UNIVERSITY OF CALIFORNIA
HASTINGS COLLEGE OF THE LAW

JUNE 30, 2013 AND 2012

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

University of California Hastings College of the Law

Independent Auditors' Report
and Financial Statements

HOOD & STRONG LLP

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

THE BOARD OF DIRECTORS
UNIVERSITY OF CALIFORNIA
HASTINGS COLLEGE OF THE LAW
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of **UNIVERSITY OF CALIFORNIA HASTINGS COLLEGE OF THE LAW (the College),** which comprise the statement of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, cash flows and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditor's 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.

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CELEBRATING 12345 67890 YEARS AND STILL COUNTING

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net financial position of **UNIVERSITY OF CALIFORNIA HASTINGS COLLEGE OF THE LAW**, as of June 30, 2013 and 2012, and the changes in net financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America, require that the accompanying management's discussion and analysis on pages 3 through 18 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 response 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.

Hood & Strong LLP

San Francisco, California
October 30, 2013

University of California Hastings College of the Law

Management Discussion and Analysis
(Unaudited)

The University of California, Hastings College of the Law (the "College" or "UC Hastings") presents its financial statements for fiscal year 2013 with comparative data presented for fiscal years 2012 and 2011. The emphasis of discussions concerning these statements will be for the fiscal years ended June 30, 2013 and 2012 (2013 and 2012, respectively). There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and, the Statement of Cash Flows.

The following discussion and analysis is intended to help readers of UC Hastings' financial statements to better understand its financial position and operating activities. It should be read in conjunction with, and is qualified in its entirety by, the related financial statements and footnotes. The financial statements, footnotes and this discussion and analysis were prepared by the College and are the responsibility of its management.

The College

The College was founded in 1878 as the "law department" of the University of California. UC Hastings is the oldest public law school in California. Founded by Chief Justice Serranus Clinton Hastings, the College was established by the California Legislature with its own Board of Directors which has operated the College independently of the Board of Regents of the University of California since its founding. The Board of Regents possesses degree-granting authority, but all other aspects of the College are under the control of the UC Hastings Board of Directors. The College is the only stand-alone, public law school in the nation.

The mission of UC Hastings is to provide an academic program of the highest quality, based upon scholarship, teaching, and research, to a diverse student body and to assure that its graduates have a comprehensive understanding and appreciation of the law and are well trained for the multiplicity of roles that they will play in a society and profession that are subject to continually changing demands and needs.

UC Hastings' reputation for academic excellence, its formal affiliation with the University of California (UC), and its location in San Francisco's downtown civic center are major factors contributing to the overall strength of the law school. This intrinsic quality is reflected in the large number of applications received for a very limited number of seats. Hence, UC Hastings' enrollment management objectives are to matriculate select students of the highest academic credentials.

UC Hastings adopted a new strategic plan in fiscal year 2012. A key to the strategic plan was identification of the benefits of reducing enrollment, specifically, trimming the size of the Juris Doctor (JD) class by roughly 20% over a three year timeframe. Once normalized levels of enrollment are achieved in 2014-15, JD enrollment will have declined from roughly 1,220 to 960 students. The College will maintain its commitment to access, with 20% of the students matriculating through the Legal Education Opportunity Program (LEOP), which is open to individuals of all backgrounds who show promise and have experienced and overcome significant adversity or life challenges. Detailed financial modeling has identified combinations of revenue enhancements and cost reduction strategies to offset the revenue loss.

The economic downturn has prompted a significant realignment in the marketplace in which our graduates compete for employment. Job opportunity in the legal profession – both private and public sector – has diminished. Law firms and legal service functions have responded to these structural changes with cost control strategies, new technologies, contract staffing solutions and other measures not necessarily favorable to the hiring of new graduates. Even as the economic recovery has slowly accelerated, law firm hiring remains tepid. UC Hastings' strategic plan is geared to the institution's adaptation to the new external environment.

A slowly recovering economy, increased cost of attendance coupled with student debt considerations, and a challenging job market are all factors contributing to a decline in law school applications nationally. The 2013-14 admissions cycle was challenging for UC Hastings, like most law schools, even with a reduced targeted level of first year JD enrollment. The College received 3,942 applications for the 2013-14 academic year, an 18% decrease from last year and a 23.7% decrease from two years ago. Application decline at UC Hastings were slightly below the 23.1% decline in the national applicant pool as well as the 20.4% drop in the far West region applicant pool according to the Law School Admissions Council (LSAC) report (March 1, 2013). For 2012-13, to fill an entering class of 317 first year JD students, UC Hastings received 4,811 applications.

Acceptances to UC Hastings increased from 29.5% (2012-13) to 40.4% (2013-14). The significant increase in acceptance rate was largely a function of a much smaller application pool (UC Hastings and nationally) and a lower conversion rate or yield. In 2011-12, the acceptance rate was 28.9%.

The yield (% of admit-to-enroll) for the 2013-14 admission cycle was 20.7%, slightly down from 22% experienced in 2012-13. While maintaining last year's yield level was an achievement, it remains significantly below the 29% averaged over the past decade. The decline in yield is attributed to considerably fewer students attending law school this year, financial aid packages offered by competitor institutions, tuition levels, the cost of living in San Francisco, the soft job market and law school ranking considerations.

The College achieved its enrollment target of an entering class of 331 new students. The median Law School Admission Test (LSAT) for this group is 159, a three point drop from last year's median. The 75th LSAT quartile moved from 165, where it had been since 2007, to 163. Like the median, our 25th LSAT quartile dropped three spots, moving from 158 to 155. The median Undergraduate Grade Point Average (UGPA) for the class of 2016 also moved slightly down, going from 3.59 to 3.52. The 75th UGPA quartile moved from 3.75 to 3.69, and our 25th UGPA quartile moved slightly from 3.29 to 3.28. In 2012-13, the academic metrics of the entering class stayed on par with 2011-12 with a median 162 LSAT. The 75th LSAT quartile also remained at 165. The median UGPA moved slightly from 3.60 to 3.59. The 75th UGPA quartile moved up from 3.73 to 3.75, while our 25th UGPA quartile dropped from 3.45 to 3.29.

Regarding the demographic makeup of the incoming class, roughly 46.2% are students of color. There is an almost even split between men (48.3%) and women (51.7%). The median age of our students is once again 24, with our youngest student being 20 and our oldest 61. About 7% of our incoming class has advanced degrees. Lastly, the percentage of out-of-state students stands at 19.6% this year. For the last two years, it hovered around 21%.

Total full time equivalent (FTE) enrollment for the 2012-13 academic year was 1,143 Juris Doctor (JD) students, 26 Master of Laws (LLM) students, 11 Master of Studies in Law(MSL) students and 21 visitors for a total of 1,201 full-time students. In 2012-13, fee waivers and exchange discounts equated to 17 FTE students for a net enrollment of 1,184 full-time equivalent students.

Total full time equivalent (FTE) enrollment for the 2011-12 academic year was 1,261 Juris Doctor (JD) students, 21 Master of Laws (LLM) students, and 15 visitors for a total of 1,297 full-time students. In 2011-12, fee waivers and exchange discounts equated to 25.5 FTE students for a net enrollment of 1,271 full-time equivalent students. Total FTE enrollment for the 2010-11 academic year was 1,234 JD students, 23 LLM students, and 6 visitors for a total of 1,263 full-time students. In 2010-11, fee waivers and exchange discounts equated to 22 students for a net enrollment of 1,241 full-time students.

The UC Hastings Foundation

The UC Hastings Foundation (the Foundation) was organized and incorporated in 1971 as the Hastings 1066 Foundation for the purpose of providing an organization for individuals dedicated to the support of the College and to provide a means for soliciting, receiving, and making financial contributions and garnering volunteer support to the College, and otherwise assist its students, alumni, administration, faculty and Board of Directors. In 2011, the Hastings 1066 Foundation was renamed the UC Hastings Foundation as part of an effort to enhance its role as the primary fundraising arm of the College. The Foundation is a California nonprofit public benefit corporation exempt from federal income tax pursuant to Internal Revenue Code Section 501(c)(3) and a public charity pursuant to Code Section 170(b)(1)(A)(iv).

The Foundation supports a variety of purposes, such as moot court activities, scholarly publications, lectureships, and faculty professional development. Additionally, the Foundation provides student scholarships and faculty research support with funds raised from annual giving, class campaigns and from memorial and endowment gifts.

In July 2012, the College and Foundation entered into a new Operating Agreement. The agreement delineates the roles and responsibilities of each entity and modified the appointment process for Foundation trustees as to more clearly establish the authority of the College's Board of Directors who now control a majority of the appointments to the Foundation's Board of Trustees. The Operating Agreement also formally acknowledged that all fundraising programs and initiatives of the College were to be solicited in the name of the Foundation and that gifts received in response to fundraising programs and initiatives would be accounted for in Foundation accounts. To support these efforts, the Foundation allocates block grants to the College from the proceeds of unrestricted gifts made to the Foundation. These blocks grants are designated by the Foundation to support the College's alumni office and non-state costs associated with institutional advancement functions along with funding for special events and other programs based on the Chancellor and Dean's institutional priorities.

The Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, is further clarified by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, detailing the major component unit concept. Major component units are determined based on the nature and significance of their relationship to the primary government. This determination would generally be based on any of the following factors: (a) the services provided by the component unit to the citizenry are such that separate reporting as a major component unit is considered to be essential to financial statement users, (b) there are significant transactions with the primary government, or (c) there is a significant financial benefit or burden relationship with the primary government. The GASB requires the Foundation, as the College's legally separate, tax-exempt, affiliated campus foundation, to be considered a component unit of the College and presented discretely in the College's financial statements due to the nature and significance of the Foundation's relationship with the College.

Highlights of Financial Operations

Progress was achieved despite challenges posed by the economic downturn in a number of areas pertaining to financial and other operations. Here we highlight recent changes as well as positive developments that have had an impact on the financial operations of the College.

- **Strategic Plan Implementation Moving Forward**

  In 2012, the College adopted a new strategic plan. This effort was undertaken in recognition of the fact that the law schools that thrive will be those that generate clear identities and strong reputations, and demonstrate value to students and potential employers despite precipitous declines in public funding, and a difficult job market fueled by the downturn in large firm hiring. Goals that emerged from the Strategic Planning process are:

  - Create outstanding professionals ready to solve 21st century problems
  - Develop engaged scholarship
  - Enhance reputation and strengthen market position
  - Build a vibrant and engaged community
  - Communicate identity and value
  - Optimize the campus to serve strategic goals
  - Achieve service excellence
  - Maintain financial health

  An important conclusion of the strategic planning process was identification of the benefits of reducing the size of the JD class by accepting only the number of students that could have reasonable expectations of employment in the legal profession. To implement the plan, the need for structural change within the College's support systems and the number of staff supporting those systems was apparent given the revenue implications of a substantial reduction in class size; specifically, reducing the size of the JD program by roughly 20% (approximately 240 FTE JD students) over a three year timeframe beginning in Fall 2012. Once normalized levels of JD enrollment are achieved, enrollment will decline from roughly 1,220 to 960 students. Detailed financial modeling has identified combinations of revenue enhancements and cost reduction strategies to offset the revenue loss.

