

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

ACTION ITEM

For Meeting of November 14, 2013

UNIVERSITY OF CALIFORNIA FINANCIAL REPORTS, 2013

EXECUTIVE SUMMARY

Financial Position (in millions of dollars)	2013	2012	Change
Total Assets and Deferred Outflows	\$53,402	\$52,005	\$1,397
Total Liabilities and Deferred Inflows	(36,753)	(34,136)	(2,617)
Total Net Position*	\$16,649	\$17,869	\$(1,220)

*Change includes decrease of \$124 due to change in accounting principle

The University's financial position declined in 2013. Net position decreased \$(1,096) million similar to the decrease of \$(1,896) in 2012. Nonetheless, the University's overall financial position remains strong with a debt to net position ratio of 1.0 as of June 30, 2013. The University's operating revenues grew by \$892 million or 4.4 percent in 2013 from 2012, and operating expenses grew by \$1.2 billion or 4.7 percent. Net non-operating revenues increased by \$1.1 billion, or 35.7 percent, principally due to greater support in the form of State educational appropriations of \$191 million and a net gain on the investment portfolio of \$727 million in 2013 as compared to a loss of \$155 million for 2012.

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

RECOMMENDATION

The President recommends that the Committee on Finance recommend that the Regents adopt the 2012-13 Annual Financial Reports for the University of California; the University of California Retirement System; and the five University of California Medical Centers.

BACKGROUND

Attached are the June 30, 2013 audited financial statements for the University of California; the University of California Retirement System (UCRS) – University of California Retirement Plan (UCRP), University of California Voluntary Retirement Incentive Program (PERS Plus 5 Plan), the University of California Retirement Savings Program (UCRSP), including the Defined Contribution, 403(b) and 457(b) Plans; and the five University of California medical centers: Davis, Irvine, Los Angeles, San Diego, and San Francisco. Following is a discussion of the highlights of these reports.

Statement of Net Position

Assets and Deferred Outflows (in millions of dollars)	2013	Change		Liabilities and Deferred Inflows (in millions of dollars)	2013	Change
Investments	\$18,942	\$649		Debt, including commercial paper	\$17,099	(236)
Investment of cash collateral	1,403	(228)		Securities lending collateral	1,403	(228)
Accounts receivable, net	3,744	328		Obligation for pensions	3,357	1,438
Capital assets, net	26,180	964		Obligations for retiree health	7,577	1,129
Other assets	3,087	(293)		Other liabilities	7,285	514
Deferred outflows	46	(23)		Deferred inflows	32	0
Total assets and deferred outflows	\$53,402	\$1,397		Total liabilities and deferred inflows	\$36,753	\$2,617

Highlights of the changes in the University's statement of net position as of June 30, 2013 are as follows:

- For 2013, the General Endowment Pool (GEP) portfolio had a positive return of 12.0 percent, the Total Return Investment Pool (TRIP) had a positive return of 8.3 percent and the Short Term Investment Pool (STIP) had positive returns of 2.1 percent.
- While investments increased due to strong market performance in 2013, investments also decreased in 2013 by \$123.8 million because the University changed its accounting policy for reporting externally-held irrevocable trusts to report these gifts when the time requirements are met and the gifts are received.
- Total additions of capital assets for 2013 were \$2.6 billion.
- General Revenue Bonds of \$1.6 billion, Limited Project Revenue Bonds of \$1.0 billion and other borrowings of \$305 million (including capital leases of \$187 million and \$118 million of other borrowings) were issued to finance and refinance certain facilities and projects.
 - Debt was reduced by \$3.3 billion, including \$2.4 billion for one-time principal payments for the refinancing or refunding of previously outstanding debt.
- The University contributed \$1.0 billion to UCRP (as compared to the annual required contributions of \$2.5 billion).
- The obligation for retiree health increased \$1.1 billion due to the impact of amortizing the University's unfunded obligation.

Statement of Revenues, Expenses and Changes in Net Position

Financial Results (in millions of dollars)	2013	2012	Change
Operating revenues	\$21,100	\$20,208	\$893
Operating expense	(26,613)	(25,415)	(1,198)
Nonoperating revenues, net	4,018	2,961	1,057
Other changes in net position	399	349	50
Increase (decrease) in net position*	\$(1,096)	\$(1,896)	\$(801)

*Excludes \$124 decrease due to change in accounting principle

Highlights of the changes in the University's financial results for the year ending June 30, 2013 are as follows:

- Student tuition and fees revenue, net of scholarship allowances, increased by \$166 million due to enrollment growth of 0.8 percent. Mandatory tuition and fees for resident undergraduates were not changed in 2013 and 2012.
- Revenues from grants and contracts decreased by \$17 million in 2013.

