	The amount shown is equal to the contributions contributed to the Plan during the fiscal year shown.
Actuarial cost method	Unit Credit Actuarial Cost Method.
Amortization method	Level dollar, closed amortization.
Remaining amortization period	Seven years for changes in unfunded liabilities that occur each valuation date.
Asset valuation method	The actuarial value of assets is equal to the two-year average of Plan asset values as of the valuation date. The two-year average is the average of the two prior years' adjusted market value of assets and the current year's market value of assets. For this purpose, the prior years' market value of assets is adjusted to reflect benefit payments, administrative expenses, contributions and expected returns for the prior years. The resulting actuarial value of assets is adjusted to be within 10% of the market value of assets at the valuation date, as required by IRC Section 430.
Inflation	3.00%.
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation.
Projected salary increases	3.5%, including inflation.
Cost-of-living adjustments	N/A.
Mortality	RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with generational adjustments for mortality improvements based on Scale AA.

Retiree Health Plan

(in thousands of dollars)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	(DEFICIT)	FUNDED RATIO	COVERED PAYROLL	(DEFICIT) PAYROLL	IMPLICIT SUBSIDY INCLUDED IN ACTUARIAL ACCRUED LIABILITY
University of California							
July 1, 2013	$44,301	$13,725,248	$(13,680,947)	0.3%	$8,836,770	(154.8)%	$2,666,877
July 1, 2012	97,435	15,070,721	(14,973,286)	0.6%	8,598,114	(174.1)%	2,784,276
July 1, 2011	77,907	15,267,829	(15,189,922)	0.5%	8,163,021	(186.1)%	2,338,593
Campuses and Medical Centers							
July 1, 2013	$44,301	$13,253,215	$(13,208,914)	0.3%	$8,569,794	(154.1)%	$2,571,587
July 1, 2012	97,435	14,559,017	(14,461,582)	0.7%	8,333,654	(173.5)%	2,686,521
July 1, 2011	77,907	14,726,665	(14,648,758)	0.5%	7,899,551	(185.4)%	2,259,855
DOE National Laboratories							
July 1, 2013		$472,033	$(472,033)	0.0%	$266,976	(176.8)%	$95,290
July 1, 2012		511,704	(511,704)	0.0%	264,460	(193.5)%	97,755
July 1, 2011		541,164	(541,164)	0.0%	263,470	(205.4)%	78,738

UNIVERSITY OF CALIFORNIA

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