  To adjust for the lower levels of fee revenue over the three year phase in, a series of revenue enhancement and cost reduction measures have been adopted. JD student fees for 2013 were increased by 15% to achieve substantial parity with other California public law schools. Cost reductions were achieved in 2012 through lay-offs of nonacademic staff, the elimination of vacant positions, and voluntary staff separations. Staffing reduction and student fee strategies will be complemented by operating cost containment and new initiatives to increase revenues from non-JD programs. The 2012 implementation of the staff reorganization plan resulted in the elimination of 22 FTE positions: 14.5 FTE from layoffs and voluntary separations, 4.5 FTE from the elimination of vacant positions, and 3 FTE from conversion to part-time status affecting nine employees. The annualized cost savings from these actions total $1.8 million.

In 2013, priority was given to the initial planning phase for the development of information technology initiatives intended to provide solutions which will enable the College to streamline business processes and communication with internal and external customers and improve document management. The document and information management solution will include electronic methods for capturing, organizing, indexing, accessing, securing, and sharing information across the College using a combination of multiple software application tools.

Organizational changes were also made to the College with the creation of the Graduate Division charged with the task of growing the non-JD enrollment and the development of new degree programs such as MSL, LLM and other part-time and certificate programs.

- **State of California's Financial Recovery**

California is on the road to financial recovery. On a statewide basis the 2013-14 budget reflects this positive change achieved in large measure by substantial budget reductions over the two prior fiscal years and the voter's adoption of Proposition 30, a measure that provides additional tax revenue earmarked for education funded through temporary tax increases. In recognition of the public's support, the Governor's spending plan increases annual funding for public higher education. The goal is to provide students with a solid and affordable education. The Governor has challenged the leaders of the state's higher education systems to do better for students by deploying teaching resources more effectively, curtailing the rising costs of attendance and increasing student success rates.

For UC Hastings, this renewed commitment to higher education was evidenced by a 13% increase in state support; appropriations grew by $937,000, from $7.1 million in 2012 to $8 million in 2013. Of the increase, $865,000 is specifically earmarked to help offset the employer's share of retirement costs for the University of California Retirement Plan (UCRP), contributions which restarted in April 2010, and $49,000 is allocated for increased retired annuitant health benefit costs.

In 2012 state support was reduced from $8.5 million to $7.1 million, a reduction of -16%. For 2011 state support was stable with state appropriations slightly growing from $8.4 million to $8.5 million. In 2010 the College's state appropriations were reduced from $10.2 million to $8.4 million, a cut of -$1.8 million (-18%).

The State of California has enacted a 2014 budget. The budget includes appropriations of $8.6 million**,** an increase of 6% from 2013. State support is trending favorably with appropriations substantially restored to levels experienced in 2010.

- **Student Fees**

State budget cuts have been offset by new revenue derived from increased student fees which in conjunction with cost reduction strategies have allowed the College to maintain its sound financial position. Total student fees – including miscellaneous fees and health insurance – increased from $38,906 (FY 2011) to $40,836 (FY 2012) and to $46,806 (FY 2013A). Fee escalation has been dramatic. However, UC Hastings fees remain below, albeit slightly, those charged by other California public law schools. Thirty-three percent of the revenue derived from increased tuition is reallocated to need based financial aid in the form of UC Hastings Grants.

In 2014 total student fees are at $47,634, an increase (2%) driven by increased student health insurance premiums. UC Hastings is committed to limiting future fee increases. In this context, continued growth in state support, an increased reliance on private support from alumni and the philanthropic community, and operating cost containment have become key strategic management objectives.

- **Debt Defeasance – Series 2003 Bonds**

  In 2013 UC Hastings retired its Series 2003 Bonds with a full defeasance of the remaining $6.9 million of outstanding bonds. These bonds – with an initial issuance value of $8.6 million – were issued to fund fire/life-safety, code compliance and common area improvements for the 100 McAllister building and to reimburse development costs for the Hastings Garage and other capital projects.

  The full defeasance of the Series 2003 Bonds was undertaken as the early payoff saves $3.5 million in interest over the life of the bonds, reduces long term debt by 23%, increases annual cash flow by approximately $543,000, achieves Present Value savings using a variety of discount factors and is thought to be a "rating positive" factor from a Moody's Investor Services perspective. While the transaction did reduce cash balances, the impact was readily manageable.

Financial Position

The narrative detailing UC Hastings' financial position combines figures for the College and the Foundation, unless otherwise indicated.

The statement of net position presents the financial position of the College and the Foundation at the end of 2013 and 2012. The purpose of the statement of net position is to present to the reader a fiscal snapshot of UC Hastings. From the data presented, readers of the statement of net position are able to determine the assets available to support the operations of the College. They are also able to determine its liabilities in terms of how much the College owes vendors, investors and lending institutions. Finally, the statement of net position provides an overview of net position (assets, deferred outflows of resources minus liabilities, deferred inflows of resources) and their availability for expenditure.

The net position section is classified into three major categories. The first category, Net Investment in Capital Assets, presents the College's equity in property, plant and equipment. The next asset category is Restricted Assets, which is divided into two categories, Nonexpendable and Expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the College, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is Unrestricted Assets which are those net assets available for any lawful purpose to support the College.

Detailed statements of net position are included with the financial statements. A condensed version is shown below:

Condensed Statement of Net Position – 2013, 2012, and 2011 (in thousands)

	College	Foundation	2013 Total	2012 Total	2011 Total
ASSETS:					
Current Assets	$ 16,764	$ 223	$ 16,987	$ 19,485	$ 17,957
Noncurrent Assets	175,636	502	176,138	171,632	173,668
Total assets	$192,400	$ 725	$193,125	$191,117	$ 191,625
LIABILITIES:					
Current Liabilities	$ 8,085		$ 8,085	$ 6,403	$ 7,686
Noncurrent Liabilities	31,055		31,055	38,596	39,454
Total liabilities	$ 39,140	$ -	$ 39,140	$ 44,999	$ 47,140
TOTAL NET POSITION:					
Net Investment in Capital Assets	$ 71,944		$ 71,944	$ 66,990	$ 69,388
Restricted:					
Nonexpendable	19,459	$ 179	19,638	18,431	17,226
Expendable	23,561	389	23,950	21,002	21,529
Unrestricted	38,296	157	38,453	39,695	36,342
Total net position	$153,260	$ 725	$ 153,985	$146,118	$ 144,485

Assets

For 2013, current assets decreased by $2.5 million (-13%) due to three factors: increased loan advances from the Federal Perkins Loan Fund ($1.1 million), outflows associated with the replacement of the chilled water condenser piping supporting the HVAC system in Kane Hall ($1.3 million) and the defeasance of the Series 2003 bonds, funding for which was partially derived from building reserves. The College is pursuing recovery for costs incurred for the replacement chilled water condenser piping system and is currently in arbitration with responsible parties.

In 2012, current assets increased by $1.5 million (9%) due primarily to growth in cash and cash equivalent positions as the infusion of $1.2 million in net tuition revenue and the excess of loan collections over disbursements enhanced the College's liquidity. For 2011, current assets decreased by $3.1 million (-15%) driven primarily by transfers from cash to other long term investments.

For 2013, noncurrent assets increased by $4.5 million (3%). In large measure, this growth was due to net investment gains arising from the strong performance of investments managed by the University of California, Office of the Treasurer. Another contributing factor were higher levels of notes receivable ($1.5 million, or 12%), due to the increase in Federal Perkins loan advances and the need to rely on debt to finance the students' legal education.

In 2012, noncurrent assets decreased by $2 million (-1%) primarily due to standard depreciation adjustments. In 2011, noncurrent assets increased by $14 million (9%) due to a combination of favorable investment performance and the transfer of funds from cash balances into other long term investments: unrealized gains posted to endowment of $2.9 million, $880,000 from funds held by others and $4.2 million from other long term investments more than offsetting the net change to capital assets of -$494,000 for depreciation expense and capital additions along with a reduction in notes receivable of -$591,000.

The College invests with the University of California, Office of the Treasurer.

- The General Endowment Pool (GEP) experienced total returns of 11.63 percent for fiscal year 2013. A total return of -0.67 percent was experienced in 2012. In 2011, total return was 20.49 percent.

- The Short Term Investment Pool (STIP) experienced total returns of 2.09 percent for fiscal year 2013. Returns of 2.38 percent were achieved in fiscal year 2012.

- Total market value of all funds invested in GEP increased from $53.6 million in 2012 to $59 million in 2013.

Total assets increased to $193 million in 2013, growth of $2 million (1%). In 2012, total assets were $191 million which represented a decrease of $508,000 (-.3%) from 2011 totals.

Liabilities

For 2013, current liabilities increased by $1.7 million (26%). The fundamental driver of this change was the accrual of payroll expense for the June 2013 pay period totaling $2 million. A portion of the increase was offset by lower liabilities for accrued vacation and deposits.

In 2012, current liabilities decreased by 17% primarily due to differences in payroll timing (i.e., unlike June 2011, the monthly payroll for June 2012 was paid at the end of June making it unnecessary to accrue). In 2011, current liabilities decreased by 8% primarily due to lower accounts payable as cost containment efforts resulted in lower expenses for supplies and services.

For 2013, total noncurrent liabilities decreased by $7.5 million (-20%). The defeasance of the Series 2003 bonds (-$6.9 million) and normal principal pay down on the Series 2008 bonds (-$570,000) were the reasons for the change. In aggregate, the College reduced its bond indebtedness by -25% in one year. In 2012, noncurrent liabilities decreased by 2% or $858,000 primarily due to scheduled debt retirement. In 2011, noncurrent liabilities also decreased by 2% or $843,000.

On an overall basis, total liabilities decreased by $5.8 million (-13%) from $44.9 million in 2012 to $39.1 million in 2013. In 2012, total liabilities decreased by $2.1 million (-5%) and in 2011 by $1.6 million (-3%).

Net Position

For 2013, nonexpendable restricted net assets increased to $19.6 million, a change of $1.2 million (6%). The primary factor was fundraising growth for scholarships ($833,000) and faculty support, the largest being $336,000.

