# UNIVERSITY OF CALIFORNIA
# HASTINGS COLLEGE OF THE LAW

JUNE 30, 2014 AND 2013

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

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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** and **THE UC HASTINGS FOUNDATION (collectively, the College),** which comprise the statement of net position as of June 30, 2014 and 2013, 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.

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 and the UC Hastings Foundation, as of June 30, 2014 and 2013, 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 29, 2014

# 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 2014 with comparative data presented for fiscal years 2013 and 2012. The emphasis of discussions concerning these statements will be for the fiscal years ended June 30, 2014 and 2013 (2014 and 2013, 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 limited number of seats. Hence, UC Hastings' enrollment management objectives are to matriculate select students of the highest academic credentials.

The College is operating under a strategic plan adopted in 2012. A key to the strategic plan was the 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. The strategic plan object of reducing enrollment has been achieved. The College's enrollment in the JD program for 2014-15 is 931 including visitors. With this level of JD enrollment, total enrollment will have declined by 24% from historical averages of roughly 1,220 students. The College has maintained 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.

# University of California Hastings College of the Law

**Management Discussion and Analysis**
**(Unaudited)**

The economic downturn has prompted a significant realignment in the marketplace in which our graduates compete for employment. Job opportunities in the legal profession – both private and public sector – have 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.

The cost of attendance, closely linked to student debt considerations, and a challenging job market are factors contributing to a decline in law school applications nationally. As it was for most law schools, 2014-15 admissions cycle was challenging for UC Hastings. We received 3,118 applications this year, a 20.9% decrease from last year and a 35.2% decrease from two years ago. For the first time in a number of years, this year's percentage decrease in applications at UC Hastings was greater than the decrease in the national pool.

There are 203 ABA accredited law schools, divided between 200 with full accreditation and 3 with provisional accreditation. While 36.5% of the ABA law schools reported application drops of +20% this year, as of March 2014 the Law School Admissions Council (LSAC) reported that the total number of applicants to ABA schools was down only 10.7% from the previous year. Last year, LSAC reported that the national drop in applicants was down 23.1%, whereas for UC Hastings it was down 18%. In 2012, LSAC reported a drop of 15.6% in the national applicant pool; UC Hastings decreased only 7%. Over the past five years, the applicant volume to ABA law schools has dropped over 52%; during the same period of time UC Hastings applications have dropped 47.6%.

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. For 2012-13, to fill an entering class of 317 first year JD students, UC Hastings received 4,811 applications. Last year, 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 yield. Reasons that have been given by those who have declined admission have tracked with the reasons given over the past three years: the law school's ranking in US News and World Reports, financial aid packages offered by competitor institutions, cost of living in San Francisco, and soft employment rates.

The Fall 2014 entering class had 323 new first year (1L) students. The median Law School Admission Test (LSAT) for this group was 158, a one point drop from last year's median. The 75th LSAT quartile moved two points down from 163 to 161. Our 25th LSAT quartile stayed at 155. The median Undergraduate Grade Point Average (UGPA) for the class of 2017 also moved down, going from 3.52 to 3.44. The 75th UGPA quartile moved from 3.69 to 3.64, and our 25th UGPA quartile moved slightly from 3.28 to 3.21.

Regarding the demographic makeup of the incoming class, over 51% are students of color, the highest percentage on record. Also unprecedented, about 56% of the entering class are women. The median age of the students is once again 24, with our youngest student being 21 and our oldest 44. About 7% of the incoming class has advanced degrees. Lastly, the percentage of out-of-state students has yet to be finalized, but no major change is expected. For the last three years, the nonresident cohort has hovered around 20% of the entering class.

Total full time equivalent (FTE) enrollment for the 2013-14 academic year was 1,034.5 Juris Doctor (JD) students, 30.3 Master of Laws (LLM) students, 5.4 Master of Studies in Law (MSL) students and 19.3 visitors for a total of 1,089.5 full-time students. In 2013-14, fee waivers and exchange discounts equated to 22 FTE students for a net enrollment of 1,067.5 full-time equivalent students.

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.

**The UC Hastings Foundation**

The UC Hastings Foundation (the Foundation) was organized 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. 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 the 2012-2013 academic year, the College and Foundation entered into a new operating agreement (the 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 agreement also 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. With the changes brought about by the agreement, substantially all restricted gifts and unrestricted gifts made to the College are recognized and accounted for within the Foundation's accounts. To support the College's efforts, the Foundation allocates block grants to the College from the proceeds of unrestricted gifts made to the Foundation. These block 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. Outlined below are the developments that have had an impact on the operations of the College.