- Medical center revenues, net of allowances, increased \$607 million in 2013.
- Revenue from education activities, primarily physicians' professional fees, net of allowances, grew by \$161 million, generally associated with an expanded patient base and higher reimbursement rates.
- Approximately 63 percent of the University's expenses are related to salaries and benefits; salaries and benefits increased due to a 1.8 percent increase in the number of full-time equivalent (FTE) employees and a 2.8 percent increase in the average salary per FTE.
- Benefits increased by 4.5 percent due to higher health insurance and workers' compensation costs.

Components of Net Position

Net position (in millions of dollars)	2013	2012	Change
Invested in capital assets, net of related debt	\$11,954	\$11,360	\$594
Reserved for minority interest	47	47	0
Restricted:			
Nonexpendable (endowment)	1,087	1,057	30
Expendable (gifts)	5,729	5,505	224
Unrestricted	(2,168)	(100)	(2,068)
Total assets	\$16,649	\$17,869	\$(1,220)

- The University's total net position as of June 30, 2013 decreased.
- Unrestricted net position is in a deficit position as of June 30, 2013 and 2012.
- The net position is primarily due to recognition of pension plan funding requirements and the obligation for retiree health benefits.

Campus Foundations

Financial position (in millions of dollars)	2013	2012	Change
Assets	\$6,793	\$6,020	\$773
Liabilities	(547)	(485)	(62)
Net position	\$6,246	\$5,535	\$711

Highlights of the financial results for the campus foundations for June 30, 2013 are as follows:

- Private gifts for 2013 were \$711 million, a decrease of \$115 as compared to the prior year.

- Grants to campus were \$632 million.
- Investment returns, including interest, dividends, gains and losses, were \$535 million in 2013.

Retirement Plans (UCRP, UCRSP and PERS-VERIP)

Financial position (in millions of dollars)	2013	2012	Change
Assets	\$70,822	\$67,946	\$2,876
Liabilities	(7,625)	(9,481)	1,856
Net position	\$63,197	\$58,465	\$4,732

Financial results (in millions of dollars)	2013	2012	Change
Contributions	\$2,176	\$3,102	\$(926)
Investment and interest income, net	6,361	314	6,047
Benefit payments and expenses	(3,806)	(3,166)	(640)
Increase in net position	\$4,731	\$250	\$4,481

Highlights for the retirement plans for June 30, 2013 are as follows:

- Investment returns were 11.0 percent for 2013 as compared to 0.8 percent in 2012.
- As of July 1, 2013, there were nearly 59,000 retirees and beneficiaries receiving payments from UCRP.
 - Benefit payments and participant withdrawals were \$526 million more in 2013 than in 2012.
 - Payments from UCRP increase each year due to a growing number of retirees receiving payments and cost-of-living adjustments.
- Contributions to UCRP in 2013 and 2012 were \$2.2 and \$3.1 billion, respectively, due to increased employer and employee contribution rates.

Medical Centers

For the first time in 2013, all five of the University's medical centers are combined in a single report. Operating performance for all the medical centers was strong:

Financial position (in millions of dollars)	2013	2012	Change
Assets	\$9,796	\$9,270	\$526

Liabilities	3,850	3,788	62
Net position	\$5,946	\$5,482	\$464

Financial results (in millions of dollars)	2013	2012	Change
Revenues	\$7,518	\$6,914	\$604
Expenses	(6,886)	(6,390)	(496)
Nonoperating (expenses), net	(23)	(54)	31
Other changes in net position	(142)	(145)	3
Increase in net position	\$467	\$325	\$142

*Excludes \$4 decrease due to change in accounting principle

Highlights for the medical centers for June 30, 2013 are as follows:

- Medical center revenues, net of allowances, increased \$604 million due to higher patient volumes, a continuing increase in the complexity of cases, slight improvements in payor mix and higher reimbursement rates.
- Expenses increased in 2013 by \$496 million due to higher labor and pension costs.
- Operating margins increased \$108 million due to higher revenue and expense management initiatives by the medical centers.
- Capital assets increased from 2012 due to several projects under way during the year.
- Long-term debt decreased primarily due to debt service payments and retirement of certain bonds, which were replaced with current payable to campus.

(Attachments: [Financial Report](#); [UCRS](#); [Medical Centers](#))