In 2012, nonexpendable restricted net assets increased by $1.2 million (7%) with the receipt of $1.5 million in new gifts and the net proceeds of the sale of the donated Sacramento property offset recognition of unrealized losses from endowments held by others (i.e., UC Treasurer's Office and third-party trustees) of -$320,000. In 2011, nonexpendable restricted net assets increased by $1.6 (10%), due to the distribution of total unrealized gain to endowment funds held by others of $1.3 million along with the receipt of a $364,000 Cy Pres award in support of the Ralph S. Abascal Fellowship Endowment offset by the reclassification of $2.2 million (the Digardi-Hall initial gift) to unrestricted funds (i.e., the Digardi-Hall quasi endowment).

For 2013, expendable restricted net assets increased to $24 million, a change of $2.9 million (14%). The growth in this category was a function of grants from a variety of sources the largest being the MacArthur Foundation at $385,000 and to the Center for Gender and Refugee Studies along with favorable investment returns allocated to participating accounts.

In 2012, expendable restricted net assets decreased by $527,000 (-2%). This was mainly due to $586,000 in unrealized investment losses for endowed funds. In 2011, expendable restricted net assets increased by $1.5 million (8%).

For 2013, unrestricted net assets decreased by $1.2 million (-3%) going from $39.7 million (2012) to $38.5 million (2013). Favorable investment returns, stable tuition and fee revenue (revenue from fee increases effectively offsetting the reduction in JD enrollment) and cost control measures countered the impact of the defeasance of the Series 2003 bonds resulting in a relatively stable level of unrestricted net assets.

In 2012, unrestricted net assets increased by $3.4 million (9%) due to increased income from fee increases and new summer legal institute fees, and auxiliary enterprises. Unrestricted net assets increased by $13.7 million (60%) in 2011 growing from $22.7 million to $36.3 million due to revenue growth from positive operating results driven by cost containment, sales and services of auxiliary enterprises, favorable investment returns, and the reclassification of restricted funds (Digardi-Hall).

Total net assets for 2013 were $154 million for 2013, an increase of 5%. In 2012, total net assets were $146 million, an increase of $1.6 million (1%) over 2011. Total net assets closed the 2011 year at $144 million, an increase of $12.4 million (9%) over 2010.

Results of Operations

The Statement of Revenues, Expenses and Changes in Net Position presents UC Hastings' operating results, as well as the non-operating revenues and expenses. Operating revenues primarily include net student tuition and fees, grants and contracts, and auxiliary activities. Given a public institution's dependency on revenues such as state appropriations, gifts and investment income, which are prescribed by GASB as non-operating revenues, operating expenses will always exceed operating revenues resulting in an operating loss. Net non-operating revenues or expenses are an integral component in determining the increase or decrease in net position.

For 2013, the College (with the Foundation) benefited from strong investment returns on funds managed by the University of California; the General Endowment Pool (GEP) experienced total returns of 11.63 percent resulting in net unrealized investment gains of $3.6 million, and realized gains from the sale of GEP shares for cash to support the 2003 bond defeasance added $2.5 million. Increased state appropriations and a strong fundraising year, in concert with containment of staff salary expense, also were contributing factors to the favorable overall outcome.

From an operations perspective, the greatest challenge to financial management and a pro-active agenda of institutional growth and improvement is the chronic uncertainty over state funding levels. Planning is impaired when state funding levels are unknown due to the inability to enact state budgets on a timely manner and, even once the budget is enacted, the threat of midyear budget reductions looms. While the State of California's fiscal condition has stabilized, prudence necessitates a conservative approach to allocating revenues.

In 2012, financial performance was also positive. After absorbing a -$1.2 unrealized loss on investments and -$448,000 realized loss from the sale of investments, the College closed the year with operating income of $399,000. For comparison purposes, after removing the realized and unrealized change on investments from the revenue figures, net income equated to 3.6% of total revenue in 2012, and 5.9% in 2011. In 2011, with the inclusion of $6.7 million in unrealized net gain and $447,000 in realized gain on investments as of June 30, 2011, the College (with the Foundation) closed the year with net income of $10.5 million**.**

University of California Hastings College of the Law

Management Discussion and Analysis
(Unaudited)

Condensed Statement of Revenues, Expenses and Changes in Net Position
For the years ended June 30, 2013, 2012 and 2011 (in thousands)

	Operating		Non-operating		2013	2012	2011
	College	Foundation	College	Foundation	Total	Total	Total
REVENUES:							
Tuition and Fees, net of grants & scholarships ($14.8 million)	$34,697				$34,697	$ 34,693	$ 33,457
State Appropriations			$8,027		8,027	7,091	8,518
Grants and Contracts	816				816	602	405
Auxiliary Enterprises	7,737				7,737	7,764	7,584
Private Gifts		$2,025	4,461		6,486	4,835	3,258
Investment Income			910	20	930	1,046	1,178
Realized/Unrealized Gain (Loss) on Investments			6,187	37	6,224	(1,679)	7,207
Other Revenues	531	1			532	1,045	1,042
Loan Interest, net of expense	219				219	340	380
Total revenues	44,000	2,026	19,585	57	65,669	55,738	63,029
EXPENSES:							
Salaries and Benefits	33,517				33,517	32,567	31,217
Auxiliary Enterprises	5,823				5,823	5,765	5,780
Utilities	853				853	794	816
Supplies and Services	9,313	13			9,326	8,090	8,040
Depreciation	2,304				2,304	2,304	2,213
Scholarships and Fellowships	708				708	605	578
Grants to UC Hastings		2,383			2,383	1,842	602
Interest on Debt			1,652		1,652	1,379	1,399
Events		17			17	12	20
Other	2,471	50			2,521	1,981	1,843
Total expenses	54,989	2,463	1,652	-	59,104	55,339	52,508
Operating Income (Loss)	$(10,989)	$ (437)	$ 17,933	$ 57	$6,564	399	$ 10,521
OTHER CHANGES IN NET POSITION:							
Capital Grants and Gifts					$ 100	$ 110	$ 445
Other Changes in Endowments					1,203	1,123	1,466
Total other changes in net position					1,303	1,233	1,911
Increase in Net Position					$ 7,867	$ 1,632	$ 12,432

Revenues

The College's instructional program is primarily supported by a combination of net tuition and fees and state appropriations; these revenues represent 72% of total operating and nonoperating revenues (excluding realized and unrealized gain on investments). For 2013, net tuition and fees and state appropriations totaled $42.7 million, representing a $939,000 (2.2%) increase from 2012. This was a favorable result in light of the revenue implications of the class size reduction program amplified by the graduation in 2012 of a "bulge" class: there were 118 fewer (-9.4%) JD students in 2013 compared to 2012. The revenue loss from the planned decrease in enrollment was offset by increased student fees (15%) and increased state appropriations ($935,000, or 13%).

In 2012, the sum of these revenue sources totaled $41.8 million; substantially unchanged as the decrease in state appropriations of $1.4 million was substantially offset by net new student fee revenue of $1.2 million.

2013 was a strong fundraising year. Contributions, capital grants and gifts, and gifts of endowment and other changes to endowments (reflected in other changes in net assets) accounted for in the general ledger (i.e., excluding revocable giving and small pledges below accounting thresholds) totaled $6.6 million. The comparable figure for 2012 was $4.5 million primarily attributable to the gift of $1 million for the Abramson '54 Distinguished Professor of Law endowment.

After excluding $6.2 million of realized and unrealized gain/loss on investments, total revenues increased by $2 million (3.5%) from the comparable figure for 2012. The primary drivers of this growth in order of importance were private gifts and state appropriations.

After including $1.3 million in other changes in net assets (capital gifts and grants and gifts and other changes in endowments), a $7.9 million gain was experienced in 2013. For 2012 and 2011, gains of $1.6 and $12.4 million were experienced.

Expenses

For 2013, for the College on an overall basis, total operating expense grew by $3.8 million, or 6.8%. Of this amount, salaries and benefits increased by $950,000, or 2.9%. Academic hiring for 2012-13 resulted in three new faculty; faculty stipends and separation pay also were contributory factors. Employee compensation adjustments arising from collective bargaining agreements with the American Federation of State, County and Municipal Employees (AFSCME) were also cost drivers – specifically the cumulative effect of a 2.5% general salary increase effective December 1, 2011, and an additional 2.5% increase effective July 1, 2012. These adjustments were also given to non-represented staff including faculty. Employer contributions to the UC Retirement Program increased by $747,000. Staff growth, partially eroding savings derived from the 2011 lay-offs and staff restructuring, occurred in formation of the new Graduate Division.

Also significant for 2013, costs for supplies and services increased by $1.2 million (15%). This increase was the result of cost increases in several areas including consultants, legal fees, printing and software. This line also reflects the new endowment management fee assessed beginning on July 1, 2012..

In 2012, total expenses increased by $2.8 million (5.4%). The primary cost driver was an additional $952,000 for employer share contributions to the UC Retirement Program. The resumption of employer share contributions after a twenty year hiatus (the "contribution holiday") continue to impose a considerable cost burden. Costs have increased from $932,000 in 2011 to an expected $2.8 million in 2014. The next most significant cost change was an increase of $470,000 (3%) for staff salaries and benefits, a function of a mid-year 2.5% salary increase (effective December 2011) and one-time separation payments for staff affected by the reorganization.

In 2011, total expenses increased by $1.8 million (3.6%) growing from $50.7 million in 2010 to $52.5 million. Faculty salary cost increased by 4% due to the hiring of two new professors and an increase in the number of faculty on sabbatical leave from the prior year. The hiring of new faculty did allow for savings of $262,000 in visiting faculty which are included in the supplies and services category. Staff salary cost increased by 2.5% as a function of new staffing for the UCSF-UC Hastings Health Law Consortium and grant funded research centers and the utilization of additional graduate research fellows. Benefits cost increased by $901,000 (20%) for employer contributions to the UC Retirement Program. The other expense category increased by $395,000 as a function of higher levels of employment related settlement costs, bad debt allowances, and speaker honorariums.

As shown in the 2013 Condensed Statement of Revenues, Expenses and Changes in Net Position the College closed the fiscal year with net income of $6.5 million (before other changes in net position).

Cash Flows

The statement of cash flows provides information about cash receipts and cash payments during the year. This statement also helps users assess the College's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing.