- **Strategic Plan Implementation – Class Size Reduction Program**

  An important conclusion of the College's strategic planning process was the 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 20-25% (approximately 240-300 FTE JD students) over a three year timeframe beginning in Fall 2012. The commencement of the 2014-15 academic year marks the attainment of normalized levels of JD enrollment with 931 JD students.

  Financial outcomes for the first two years (2013 and 2014) of the Class Size Reduction Program have been positive: operating revenues have exceeded operating cost. Unrestricted net position has grown by virtue of a combination of solid operating performance, auxiliary enterprises and fundraising.

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

  California's financial recovery is continuing and state operating support to the College is growing. The 2014-15 budget continues the Governor's commitment to a multi‑year stable funding plan for higher education. The plan provides annual increases in General Fund appropriations over a four‑year period (2013‑14 through 2016‑17). The plan addresses affordability and assumes a freeze on resident tuition from 2013‑14 through 2016‑17 to avoid contributing to higher student debt and tuition levels.

  For 2015, the state support has increased by 15% over 2013-14. Appropriations (General Fund and State Lottery) grew from $8.5 million to $9.8 million. Since 2012, state support has increased by 38% for an average annual increase of 9.5% over the past four years. This growth – during a period of planned reductions of enrollment and stable student fees – has allowed to College to manage increased employer's share of retirement costs for the University of California Retirement Plan (UCRP) and other nondiscretionary cost increases.

- **UC Hastings Campus Streetscape Plan**

  The UC Hastings Campus Streetscape Plan (the Plan) is based on the recommendations of the Tenderloin-Little Saigon Neighborhood Transportation Study completed in 2007. The Plan includes safety improvements such as sidewalk bulbouts, curb ramps, and a traffic island as well as sidewalk replacement and widening, landscaping and lighting.

  The plan is funded by $1.8 million in funds authorized by the San Francisco County Transportation Authority. Supplementing this amount is $603,000 of UC Hastings funding earmarked primarily for sidewalk replacement contiguous to McAllister Tower, to address water infiltration and trip hazards, for a total project budget of $2.4 million. Work is scheduled to begin in 2015.

- **Rating Downgrade - Moody's Investor Services**

  The downturn in the market for legal education continues to pose challenges as on a national basis first-year enrollments have plunged to levels not seen since the 1970s. The number of applicants has also slid, from more than 87,500 in 2010 to about 54,500 as of September 2014, according to the Law School Admission Council. UC Hastings, as an institution largely dependent on tuition revenue, has also been adversely impacted by these downward trends. Moody's Investor Services issued a downgrade in May 2014 of Hastings College of the Law's issuer rating from Aa3 to A2 and Series 2008 bonds from A1 to A2. The outlook was maintained as "stable".

  In their analysis, Moody's cited "a significant erosion of student demand and deteriorating operating performance with expectations for continued weak cash flow as Hastings continues to execute its plan to reduce JD enrollment while holding tuition flat for the next three fiscal years. The A2 rating is supported by Hastings' affiliation with the University of California (Aa2/stable), low leverage, healthy flexible reserves and strong debt service coverage from pledged revenues. The rating also incorporates the fundamentally challenged niche law school market and pressure on net tuition revenue. The stable outlook is based on the college's recent strategic growth of monthly liquidity which would enable it to fully repay outstanding debt and sustain multiple years of weak operating performance."

  Issuer rankings for other benchmark institutions are listed below:

| | |
|---|---|
| University of California | Aa2 |
| State of California | A1 |
| Hastings College of the Law | A2 |
| New York Law School | Baa1 |
| Brooklyn Law School | Baa1 |
| Vermont Law School | Ba1 |