	College (In thousands)			Foundation (In thousands)		
	2013	2012	2011	2013	2012	2011
Cash Provided (Used) By:						
Operating activities	$ (7,661)	$ (5,195)	$ (4,321)	$ (370)	$ 325	$ (22)
Non capital financing activities	13,101	10,907	10,826			
Capital and related financing activities	(9,953)	(3,405)	(4,404)			
Investing activities	1,831	(395)	(5,925)	29	10	21
Net increase (decrease) in cash	(2,682)	1,912	(3,824)	(341)	335	(1)
Cash - Beginning of Year	15,359	13,447	17,271	477	142	143
Cash - End of Year	$ 12,677	$ 15,359	$ 13,447	$ 136	$ 477	$ 142

As required under GASB reporting standards, negative cash flow for 'operating activities' is due to the classification of revenue from state general support appropriations as a 'noncapital financing activity' and investment income as an 'investing activity.'

Positive cash flow changes in 2013 were primarily evidenced in the noncapital financing activities category, mainly a function of a good fundraising year with year-over-year growth of $2 million. Changes in negative cash flow were most pronounced in loans issued to students with an added $2.2 million ($3.9 million to $6.1 million of net disbursements), a function of high cash balances due to high level of loan consolidation activity. Capital and related financing activities saw greater levels of negative cash flow given the defeasance of the Series 2003 bonds.

In 2012, as in 2011, cash flows from operating activities were benefitted from increased student fees (generating an additional $1.2 and $2.5 million, respectively) and increased revenues from auxiliary enterprises. While 2012 saw a modest increase in non capital financing activities, the reduction in cash flow for non capital financing activities in 2011 from 2010 is primarily the $800,000 reduction in state support.

Looking Forward

While the operations of UC Hastings' academic program and the revenue flows supporting it are strong, the primary challenge moving forward is the need to develop alternative revenue flows to fully offset the reduction in JD enrollment, a challenge that will become most pronounced when the third and final tranche of the phased-in reduction occurs in Fall 2014 (fiscal year 2015).

- **State of California - Multiyear Stable Funding Plan**

  The Governor has established a Multiyear Stable Funding Plan (the Plan) for higher education. It provides new funds to reinvest in public universities and colleges, with the expectation that they will improve the quality, performance, and cost effectiveness of their educational systems. The plan is rooted in the belief that higher education should be affordable and student success can be improved. A key element to this plan is the Governor's commitment to provide funding stability. The plan increases the General Fund contribution to the University of California, California State University and Hastings College of the Law by 5% annually. This represents a four-year commitment in which each segment will receive up to a 20 percent increase in General Fund appropriations, representing about a 10% increase in total operating funds including tuition and fee revenues.

  Affordability is a key goal of the Plan so that students can avoid high student debt and tuition levels. To this goal, the Governor has communicated an expectation of a freeze on resident tuition and system-wide fees.

- **JD Class Size Reduction Plan**

  The fiscal year 2013-14 operating budget is balanced: operating revenues supporting the College's core instructional and educational program (funded primarily from state appropriations and student fees) are aligned with ongoing operating expense. The current year budget also includes investments in technology and other one-time allocations funded from budgetary savings realized in fiscal year 2012-13. With the fiscal year 2013-14 budget, two out of three years of the planned reduction in JD class size will have been implemented and the fiscal ramifications of reducing enrollment over 160 JD students (-20%) cumulatively over two years will have been successfully managed. Clear challenges remain ahead upon implementation of the third and final tranche, a further reduction of 80 JD students, in academic year 2014-15, but to-date efforts to manage the revenue implications have been a success. Detailed financial models are periodically revised to reflect current realities and changing factors and multiyear planning continues to address the resulting reduction in student fee revenues prescribed by the College's strategic plan.

- **University of California Retirement Program (UCRP)**

  A development that has impacted the College's finances was the resumption of employer contributions to the University of California Retirement Program (UCRP) that began in April 2010. In the past, UC Hastings, along with the University of California, had been in the enviable position of having all of its retirement costs funded by investment gain. From 1990 to 2010, the University's and UC Hastings' contribution rate to the UCRP had been zero. In addition, since 1990, most of the required employee member contributions to the UCRP were redirected to the separate defined contribution plan maintained by the University. The Regents updated the funding policy for UCRP to provide for a targeted funding level of 100 percent over the long term, and for University and UCRP member contributions at rates necessary to maintain that level within a range of 95 percent to 110 percent. The University has implemented a multi-year contribution strategy under which shared employer and employee contribution rates increase gradually over time to approximately 27 percent of covered compensation, based upon UCRP's current normal cost. For 2010 and 2011, the employer's cost was 4% of covered payroll. In 2012, the employer's contribution increased to 7.7% and in 2013 to 10.6% with 2% annual increases until the rate is projected to stabilize at around 15%. These costs have been factored into the College's 5-Year Budget Model. The Regents approved increasing employee member and employer contributions to 8.0 percent and 14.0 percent, respectively, in July 2014. These contribution rates are below UCRP's total funding requirements.

  The Regents also approved a new tier of pension benefits applicable to employees hired on or after July 1, 2013, which increased the early retirement age from 50 to 55, but retain many of the current features of UCRP. The new tier would not offer lump sum cash outs, inactive member Cost of Living Adjustments (COLAs) or subsidized survivor annuities for spouses and domestic partners. These changes are subject to collective bargaining for union-represented employees.

- **Post-Employment Retirement Benefits**

  UC Hastings also provides its retirees, survivors and other eligible family members' post-employment medical and health and welfare benefits. In 2008, the University of California Retiree Health Benefit Trust ("UCRHBT") was created. The UCRHBT was established to allow certain University of California locations and affiliates (Campuses, Medical Centers and UC Hastings) 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.

  Currently, the University does not pre-fund retiree health benefits and instead provides for benefits on a pay-as-you-go basis. If pre-funding occurs in the future, the UCRHBT will be used as the vehicle for those assets. The retiree health assessment for the fiscal year ending June 30, 2013 was 1.97% of UCRP covered payroll. The rate for 2013-14 is 2.46%.

The actuarially determined Normal Cost, that portion of the Total Present Value of Future Benefits attributed to employees' service was $1.1 million for the fiscal year ending June 30, 2011. Adding to this amount is $2.8 million in annual payments to amortize the Unfunded Actuarial Accrued Liability to arrive at an Annual Required Contribution for UC Hastings of $3.9 million. GASB 68 (effective fiscal year 2015) requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

- **Capital Campaign**

  2012 marked the launch of the UC Hastings Capital Campaign. The initial three-year quiet phase of this seven-year initiative is underway with an overall campaign goal of $50 million supporting a wide array of activities from scholarships and research chairs to more traditional brick and mortar capital projects. Efforts to-date have focused on working closely with the UC Hastings Foundation Trustees to (1) create a new initiative to solicit planned gifts and attract cy pres awards and (2) cultivate a culture of pride and philanthropy through a new alumni honors program. Both programs will become fully functional in 2013. In the meantime, prospect portfolios for development staff have been developed and a fundraiser training program was launched to support staff in realizing increased activity. Creative ways of increasing the attractiveness of and attendance at UC Hastings alumni events have been developed and will continue to be developed. Event attendance is viewed as a key component of developing a stronger pipeline of potential "public phase" campaign support.

Although the legal education marketplace continues to be extraordinarily challenging, UC Hastings has had another year of adaptation. The trends in the marketplace appear to be more permanent than temporary, requiring law schools to change but also offering opportunities to those that choose to embrace change.

The College's decision to make a significant reduction to our entering JD class size is turning out, as anticipated, to be vital to every initiative for improving the College. The decision was strategic, accompanied by corresponding structural modifications, and is reflective of Hastings' commitment to institutional excellence.

University of California Hastings College of the Law

Statement of Net Position

June 30, 2013 and 2012

	2013		2012	
	College	Foundation	College	Foundation
Assets				
Current Assets:				
Cash and cash equivalents (Note 3)	$ 10,744,348	$ 136,015	$ 12,350,253	$ 476,804
Restricted cash and cash equivalents (Notes 2 and 3)	1,932,626		3,008,957	
Accounts receivable, net	2,817,165		1,931,090	
Current portion of notes receivable (Note 5)	1,220,298		1,267,589	
Pledges receivable, net		65,837		108,750
Prepaid expenses and other assets	50,059	21,095	341,495	
Total current assets	16,764,496	222,947	18,899,384	585,554
Noncurrent Assets:				
Endowment investments (Notes 4 and 10)	23,772,991	374,356	21,887,908	347,041
Other long-term investments (Note 4)	34,821,467	12,721	31,434,289	11,201
Notes receivable, net (Note 5)	14,073,830		12,555,134	
Pledges receivable, net		115,500		160,355
Assets held by others (Note 6)	7,665,997		7,209,641	
Capital assets, net (Note 7)	94,873,953		97,270,353	
Prepaid expenses and other assets	428,244		755,951	
Total noncurrent assets	175,636,482	502,577	171,113,276	518,597
Total assets	$ 192,400,978	$ 725,524	$ 190,012,660	$ 1,104,151
Liabilities				
Current Liabilities:				
Accounts payable and accrued liabilities	$ 5,566,263	370	$ 3,563,042	
Accrued vacation	707,910		791,339	
Deposits	367,128		492,611	
Deferred revenues	874,081		780,531	
Current portion of long term debt (Note 8)	570,000		775,000	
Total current liabilities	8,085,382	370	6,402,523	$ -
Noncurrent Liabilities:				
Bonds payable (Note 8)	22,359,770		29,807,547	
Accrued vacation	403,173		470,009	
Revolving fund advance from the State	784,900		811,900	
Federal contributions to Perkins loan fund	7,506,962		7,506,962	
Total noncurrent liabilities	31,054,805	-	38,596,418	-
Total liabilities	39,140,187	370	44,998,941	-

The accompanying notes are an integral part of this statement.

University of California Hastings College of the Law

Statement of Net Position

June 30, 2013 and 2012

	2013		2012	
	College	Foundation	College	Foundation
Net Position				
Net investment in capital assets	71,944,184		66,990,496	
Restricted for				
Nonexpendable:				
Scholarships and fellowships	13,310,485		12,477,929	
Instruction and research	5,898,480		5,524,032	
Academic support				
Institutional support	250,000	178,755	250,000	178,755
Sub-total restricted, nonexpendable	19,458,965	178,755	18,251,961	178,755
Expendable:				
Student services	108,248		95,607	
Instruction and research	5,766,889		4,479,347	
Public and professional service	124,066		148,585	
Institutional support	214,412	389,145	168,027	284,799
Capital projects	432,627		364,559	
Scholarships and fellowships	8,764,930		7,489,393	
Perkins loan funds	8,045,656		7,873,033	
Other	104,295		97,752	
Sub-total restricted, expendable	23,561,123	389,145	20,716,303	284,799
Unrestricted	38,296,519	157,254	39,054,959	640,597
Total net position	153,260,791	725,154	145,013,719	1,104,151
Total liabilities and net position	$ 192,400,978	$ 725,524	$ 190,012,660	$ 1,104,151

The accompanying notes are an integral part of this statement.

University of California Hastings College of the Law

Statement of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2013 and 2012

	2013		2012	
	College	Foundation	College	Foundation
Revenues:				
Operating revenues:				
Tuition and fees	$ 49,531,621		$ 47,937,852	
Less: Hastings' grants	(13,800,337)		(12,168,634)	
Less: Tuition and fee scholarships	(1,034,213)		(1,076,235)	
Tuition and fees, net	34,697,071		34,692,983	
Contributions, capital campaign		$ 2,025,037		$ 2,156,565
Government grants and contracts	593,942		436,895	
Private grants and contracts	221,797		165,207	
Sales and services of auxiliary enterprises	7,737,196		7,764,397	
Other operating revenues	531,635	1,480	1,044,895	
Loan interest, net of expenses	45,939		43,146	
Federal Perkins loan interest	172,623		296,637	
Total operating revenues	44,000,203	2,026,517	44,444,160	2,156,565
Expenses:				
Operating expenses:				
Salaries and wages:				
Faculty	12,804,538		11,698,051	
Non-Faculty	13,673,919		14,365,775	
Benefits	7,039,112		6,502,192	
Scholarships and fellowships	707,853		605,081	
Auxiliary enterprises, including depreciation expense of $957,010 ($960,833 in 2012)	5,823,113		5,765,301	
Utilities	853,119		794,477	
Supplies and services	9,312,796	12,900	8,085,144	5,075
Depreciation, excluding auxiliary enterprise portion	2,303,606		2,303,655	
Events		16,971		11,559
Grants		1,334,533		1,660,576
Block grant - allocation to the College		1,049,000		181,728
Other	2,470,872	50,018	1,981,385	
Total operating expenses	54,988,928	2,463,422	52,101,061	1,858,938
Operating income (loss)	(10,988,725)	(436,905)	(7,656,901)	297,627
Nonoperating Revenues (Expenses):				
State operating appropriations	8,027,024		7,091,901	
Gifts, capital campaign	1,673,848		1,760,424	
Gifts, noncapital	1,737,902		736,573	
Investment income	910,003	20,559	1,029,683	16,204
Realized and unrealized net gains (losses) on investments	6,187,561	37,349	(1,652,976)	(25,937)
Interest on debt	(1,652,195)		(1,378,972)	
Block grant - allocation from the Foundation	1,049,000		181,728	
Net nonoperating revenues	17,933,143	57,908	7,768,361	(9,733)
Income (loss) before other changes in net assets	6,944,418	(378,997)	111,460	287,894
Other Changes in Net Position:				
Capital grants and gifts	99,947		110,443	
Endowed gifts, capital campaign	179,043		116,085	
Gifts and other changes to endowment	1,023,664		1,006,585	
Total other changes in net position	1,302,654	-	1,233,113	-
Increase (Decrease) in Net Position	8,247,072	(378,997)	1,344,573	287,894
Net Position, beginning of year	145,013,719	1,104,151	143,669,146	816,257
Net Position, end of year	$ 153,260,791	$ 725,154	$ 145,013,719	$ 1,104,151

The accompanying notes are an integral part of this statement.

University of California Hastings College of the Law

Statement of Cash Flows

Years Ended June 30, 2013 and 2012

	2013		2012	
	College	Foundation	College	Foundation
Cash Flows from Operating Activities:				
Tuition and fees (net of all scholarships and grants)	$ 34,069,220		$ 34,157,903	
Contributions		$ 2,064,267		$ 1,168,080
Grants and contracts	815,739		602,102	
Events		(16,601)		(13,044)
Payments to vendors	(10,310,882)	(33,996)	(12,179,519)	(5,075)
Salaries and benefits	(33,517,569)		(32,566,018)	
Foundation awards		(2,383,533)		(825,304)
Loans issued to students	(6,054,874)		(3,898,356)	
Collections of student loans	4,512,406		4,463,876	
Sales - Auxiliary enterprises	7,737,196		7,764,397	
Expenses - Auxiliary enterprises	(4,866,104)		(4,804,469)	
Loan interest income net of expenses	218,561		339,783	
Other receipts (payments)	(264,392)		925,248	
Net cash (used) provided by operations	(7,660,699)	(369,863)	(5,195,053)	324,657
Cash Flows from Noncapital Financing Activities:				
State appropriations	7,973,358		8,022,881	
Gifts for endowment	746,351		425,491	
Other gifts	4,380,750		2,459,177	
Net cash provided by noncapital financing activities	13,100,459	-	10,907,549	-
Cash Flows from Capital and Related Financing Activities:				
Capital gifts				
Purchases of capital assets	(894,677)		(1,290,163)	
Amortization of bond(premium)/discount	57,223		(26,134)	
Principal paid on long term debt	(775,000)		(735,000)	
Interest paid on long, term debt	(1,405,466)		(1,354,017)	
Defeasance of bond	(6,935,000)			
Net cash used by capital and related financing activities	(9,952,920)	-	(3,405,314)	-
Cash Flows from Investing Activities:				
Proceeds from sale of investments	7,708,131		338,862	
Interest on investments	187,897	29,074	231,247	9,588
Purchase of investments	(6,065,104)		(964,809)	
Net cash provided (used) by investing activities	1,830,924	29,074	(394,700)	9,588
Net (Decrease) Increase in Cash and Cash Equivalents	(2,682,236)	(340,789)	1,912,482	334,245
Cash and Cash Equivalents, beginning of year	15,359,210	476,804	13,446,728	142,559
Cash and Cash Equivalents, end of year	$ 12,676,974	$ 136,015	$ 15,359,210	$ 476,804

The accompanying notes are an integral part of this statement.

University of California Hastings College of the Law

Statement of Cash Flows

Years Ended June 30, 2013 and 2012

	2013		2012	
	College	Foundation	College	Foundation
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	$ (10,988,725)	$ (436,905)	$ (7,656,901)	$ 297,627
Depreciation and amortization	3,260,616		3,264,487	
Allowance for doubtful accounts	673,609		(1,468)	(1,000)
Loss on disposal of capital assets	100,535		91,480	
Noncash scholarship expense	80,000		70,000	
Changes in operating assets and liabilities:				
Accounts receivable, net	(1,437,703)		(283,078)	
Pledges receivable		87,767		29,515
Notes receivable	(1,542,468)		565,520	
Accounts payable	2,084,200	370	(1,531,647)	(1,485)
Deposits	(125,483)		(47,926)	
Deferred revenue	93,549		212,825	
Prepaid expenses and other assets	291,436	(21,095)	117,000	
Accrued vacation	(150,265)		4,655	
Net cash (used) provided by operations	$ (7,660,699)	$ (369,863)	$ (5,195,053)	$ 324,657
Noncash Transactions:				
Scholarships from assets held by others	$ 80,000		$ 70,000	
Gifts in kind	99,947		110,443	
Stock gift proceeds directly invested in endowment long-term investments			1,000,000	
Components of Cash and Cash Equivalents:				
Current, cash and cash equivalents	10,744,348	$ 136,015	12,350,253	$ 476,804
Current, restricted cash and cash equivalents	1,932,626		3,008,957	
Total, Cash and Cash Equivalents, end of year	$ 12,676,974	$ 136,015	$ 15,359,210	$ 476,804

The accompanying notes are an integral part of this statement.

Note 1 - Organization:

University of California, Hastings College of the Law (the "College" or "Hastings") was established as the law department of the University of California in 1878. The College, established by the California Legislature with its own Board of Directors, has operated independently of the Board of Regents of the University of California since its founding. The Board of Regents possesses degree-granting authority, but all other aspects of the College are under control of the College's Board of Directors. The College is a charter member of the Association of American Law Schools and is fully accredited by the American Bar Association. The College is also accredited by the Western Association of Schools and Colleges (WASC).

The UC Hastings Foundation (the Foundation), formerly known as the 1066 Foundation, was established in 1971 by a group of alumni in order to provide private sources of funds to allow academic programs to grow and to create unique opportunities exclusively at Hastings.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting

The financial statements of the College and the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements as promulgated by the Governmental Accounting Standards Board ("GASB"). In accordance with GASB Statement No. 62, the College and the Foundation have incorporated certain accounting and financial reporting guidance included in the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure (collectively, referred to as the “FASB and AICPA pronouncements”), which were issued on or before November 30, 1989, and which do not conflict or contradict GASB pronouncements.

The College and the Foundation considers assets to be current that can reasonably be expected, as part of its normal business operations, to be converted to cash and be available for liquidation of current liabilities within twelve months of the date of the Statement of Net Position. Liabilities that reasonably can be expected, as part of the College’s and Foundation’s normal business operations, to be liquidated within twelve months of the date of the Statement of Net Position are considered to be current. All other assets and liabilities are considered to be non-current; with the exception of those amounts that are required to be reported as deferred outflows or inflows of resources.

The College and the Foundation follows GASB 63 which provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The standard defines deferred outflows or inflows of resources as transactions that result in the consumption or acquisition of net assets in one period that are applicable to future periods. As of June 30, 2013 and 2012, the College and the Foundation did not enter into transactions that meet the definition of deferred outflows or inflows of resources.

GASB Statement No. 39, *Determining Whether Certain Organizations Are Component* Units and is further clarified by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which clarifies the concept of what a major component unit is. Major component units are determined based on the nature and significance of their relationship to the primary government. This determination would generally be based on any of the following factors: (a) the services provided by the component unit to the citizenry are such that separate reporting as a major component unit is considered to be essential to financial statement users, (b) there are significant transactions with the primary government, or (c) there is a significant financial benefit or burden relationship with the primary government. The GASB's require the College's legally separate, tax-exempt, affiliated campus foundation to be considered a component unit of the College and presented discreetly in the College's financial statements due to the nature and significance of the Foundation's relationship with the College.

b. Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and pooled cash invested in the University of California Office of the Treasurer's Short Term Investment Pool ("STIP"), since such amounts are readily convertible to known amounts of cash. All cash and cash equivalents are carried at cost, which approximates market value.

c. Legally Restricted Cash Balances

The College holds legally restricted cash balances totaling $1,932,626 and $3,008,957 at June 30, 2013 and 2012, respectively. Restricted cash of $1,845,936 and $2,992,971 for 2013 and 2012, respectively, relates to the Federal Perkins student loan program. The remaining funds of $86,690 and $15,986 at June 30, 2013 and 2012, respectively, relate to institutional loan funds. These balances are recorded in restricted cash and cash equivalents.

d. Receivables

Accounts receivable include amounts due from the federal work-study program, students, other receivables, and receivables from the State of California for current year general appropriations and lottery funds of $1,464,530 and $1,345,158 as of June 30, 2013 and 2012, respectively.

e. Investments

The College's shares in the University of California Office of the Treasurer Investment pools reflect the fair value of the underlying investments of the pools. The fair values of the underlying investments of the pools are valued based on quoted market prices or appraisals and independent evaluations for partnerships. Investment income, realized and unrealized gains and losses are reflected in the restricted expendable and unrestricted net assets respective to the source of invested funds.

f. Inventories

Inventories consist of items maintained at the bookstore and are valued at the lower of cost or market. Books repurchased from students are recorded at the lower of cost of repurchase or market and books purchased from publishers are recorded at the lower of cost or market.

g. Prepaid Expenses

Prepaid expenses primarily consist of bond issuance costs related to the bond offering. These costs are being amortized over 30 years, the life of the bonds.

h. Pledges

Pledges of private gifts to the Foundation to be received in the future are recorded as pledges receivable and revenue in the year promised. Endowment pledges are treated in accordance with GASB 33 and are recognized as revenue once the proceeds are received.