## 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 2014 and 2013. 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 – 2014, 2013, and 2012 (in thousands)**

| | College | Foundation | 2014 Total | 2013 Total | 2012 Total |
|---|---|---|---|---|---|
| **ASSETS:** | | | | | |
| Current Assets | $ 17,212 | $ 380 | $ 17,592 | $ 16,987 | $ 19,485 |
| Noncurrent Assets | 184,336 | 474 | 184,810 | 176,139 | 171,632 |
| Total assets | $ 201,548 | $ 854 | $ 202,402 | $ 193,125 | $ 191,117 |
| **LIABILITIES:** | | | | | |
| Current Liabilities | $ 8,456 | | $ 8,456 | $ 8,085 | $ 6,403 |
| Noncurrent Liabilities | 30,592 | | 30,592 | 31,055 | 38,596 |
| Total liabilities | $ 39,048 | | $ 39,048 | $ 39,140 | $ 44,999 |

| | | | | | |
|---|---|---|---|---|---|
| **TOTAL NET POSITION:** | | | | | |
| Net Investment in Capital Assets | $ 70,225 | | $ 70,225 | $ 71,944 | $ 66,990 |
| Restricted: | | | | | |
| Nonexpendable | 20,865 | $ 179 | 21,044 | 19,638 | 18,431 |
| Expendable | 27,514 | 529 | 28,043 | 23,950 | 21,002 |
| Unrestricted | 43,896 | 146 | 44,042 | 38,453 | 39,695 |
| Total net position | $162,500 | $ 854 | $ 163,354 | $ 153,985 | $ 146,118 |

**Assets**

For 2014, for the College and the Foundation, current assets increased by $605,000 (3.6%), from $17 million to $17.6 million. Cash and cash equivalents held in the Short Term Investment Pool (STIP) grew by $2 million. Restricted cash and cash equivalents declined by $1.1 million (-59%) due to efforts to maximize the amount awarded for the Federal Perkins Loan Fund. Net accounts receivable decreased by $314,000 (-11%) with the write-off of a receivable related to the condenser water pipe arbitration. The relative stability is current assets was a positive development given declining levels of planned enrollment as 2014 marked the close of the second year of the three-year class size reduction program.

In 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. 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 2014, noncurrent assets increased by $8.7 million (4.9%). 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. Also of note was the write-off of $428,000 of pre-paid expenses and other assets related to the Series 2008 bonds to comply with GASB 65.

In 2013, noncurrent assets increased by $4.5 million (3%) due to investment gains arising from the strong performance of investments. 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.

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

- The General Endowment Pool (GEP) experienced total returns of 17.6% for 2014. A total return of 11.6% was experienced in 2013.

- The Short Term Investment Pool (STIP) experienced total returns of 1.6% for 2014. A total return of 2.1% was attained in 2013.

- Total market value of all funds invested in GEP increased to $68.3 million as of June 30, 2014 from $59 million as of June 30, 2013.

Total assets grew to $202 million in 2014, an increase of $9 million (5%). For 2013, total assets increased by $2 million (1%).

**Liabilities**

For 2014, current liabilities totaled $8.5 million, an increase of $371,000 due to an increase in deferred revenue from summer session programs and the receipt in 2014 for grant funded expenses to be incurred in 2015 for the Liberty and National Security Clinic. In 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.

For 2014, total noncurrent liabilities decreased by $463,000 (-1.5%) primarily due to scheduled debt service of the Series 2008 bonds. In 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.

On an overall basis, total liabilities decreased by $92,000 (-0.2%) from $39.1 million in 2013 to $39.1 million in 2014. In 2013, total liabilities decreased by $5.8 million (-13%).

**Net Position**

For 2014, nonexpendable restricted net assets increased to $20.9 million, a change of $1,406,000 (7.2%). The primary factor was favorable investment performance. In 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 a gift of $336,000.

For 2014, expendable restricted net assets increased to $27.5 million, a change of $4.1 million (17%). The growth in this category was a function of grants from the San Francisco County Transportation Authority for the McAllister Street Campus Streetscape Project and $1 million for new expendable scholarship funds (e.g., Olivier Fund and the Faculty Excellence Fund at $250,000 each) along with favorable investment returns allocated to participating accounts.

In 2013, expendable restricted net assets increased to $24 million, a change of $2.9 million (14%) due to a $385,000 grant was received from the MacArthur Foundation. Favorable investment returns allocated to participating accounts also had beneficial effect.

A key measure of financial status is an entity's unrestricted net position. Unrestricted net position is defined as a group of items with commercial or exchange value that have no external restrictions regarding their use or function. Unrestricted net position are assets that can be utilized for any decided-upon purpose. This is in contrast to restricted net assets that are assigned to specific purposes. The College's (with the Foundation) unrestricted net position for 2014 was $44.0 million. Of this amount, $7.1 million represents funds designated for specific purpose by the board of directors. These funds are quasi-endowments supporting scholarships and professorships. This represents an increase of $5.6 million (14.6%) over the comparable figure in 2013 ($38.5 million). Investment gain is the primary driver as well as growth in net income from auxiliary enterprises (the defeasance of the Series 2003 debt, student housing rent increases and growth in parking/retail revenues all being contributory factors).In 2013, unrestricted net position 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 position. Total net position for 2014 were $163.4 million, an increase of 6.1%. In 2013, total net position were $154 million, an increase of 5% over 2012.