The allowance for uncollectible pledges is calculated based on ten percent of all pledge balance in which scheduled pledge payments are past due for twelve months. Management’s estimation of the uncollectible pledge amount is based on past collection experience, current conditions and specific identification of accounts with known uncertainty.

i. Capital Assets

Land and improvements, buildings and improvements, equipment, and libraries and collections of works of art are stated at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. Significant additions, replacements, major repairs and renovations are generally capitalized if the cost exceeds $10,000; equipment and furniture are capitalized if the cost exceeds $5,000 and they have a useful life of more than one year. Minor renovations are charged to operations, as incurred.

Depreciation is calculated using the straight-line method over the estimated economic useful lives of the assets.

Estimated economic lives are generally as follows:

Land improvements	20 years
Buildings	50 - 75 years
Building improvements	30 years
Furniture and Equipment	5 - 15 years
Computer software	10 years
Library books and materials	15 years

Inexhaustible capital assets such as land, special collections that are protected, preserved and held for public exhibition, education or research, and intangible assets of indefinite life, are not depreciated.

j. Deposits

Deposits include amounts received in advance of being earned for the following: rental of various College facilities, non-student library usage, and payments from employers who have hired students with federal work-study grants. Deposits on work-study wages and the library are fully refundable. Deposits are recognized as revenue when earned.

k. Deferred Revenues

Deferred revenues primarily represent enrollment deposits and deposits related to the on-campus interview program along with revenue invoiced for the new Summer Session program. Deferred revenues are recognized when earned, generally in the following fiscal year.

l. Revolving Fund Advance from the State of California

The revolving fund advance from the State is an advance from the College's general appropriation from the State of California. It is expected that the revolving fund advance will be renewed annually; hence, the entire amount has been classified as a noncurrent liability.

m. Federal Contributions to the Perkins Loan Fund

The noncurrent liability of the federal contributions to the Perkins loan funds consists of the federal capital contribution net of the principal and interest assigned to the Department of Education and the administrative cost allowance. All other activity associated with the Federal Perkins loan program is reflected in Restricted, Expendable Net Assets, and Perkins loan funds.

n. Net Position

The College's 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 College's capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The portion of the debt attributable to unspent proceeds is excluded from the calculation, in accordance with GASB 34.

Restricted

The College and the Foundation classify assets resulting from transactions with purpose restrictions as restricted assets until the resources are used for the specific purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable

Assets subject to externally imposed restrictions that they be maintained in perpetuity by the College and the Foundation are classified as nonexpendable assets. Such assets include the College and the Foundation's permanent endowment funds.

Expendable

Assets whose use by the College and the Foundation are subject to externally-imposed restrictions by donors, grantors, creditors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation are classified as expendable net assets.

Unrestricted

This category includes assets of the College and the Foundation that are neither restricted nor invested in capital assets, net of related debt. Unrestricted net assets may be designated for specific purposes by the Board of Directors. Substantially all unrestricted net assets are allocated for instruction, institutional support, scholarship, student services, academic and research initiatives or for capital programs.

o. Revenues and Expenses

Operating revenues include receipts from student tuition and fees, grants and contracts for specific operating activities, and sales and services from education activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of the College and the Foundation are presented in the statement of revenues, expenses and changes in net assets as operating activities.

In accordance with GASB Statement No. 35, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the College and the Foundation are mandated to be recorded as nonoperating revenues, including state general appropriations, private gifts and investment income. Nonoperating revenues and expenses include State general appropriations (for the support of College operating expenses); private gifts for other than capital purposes, investment income, realized and net unrealized gains or losses on investments and interest expense. All grants expended by the Foundation are reflected by the College as either noncapital or capital gifts, or gifts for endowment.

Other changes in net assets include State capital appropriations, gifts for capital funds for specified purposes and gifts of endowments.

p. Student Tuition and Fees

All of the student tuition and fees provide for current operations of the College. Certain waivers of the student tuition and fees considered to be scholarship and financial aid grant allowances (i.e. tuition remission) are recorded as an offset to revenue. Tuition and fee revenue is recognized in the fall, spring and summer semesters of each year.

q. Scholarship Allowances

The College recognizes certain financial aid allowances (e.g., UC Hastings grants) and enrollment fee waivers as the difference between the stated charge for tuition and fees and the amount that is paid by the student, as well as third parties making payments on behalf of the student. Payments of financial aid and scholarships made directly to students from private gifts, donations and endowment income are classified as scholarship and fellowship expenses.

r. State Appropriations

The State of California provides appropriations to the College on an annual basis. State educational appropriations for the general support of the College are recognized as nonoperating revenue, however related expenses incurred to support either educational operations or other specific operating purposes are designated as operating expenses. State appropriations for capital projects are recorded as revenue under other changes in net assets when the related expenditures are incurred.

s. Use of Estimates

The preparation of financial statements in accordance 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

t. Reclassifications

Certain reclassifications have been made to the 2012 financial statements in order to conform to the 2013 presentation. These reclassifications had no impact on net position or the changes in net position.

u. New Accounting Pronouncements Adopted or Under Consideration

The GASB issued statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34 (December 2010)*, provides guidance on information presented about the financial reporting entity and its component units and amends the criteria for blending in certain circumstances. The statement is applicable for fiscal year June 30, 2013. The College implemented the guidance of this pronouncement and it did not have a significant impact on its financial statements.

The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre–November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations, 2) Accounting Principles Board Opinions, 3) and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The statement is applicable for fiscal year June 30, 2013. The College implemented the guidance of this pronouncement and it did not have a significant impact on its financial statements.

The GASB issued statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (June 2011)*, requires accounting changes should be applied retroactively by reclassifying the statement of net position and balance sheet information, if practical, for all prior periods presented. In the period GASB 63 is first applied, the financial statements should disclose the nature of any reclassification and its effect. The reason for not reclassifying statement of net position and related information for prior periods presented should be explained. The statement is applicable for fiscal year June 30, 2013. The College implemented the guidance of this pronouncement and it did not have a significant impact on its financial statements. See Note 2a for additional information.

The GASB issued statement No. 65, *Items Previously Reported as Assets and Liabilities (March 2012)*, this Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The statement is applicable for June 30, 2014. The College is currently assessing the impact of the statement if any.

The GASB issued statement No. 67, *replaces the requirements of GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and GASB Statement No. 50*, Pension Disclosures, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB 67 uses existing framework for financial reports of defined benefit pension plans, including a statement of fiduciary net position and a statement of changes in fiduciary net position. It enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. It also requires the presentation of information about annual money-weighted rates of return in the notes and in a 10-year required supplementary information schedule. The statement is applicable for fiscal year June 30, 2014. The College is currently assessing the impact of this statement, if any.

The GASB issued statement No. 68, *replaces the requirements of GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, and GASB 50*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB 68 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The statement is applicable for fiscal year June 30, 2015. The College is currently assessing the impact of this statement, if any.

Note 3 - Cash and Cash Equivalents:

Cash and cash equivalents at June 30, 2013 and 2012 consist of the following:

	2013		2012	
	College	Foundation	College	Foundation
Cash in banks and on hand	$ 2,978,267		$ 4,281,710	
Government money market	(1)		1	
Pooled cash included in STIP	9,698,708	$ 136,015	11,077,499	$ 476,804
Total cash and cash equivalents	$ 12,676,974	$ 136,015	$ 15,359,210	$ 476,804

The College and the Foundation follow the practice of pooling cash. The cash and cash equivalents pools allocate earnings based on the number of units held of the total on a monthly basis. The College and the Foundation utilize STIP, which is managed by the University of California Office of the Treasurer. STIP consists of money market and fixed income investments with a maximum maturity of five years. The objective of STIP is to maximize returns consistent with liquidity and cash flow needs. The College and the Foundation consider STIP to operate as a demand deposit.

At June 30, 2013 and 2012, respectively, the carrying amounts of the College's deposits were $2,978,266 and $4,281,711 and the bank balances were $3,280,504 and $4,496,748. Included in the government money market funds are the Series 2008 and 2003 bond funds of ($1) and $1, for June 30, 2013 and 2012. Of the bank balances for 2013, $341,374 was covered by federal depository insurance and $2,939,130 was uninsured but collateralized with securities held by a third-party financial institution in accordance with the State of California Government Code, but not in the College's name.

Note 4 - Investments:

The College and Foundation follow the investment philosophy of the University of California and invest their excess cash and long-term investments with the University of California Office of the Treasurer ("Office of the Treasurer"). Accordingly, all investments held by the Office of the Treasurer are uninsured and unregistered and are not held in the College's or Foundation's name. The College invests in the General Endowment Pool ("GEP") managed by the Office of the Treasurer. GEP consists primarily of equity securities that comprise between 23.5% to 43.5% of the pool with the balance invested in fixed income securities, 8% to 18% and alternative investments, 43.5% to 63%. The objective of GEP is to balance current income and capital appreciation objectives.

The College and the Foundation's share in the GEP's investments by type, at June 30, 2013 and 2012 are as follows:

	2013		2012	
	College	Foundation	College	Foundation
Public equity	$ 20,011,271	$ 128,035	$ 22,237,325	$ 149,400
Fixed income	6,678,638	42,731	7,630,294	51,263
Other investments	31,889,882	204,035	23,454,578	157,579
Total investments	$ 58,579,791	$ 374,801	$ 53,322,197	$ 358,242

Risk Profile of the Investments

Financial instruments that potentially subject the College and the Foundation to concentrations of credit risk consist principally of investments with the Office of the Treasurer, which may invest in cash equivalents, U. S. Government and federal agency obligations, common stocks, and corporate debt securities; the remainder of the Office of the Treasurer's portfolio is diversified and issuers of the securities are dispersed throughout many industries and geographies. 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. The College and the Foundation do not directly hold nor do they intend to purchase any of the more volatile types of derivative mortgage securities.

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. Certain fixed income securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

The Office of the Treasurer recognizes that credit risk is appropriate in balanced investment pools such as GEP, by virtue of the benchmark chosen for the fixed income portion of that pool. That fixed-income benchmark, the Citigroup Large Pension Fund Index (LPF) is comprised of approximately 30 percent high grade corporate bonds and 30 percent mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 40 percent are government-issued bonds. Credit risk in the GEP is managed primarily by diversifying across issuers and portfolio guidelines mandate that no more than 10 percent of the market value of fixed income may be invested in issues with credit rating below investment grade. Further, the weighted average credit rating must be "A" or higher.

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.

The Office of the Treasurer portfolio guidelines for the fixed and variable income portion of GEP limit weighted average effective duration to plus or minus 20 percent of the effective duration of the benchmark (Citigroup Large Pension Fund). This constrains the potential price movement due to interest rate changes of the portfolio to be similar to that of the benchmark. The effective durations of total investments of the College and the Foundation in the office of the Treasurer's GEP as of June 30, 2013 and 2012 were 5.41 and 5.23, respectively.

Foreign Currency Risk

The Office of the Treasurer's strategic asset allocation policy for GEP includes an allocation to non-US equities and bonds. These equity investments are not hedged, therefore foreign currency risk is an essential part of the investment strategy. Portfolio guidelines for fixed income securities also allow exposure to non-US dollar denominated bonds up to 10 percent of total the 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 investment policies, such instruments are not permitted for speculative use or to create leverage. The portions of total investments of the College and the Foundation in the Office of the Treasurer's GEP associated with various foreign currency denominations as of June 30, 2013 and 2012 were $12,875,249 and $11,872,186, respectively.

Note 5 - Notes Receivables:

Notes receivable of the College at June 30, 2013 and 2012 consists of the following:

	2013	2012
Federal Perkins and NDSL loans	$ 14,451,283	$ 13,006,407
O'Neill loans	1,122,750	1,129,664
Hastings loans	450,551	351,848
California Bar Preparation loans	73,092	67,291
Public Interest Career Assistance Program (PICAP) loans	1,775	1,775
Less: Allowance for doubtful accounts	(805,323)	(734,262)
	$ 15,294,128	$ 13,822,723

All loans, except PICAP and the California Bar Preparation loans, are payable over approximately 10 years following College attendance. Federal Perkins loans accrue interest at five percent. O'Neill loans made prior to July 1, 1996 are interest-free; and loans made July 1, 1996 or after accrue interest at five percent. Funding for the O'Neill Loan program is made by a private gift to the College. O'Neill loans are advanced to students who resided in Sacramento County. Hastings loans are also funded by private gifts to the College and accrue interest at five percent.

The PICAP loans are designed to aid and encourage the College students interested in working in public interest legal organizations or government agencies by assisting with repayment of qualifying, outstanding educational loans upon graduation.

To partially mitigate the disparity in salary between corporate employment and public interest law, the College is committed to supporting PICAP by ensuring that its loan repayment assistance is significant and meaningful. Borrowers confirm their eligibility every six months. Borrowers who do not continue their eligibility are required to begin repayment of their loans immediately. The PICAP loans accrue interest at five percent and are generally payable over five years.

Through gifts received from members of the College's Board of Directors and Faculty, the California Bar Preparation loans are used to assist Hastings graduates with academic need with the costs of bar review courses and living expenses while preparing for the California Bar Exam.

The allowance for doubtful accounts is based upon five percent of the outstanding balance of all loans. Management's estimation of the uncollectible notes receivable amount is based on past collection experience, current conditions and specific identification of accounts with known uncertainty.

Note 6 - Assets Held by Others:

Assets held by others represent the College's right to the perpetual income streams resulting from two irrevocable and perpetual trusts held by external trustees. The College's right to the income from these trusts is valued at the market value of the investments held by the trusts. One trust is administered by Deutsche Bank and the other by the Regents of the University of California ("UC"). Investment income of $80,000 and $70,000 for 2013 and 2012, respectively, was distributed by the external trustees to recipients of the Tony Patino Fellowship. The College has recorded the distributions as gift revenue and fellowship expenditures. The market value of the Tony Patino endowment was $2,953,978 and $2,803,590 as of June 30, 2013 and June 30, 2012, respectively.

In addition, UC holds seven endowments (not pursuant to irrevocable agreements) for which income is allocated to the College and recorded in the accompanying financial statements as nonoperating revenues, specifically as gifts, noncapital. The income generated from these endowments in fiscal 2013 and 2012 was $208,706 and $223,519, respectively. Income generated from three of these endowments has been designated by the donor to be distributed exclusively to Hastings' students. The market value of the three endowments held by UC is $4,418,972 and reflected in the College’s statement of net position as “Assets Held by Others” as of June 30, 2013 and $4,113,004 as of June 30, 2012. For the remaining four, the income allocated to Hastings conforms to the donors’ intent that endowment income be used for financial support of University of California law students. The market value of Hastings share of the remaining four endowments as of June 30, 2013 and 2012 is $722,889 and $668,189, respectively. These four endowments are not reflected on the College’s statement of net position.

Assets held by others also includes $108,499 held by the State Treasurer related to the Public Works Energy bonds both at June 30, 2013 and June 30, 2012 and $35,000 held as an interest account in Citizens Business Bank for workers' compensation payments at June 30, 2013 and June 30, 2012. In addition, assets held by others include the beneficial interest in a charitable remainder trust of $149,548.

Note 7 - Capital Assets:

The activities related to capital assets during fiscal 2013 and 2012 for the College are summarized below:

	2012	Additions/ Transfers	Disposals/ Transfers	2013
Original Cost:				
Land and improvements	$ 5,088,532			$ 5,088,532
Buildings	84,402,917			84,402,917
Building Improvements	32,590,321	$ 400,028		32,990,349
Equipment, furniture and fixtures	6,655,942	105,461	$ (177,179)	6,584,224
Software	721,501	371,860		1,093,361
Library books	15,082,721	295,202	(74,250)	15,303,673
Works of art	421,309			421,309
Construction in progress	307,748	294,239	(601,987)	
Capital assets at original cost	$ 145,270,991	$ 1,466,790	$ (853,416)	$ 145,884,365
Accumulated Depreciation:				
Buildings	(20,303,077)	(1,332,141)		(21,635,218)
Building Improvements	(10,461,195)	(1,136,290)		(11,597,485)
Equipment, furniture and fixtures	(4,444,808)	(372,270)	176,591	(4,640,487)
Software	(318,417)	(71,817)		(390,234)
Library books	(12,473,141)	(348,097)	74,250	(12,746,988)
Accumulated depreciation	(48,000,638)	(3,260,615)	250,841	(51,010,412)
Capital assets, net	$ 97,270,353	$(1,793,825)	$ (602,575)	$ 94,873,953

The activities related to capital assets during fiscal 2012 and 2011 for the College are summarized below:

	2011	Additions/ Transfers	Disposals/ Transfers	2012
Original Cost:				
Land and improvements	$ 5,584,735		$ (496,203)	$ 5,088,532
Buildings	84,606,714		(203,797)	84,402,917
Building Improvements	32,245,195	$ 345,126		32,590,321
Equipment, furniture and fixtures	6,388,192	305,169	(37,419)	6,655,942
Software	616,504	104,997		721,501
Library books	14,913,897	203,374	(34,550)	15,082,721
Works of art	391,309	30,000		421,309
Construction in progress		307,748		307,748
Capital assets at original cost	$144,746,546	$ 1,296,414	$ (771,969)	$145,270,991
Accumulated Depreciation:				
Buildings	(19,011,695)	(1,332,141)	40,759	(20,303,077)
Building Improvements	(9,342,213)	(1,118,982)		(10,461,195)
Equipment, furniture and fixtures	(4,047,191)	(435,036)	37,419	(4,444,808)
Software	(281,960)	(36,457)		(318,417)
Library books	(12,154,783)	(341,871)	23,513	(12,473,141)
Accumulated depreciation	(44,837,842)	(3,264,487)	101,691	(48,000,638)
Capital assets, net	$ 99,908,704	$ (1,968,073)	$ (670,278)	$ 97,270,353

Note 8 - Long-Term Debt:

Long-term debt of the College consists of the following at June 30, 2013 and 2012:

	2013	2012
Hastings College of the Law Series 2008 Bonds, due serially to 2037, with interest from 3.75% to 4.75% (average coupon rate of 4.53%)	$ 23,040,000	$ 23,590,000
Hastings College of the Law Series 2003 Bonds, due serially to 2033, with interest from 3.5% to 6.5% (average coupon rate of 4.29%)		7,160,000
Unamortized bond (premium)	(110,230)	(167,453)
Total bonds payable	$ 22,929,770	$ 30,582,547

The College issued the Series 2008 Bonds for $25,080,000 for the construction of the Hastings Parking Garage, and to reimburse the College for associated development costs. Located at 376 Larkin Street in San Francisco, California, the multi-level structure contains 395 parking stalls, and 12,612 square feet of ground-level retail space.

The College issued the Series 2003 Bonds for $8,600,000 for the renovation of the 100 McAllister Street building and to reimburse development costs for other capital projects. The College fully defeased these bonds April 2013.