**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 2014, 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 17.6 percent resulting in realized and unrealized investment gains of $9.6 million. Increased state appropriations and a good fundraising year, in concert with containment of staff salary expense, also were contributing factors to the favorable overall outcome. In 2013, strong investment returns were also a positive factor; 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 in realized gain.

# 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, 2014, 2013 and 2012 (in thousands)

| | Operating | | Non-operating | | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|---|---|
| | College | Foundation | College | Foundation | Total | Total | Total |
| **REVENUES:** | | | | | | | |
| Tuition and Fees, net of grants & scholarships ($13.6 million) | $33,328 | | | | $33,328 | $ 34,697 | $ 34,693 |
| State Appropriations | | | $8,505 | | 8,505 | 8,027 | 7,092 |
| Grants and Contracts | 1,059 | | | | 1,059 | 816 | 602 |
| Auxiliary Enterprises | 7,314 | | | | 7,314 | 7,737 | 7,764 |
| Private Gifts | | $4,204 | 3,899 | | 8,103 | 6,486 | 4,835 |
| Investment Income | | | 1,036 | $ 12 | 1,048 | 930 | 1,046 |
| Realized/Unrealized Gain (Loss) on Investments | | | 9,599 | 61 | 9,660 | 6,224 | (1,679) |
| Other Revenues | 995 | 6 | | | 1,001 | 532 | 1,045 |
| Loan Interest, net of expense | 270 | | | | 270 | 219 | 340 |
| Total revenues | 42,966 | 4,210 | 23,039 | 73 | 70,288 | 65,668 | 55,738 |
| **EXPENSES:** | | | | | | | |
| Salaries and Benefits | 34,712 | | | | 34,712 | 33,517 | 32,567 |
| Auxiliary Enterprises | 5,123 | | | | 5,123 | 5,823 | 5,765 |
| Utilities | 932 | | | | 932 | 853 | 794 |
| Supplies and Services | 10,720 | 6 | | | 10,726 | 9,326 | 8,090 |
| Depreciation | 2,140 | | | | 2,140 | 2,304 | 2,304 |
| Scholarships and Fellowships | 851 | | | | 851 | 708 | 605 |
| Grants to UC Hastings | | 3,946 | | | 3,946 | 2,383 | 1,842 |
| Interest on Debt | | | 1,432 | | 1,432 | 1,652 | 1,379 |
| Events | | 132 | | | 132 | 17 | 12 |
| Other | 2,335 | 70 | | | 2,405 | 2,521 | 1,981 |
| Total expenses | 56,813 | 4,154 | 1,432 | - | 62,399 | 59,104 | 55,339 |
| **Operating Income (Loss)** | $(13,847) | $ 56 | $ 21,607 | $ 73 | $7,889 | 6,564 | $ 399 |
| **OTHER CHANGES IN NET POSITION:** | | | | | | | |
| Capital Grants and Gifts | | | | | $ 92 | $ 100 | $ 110 |
| Other Changes in Endowments | | | | | 1,386 | 1,203 | 1,123 |
| Total other changes in net position | | | | | 1,478 | 1,303 | 1,233 |
| **Increase in Net Position** | | | | | $ 9,367 | $ 7,867 | $ 1,632 |

### Revenues

The College's instructional program is primarily supported by a combination of net tuition and fees and state appropriations; for 2014, these revenues represented 69% of total operating and nonoperating revenues (excluding realized and unrealized gain on investments).

For 2014, the negative impact of implementation of the second tranche of the Class Size Reduction Program on net tuition revenue was partially offset by growth in state funding ($478,000, or 6%). The dual effect of stable student fees and reduced enrollment on net student fee revenue was a reduction of -$1.4 million, or -4% on prior year fee revenue of $34.7 million. In sum, tuition, fees and state appropriations were $41.8 million, representing a ($891,000, or -2%) decrease from 2013.

In 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 first tranche 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 student fees (increased by 15% to achieve substantial parity with other UC law schools) and growth in state appropriations ($935,000, or 13%).