The activity with respect to the College's current and noncurrent debt for the year ended June 30, 2013 and 2012 is as follows:

	Series 2008 Bonds	Series 2003 Bonds	Total
Current portion at June 30, 2012	$ 550,000	$ 225,000	$ 775,000
Principal payments in fiscal 2013	(550,000)	(225,000)	(775,000)
Reclassification from noncurrent	570,000		570,000
Current portion at June 30, 2013	$ 570,000	$ -	$ 570,000
Noncurrent portion at June 30, 2012 excluding unamortized bond (discount) premium	$ 23,040,000	$ 6,935,000	$ 29,975,000
Unamortized bond (discount) premium	(110,230)		(110,230)
Reclassification to current	(570,000)		(570,000)
Defeasance of Series 2003		(6,935,000)	(6,935,000)
Noncurrent portion at June 30, 2013	$ 22,359,770	$ -	$ 22,359,770

	Series 2008 Bonds	Series 2003 Bonds	Total
Current portion at June 30, 2011	$ 520,000	$ 215,000	$ 735,000
Principal payments in fiscal 2012	(520,000)	(215,000)	(735,000)
Reclassification from noncurrent	550,000	225,000	775,000
Current portion at June 30, 2012	$ 550,000	$ 225,000	$ 775,000
Noncurrent portion at June 30, 2011 excluding unamortized bond (discount) premium	$ 23,590,000	$ 7,160,000	$ 30,750,000
Unamortized bond (discount) premium	(89,276)	(78,177)	(167,453)
Reclassification to current	(550,000)	(225,000)	(775,000)
Noncurrent portion at June 30, 2012	$ 22,950,724	$ 6,856,823	$ 29,807,547

Principal and interest payments required to be made for each of the next five fiscal years and thereafter are summarized as follows:

	Principal	Interest	Total
2014	$ 570,000	$ 1,022,713	$ 1,592,713
2015	595,000	998,488	1,593,488
2016	620,000	973,200	1,593,200
2017	650,000	946,850	1,596,850
2018	675,000	919,225	1,594,225
2019-2023	3,800,000	4,178,038	7,978,038
2024-2028	4,645,000	3,328,756	7,973,756
2029-2033	5,790,000	2,180,206	7,970,206
2034-2037	5,695,000	692,075	6,387,075
	$ 23,040,000	$ 15,239,551	$ 38,279,551

Note 9 - Line of Credit:

In July 2010, the College established an unsecured revolving line of credit (LOC) of $5,000,000 for use as necessary in operations. The LOC had a fluctuating rate equal to the highest of the prime rate in effect on such day, a rate determined by the Bank to be 1.5% above Daily One Month Libor, and the Federal Rate plus one and one-half percent. The LOC also had a commitment fee of 0.45% on unused balances. The LOC was allowed to expire without renewal by the College on August 1, 2012.

Note 10 - Endowments:

The endowments held by the College at June 30, 2013 are as follows:

	Restricted Net Assets		Unrestricted	
	Nonexpendable	Expendable	Net Assets	Total
Endowments	$ 12,086,015	$ 6,707,266		$ 18,793,281
Funds functioning as endowments			$ 6,266,212	6,266,212
Endowment assets held by others	7,372,950			7,372,950
College's endowments	$ 19,458,965	$ 6,707,266	$ 6,266,212	$ 32,432,443

The endowments held by the College at June 30, 2012 are as follows:

	Restricted Net Assets		Unrestricted	
	Nonexpendable	Expendable	Net Assets	Total
Endowments	$ 11,335,367	$ 5,403,323		$ 16,738,690
Funds functioning as endowments			$ 5,778,313	5,778,313
Endowment assets held by others	6,916,594			6,916,594
College's endowments	$ 18,251,961	$ 5,403,323	$ 5,778,313	$ 29,433,597

During 2012, the College reclassified two endowments from restricted, non-expendable net assets (true endowment) to unrestricted net assets (quasi-endowments). The corpus and accumulated earnings reclassified totaled $4,612,784 for 2012. Following an extensive review of the gift devise, management concluded that these two funds were initially improperly classified as true endowments. Given the instructions of the College's Board of Directors to endow the gift, the funds were reclassified and are now reflected as quasi-endowments.

Endowments held by the Foundation at June 30, 2013 and 2012 are as follows:

	2013 Restricted Net Assets		2012 Restricted Net Assets	
	Nonexpendable	Expendable	Nonexpendable	Expendable
Foundation's endowments	$ 178,755	$ 195,601	$ 178,755	$ 168,286

The College'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 a maximum long-term total return. As a result of this emphasis on total return, the portion of the annual income distribution funded by dividend and interest income and by capital gains may vary significantly from year to year. 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 the College's programs. The College utilizes a total return spending policy governing the payout on endowed funds. Total return policies permit the expenditure of both current income and appreciation. The portion of investment returns earned on endowments held by the College and distributed each year to support current operations is based upon a payout rate that is approved by the Board of Directors. The payout rate for 2013 was 4.35% and 2012 was 4%, calculated on the 12-quarter average market value of endowed funds. Endowment income is available to meet spending needs, subject to donor terms and conditions and the approval of the Board. Net appreciation on investments of donor-restricted endowments is reflected in the above tables as restricted expendable net assets.

Generally, the College's practice is to spend restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. In addition, Endowment Net Assets reflects not only endowment investments but also cash gifted to endowments and not yet invested.

The total distribution from endowments was $840,780 and $756,210 for the years ended June 30, 2013 and 2012. $827,192 and $743,836 was distributed to the College, and $13,588 and $12,374 was distributed to the Foundation, for the years ended June 30, 2013 and June 30, 2012, respectively.

Effective July 1, 2012, the College instituted an endowment management fee of .35% to all eligible endowments. As a cost recovery measure, the funds recovered from the fee is used, in part to defray the cost of carrying out the terms of endowments and providing additional resources for the fundraising effort.

Note 11 - Retirement Benefits:

Substantially all College employees are participants in the University of California Retirement System ("UCRS"). UCRS consists of a basic plan, University of California Retirement Plan ("UCRP", a cost-sharing multiple-employer defined benefit plan), and several supplemental plans, including the University of California Defined Contribution Plan ("UCDCP"). The latest available actuarial and financial information for the plan is for the year ended June 30, 2011. UCRP issues a publicly available financial report that includes financial statements and supplemental information of the plans. That report is available by writing to UC Retirement System, P. O. Box 24000, Oakland, California, 94623.

Membership in UCRP is required for a career employee appointed to work at least 50% of the time for a year or more. Five years of service is required for vesting and to qualify for available retirement benefits. The amount of benefit is determined by salary rate, age and years of service. UCRP is funded by contributions from both the employer and employee. During the year ended June 30, 2009, employee contributions to the UCRP were redirected to the UCDCP. However, when contributions to UCRP resumed employee contributions were directed to UCRP.

The Regents' funding policy for the UCRP has been to establish annual contributions as a percentage of payroll by using the entry age normal actuarial funding method and based on designated State appropriations. The Regents have implemented a full funding policy. Under that policy, the Regents suspend contributions to the Plan when the market value or the actuarial value of Plan assets (whichever is smaller) exceeds the lesser of the actuarial accrued liability or 150% of the current liability plus normal cost. For the year ended June 30, 2013, the College contributed 10.8% ($2,620,424) of the applicable monthly gross salary. For the years ended June 30, 2012 and 2011, the College Contributed 7.68% in 2012 and 4% in 2011 ($1,872,880 for 2012 and $991,744 for 2011) of the applicable monthly gross salary. Employee contributions in fiscal 2013 were 5% of the gross salary, and will be 6.5% of gross salary in fiscal 2014. For UCRP eligible employees, participation in UCDCP is mandatory and on a temporary basis in lieu of contribution to UCRP. Participation in other defined contribution plans (i.e., 403(b), tax deferred annuities) is optional. Commencing in fiscal 1993, ineligible UCRP employees began participating in UCDCP (Safe Harbor). In September 2004, eligible UCRP employees were offered participation in the 457(b) plan, which is a deferred compensation plan.

In addition to the benefits described above, participation in UCRP qualifies College employees for certain postretirement health care benefits. Refer to Footnote 12, Retiree Health Plan for more information.

Note 12 - Retiree Health Plan:

Plan Description. UC Hastings contributes to the University of California Retiree Health Benefit Trust (UCRHBT) (the Trust), a cost-sharing multiple-employer defined benefit, postemployment healthcare plan administered by The Regents of the University of California (the Regents). The Trust provides non-pension post-employment medical benefits and other health and welfare benefits to eligible retirees and their spouses, domestic partners, dependents and beneficiaries to retired University employees and retired employees of other employers affiliated with the University. Hastings contributes as an authorized affiliate.

The contribution requirements of the eligible retirees and the participating cost-sharing employers such as Hastings are established and may be amended by the University. Membership in the UCRP is required to become eligible for retiree health benefits. Contributions toward benefits are shared with the retiree. The University determines the employer's contribution. Retirees are required to pay the difference between the employer's contribution and the full cost of the health insurance. Retirees employed by Hastings prior to 1990 are eligible for the maximum employer contribution if they retire between the ages of 50 and 54 and have at least ten years of service credit, or if they retire at age 55 or later and have at least 5 years of service credit. Retirees employed by Hastings after January 1, 1990 or who were rehired after that date following a break in service of four or more consecutive months are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum employer contribution, increasing to 100 percent after 20 years of service.

Funding Policy. Section 4.5 provides that the Trust Administrator shall, in accordance with the applicable requirements of GASB, periodically determine each cost-sharing location's contractually required contributions and shall notify each cost-sharing location of the relevant contribution amount within a reasonable period after such determination. All contributions made to the Trust are irrevocable.

Participants are contractually required to make contributions at a rate assessed each year by the Trust. For fiscal year ending June 30, 2013, the assessed rate was 3.89 percent per $100.00 of UCRP covered compensation, and the rate for fiscal 2014 is 3.41 percent. The assessed rate for fiscal year 2012 was 3.68 percent. Currently, this rate is based on the projected "pay-as-you-go" financing requirements. The College's contributions to UCRHBT for the year ended June 30, 2013 were $626,061, which equaled the required contribution for the year; the amount the College paid for retiree costs for the year ended June 30, 2012 was $861,717. The University of California Office of the Treasurer issues a publicly available financial report that includes financial statements and required supplementary information for UCRHBT. That report may be obtained by writing to University of California, Office of the Treasurer, 1111 Broadway, 14th Floor, Oakland, CA 94607.

Note 13 - Federal and State Income Taxes:

As a separate law department of the University of California, the College is an instrument of the State and accordingly, is not subject to federal or state income taxes, except for taxes on unrelated business income.

Note 14 - Contingencies:

The College receives substantially all of its unrestricted revenue from tuition and fees and State appropriations. The College tuition and fee schedule is established annually by the Board of Directors. The State legislature establishes the annual appropriation to the College. The appropriation may increase or decrease during the year due to State budget changes.

Substantial amounts are received and expended by the College under federal and state grants and contracts, and are subject to audit by cognizant governmental agencies. This funding relates primarily to student financial assistance and related programs. College management believes that liabilities, if any, arising from such audits will not have a significant effect on the College's financial condition or results of operations.

Note 15 - Insurance:

The College is exposed to various risks of loss including general liability, property and casualty, workers' compensation, employee health and legal defense. The College purchases insurance through commercial and risk retention insurance companies with various ranges of deductibles depending on the policy type. Settled claims have not exceeded this coverage in any of the past three fiscal years. The College continues to self insure its workers' compensation program.

Note 16 - Litigation:

From time to time, the College is subject to various claims and legal proceedings covering a range of matters that arise in the ordinary course of its business activities. In the opinion of management, although the outcome of any legal proceedings cannot be predicted with certainty, the ultimate liability of the College in connection with its legal proceedings will not have a material adverse effect on the College's financial position and activities.