Annual totals for *Revenues, Private Gifts* and *Expenses, Grants to UC Hastings* displayed in the Condensed Statement of Revenues, Expenses and Changes in Net Position will be misinterpreted absent clarification. Revenue and expenses of the Foundation are discretely displayed in the financial statements reflective of the Foundation's status as a component unit under GASB Statement No. 39 and No. 61. Fiscal performance for these two line-items require independent assessment; combining the results of the College with those of the Foundation overstates results as private gifts received by the Foundation (a Foundation operating revenue) are conveyed to the College as a Grant to UC Hastings (a Foundation operating expense) where they are recognized by the College as a nonoperating revenue. Hence, the potential for concluding higher levels of private gift revenue than would be merited.

Gifts made in the College's fundraising program held steady in 2014. Private gifts received by the College totaled $4 million (including transfers from the UC Hastings Foundation of restricted current use gifts and unrestricted funds in the form of block grants). The comparable figure for 2013 was $4.5 million. Gifts of endowments totaled $447,000, an amount included in the $1.4 million recorded in other changes in net position (along with unrealized gain on endowments held by others). For 2014 in gifts and other changes in net assets, three gifts major gifts are reflected: Willie Brown Scholarship Fund of $100,000; J. Keller Judicial Externship of $125,000 and Keith Park Scholarship of $104,000. In 2013, other changes in net position totaled $1.3 million.

Revenue associated with sales and services of auxiliary enterprises decreased by $423,000 (-5.5%) due to the closure of the bookstore. Favorable investment performance from the General Endowment Pool (total returns of 17.6%) resulted in realized and unrealized gains of $9.7 million in 2014 ($6.2 million in 2013).

For 2014, total operating revenues were $51.5 million (with $8.5 million in state appropriations classified by GASB as nonoperating revenues but included in this computation given their importance to the College). In 2013, the comparable figure was $52 million. The reduction in student fee revenue and sales and services of auxiliary enterprises was mitigated by growth in state appropriations, grants and contracts, interest and overheads and other miscellaneous revenues (e.g., space rental, etc.).

While growth in any individual category is not dramatic, in sum, these revenues are trending favorably and have been significant in offsetting reductions in student fee revenue.

**Expenses**

In 2014, for the College on an overall basis, total operating expense increased to $56.8 million from $55 million, an increase of $1.8 million, or 3.3%. While the College has been successful at controlling salary cost, the burden of rationalizing funding to assure for the future viability of the retirement program remains challenging. Salary cost grew by $192,000, or 0.7%. Retirement and health benefit costs, increased by $1 million, or 14.2%, due to an increment of 2% in employer contributions to the University of California Retirement Program (UCRP).

For 2014, the employer's cost was 12.65% of covered payroll; in 2013, the employer's cost was 10.63%. In the past, UC Hastings, along with the University of California, had been in the 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. To address long term funding shortfalls, 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.

Expenditure growth also occurred in the supplies and services category, increasing by $1.4 million (15.1%). Nonrecurring costs were major factors behind cost growth in this category: $400,000 was attributable to costs for visiting faculty filling vacant faculty lines and $112,000 for interpreter services for students with hearing disabilities. The other variable affecting the variance between 2013 and 2014 was the posting in 2013 of a $1.3 million credit and subsequent establishment of a $655,000 accounts receivable for claims related to UC Hasting v. Biltwell Development Company. The tentative settlement totals $425,000 and is expected to occur in 2015.

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.

As shown in the 2014 Condensed Statement of Revenues, Expenses and Changes in Net Position the College closed the fiscal year with net income of $7.9 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) | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2014 | 2013 | 2012 |
| Cash Provided (Used) By: | | | | | | |
| Operating activities | $ (10,194) | $ (7,661) | $ (5,195) | $ (50) | $ (370) | $ 325 |
| Non capital financing activities | 11,762 | 13,101 | 10,907 | | | |
| Capital and related financing activities | (2,135) | (9,953) | (3,405) | | | |
| Investing activities | 1,335 | 1,831 | (395) | 23 | 29 | 10 |
| Net increase (decrease) in cash | 768 | (2,682) | 1,912 | (27) | (341) | 335 |
| Cash - Beginning of Year | 12,677 | 15,359 | 13,447 | 136 | 477 | 142 |
| Cash - End of Year | $ 13,445 | $ 12,677 | $ 15,359 | $ 109 | $ 136 | $ 477 |

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.'

On an overall basis, 2014 saw positive cash flow of $768,000. Growing negative cash flow from operating activities tracks with the decline in net student fee revenue as the College continues its Class Size Reduction Program. Changes in 2013 were primarily due to the defeasance of the Series 2003 bonds the impact of which is shown in the capital and related financing activities category. In 2012, cash flows from operating activities were benefitted from increased student fees (generating an additional $1.2) and increased net income from the College's auxiliary enterprises.

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.

## Looking Forward

While the operations of the institution's academic program and the revenue flows supporting it are strong, the outlook for the future is clouded by uncertainty surrounding the full implications and extent of the continuing decline in the demand for legal education and the looming prospect of the inclusion of unfunded pension liabilities on the college's financial statements.

- **Enrollment Status**

  The national decline in demand for legal education remains a core issue for the institution compounded by competitive challenges such law school rankings, San Francisco's high cost of living and job placement rates. For the 2015 academic year, the acceptance rate increased from 40.4% to 49.2%. The significant increase was largely a function of a smaller application pool and a lower than usual conversion rate or yield. The yield (admit-to-enroll percentage) at the initial deposit deadline this year was 23.5%, a slight improvement from last year's low of 20%. Until the past two years, as a matter of historical average, the yield at the deposit deadline averaged around 29%. The final yield for the 2014-15 admission cycle increased to 21.1%, slightly up from the 20.8% achieved last year, yet still well below the 28% averaged over the past decade. The uptick in yield in a weak market was most likely a function of a revamped scholarship award process which expedited notice to admitted students as well as the packaging of these awards as three-year scholarships rather than one-year grants.

- **Student Fees**

  Student fees have stabilized. Total student fees, including miscellaneous fees and health insurance, have increased over time but have remained substantially unchanged (increases that have occurred have been driven by student health insurance premiums) for the past three years. Resident student fees are shown below; nonresidents pay a $6,000 surcharge.

  - 2011-12 $40,836
  - 2012-13 $46,806
  - 2013-14 $47,634
  - 2014-15 $48,335

  In 2015 total student fees are at $48,335, an increase (1.5%) 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. UC Hastings fees remain below, albeit slightly, those charged by other California public law schools.

- **Fiscal Status**

  The 2014 operating budget was balanced. Operating revenues supporting UC Hastings' core educational program (funded primarily from state appropriations and student fees) were aligned with ongoing operating expenses. That budget also included $1.8 million in investments in technology and other one-time allocations funded from budgetary savings realized in 2013.

With the 2014 budget, two out of three years of the planned reduction in JD class size had been implemented. The fiscal ramifications of reducing enrollment by over 160 JD students cumulatively over two years were successfully managed. Challenges remain ahead upon implementation of the third and final tranche, a further reduction of 80 JD students, in 2015.

In 2015, the budget approved by the board of directors included an operating deficit of ($2.5) million (-4.8%) projected to arise from educational and core operations (the portion of the overall budget supported by student fees and state appropriations). Since adoption of the initial budget, revenues have further eroded by ($300,000) due to higher numbers of second-year students transferring out to higher ranked competitors. When including non-state funds from auxiliary enterprises, UC Hastings anticipates that net income of at least $1.6 million, primarily from student housing operations, will offset a substantial portion of the ($2.8) million deficit projected to arise from educational and core operations.

- **Recognition of Unfunded Liability for Pension Costs**

As with most public sector employers, UC Hastings is managing through cost issues, in time frames both immediate and near future, associated with the provision of postemployment retirement benefits. 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").

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

The college will be implementing GASB Statement 68 for the fiscal year ending June 30, 2015. As of June 30, 2014, the estimated College's obligation to UCRP was $30.6 million, representing unfunded contributions to UCRP based upon the University's funding policy.

- **Conclusion**

The school's financial position remains strong but with the adoption of a 2015 budget that results in an operating deficit, plans to close the gap in the near term become the obvious priority. The college's five year budget model accurately forecast that there would be an operating deficit in 2015 and in recognition of such, fund balances have been carefully managed over time in recognition of the revenue implications of the third and final tranche of the class size reduction program and difficulties in further reducing operating costs over-and-above savings achieved in the earlier stages of the class size reduction program. With academic year 2014-15, a cumulative, planned enrollment reduction of 255 FTE JD students (-21%) has been implemented resulting in reduction of gross revenue of $11.1 million over the three year, phased-in downsizing process.

UC Hastings cannot rely on any one element or income stream to address this deficit. Instead, UC Hastings proposes to close its deficit by developing or expanding a wide range of initiatives. These include the following:

(1) Capture savings through faculty and staff retirements and vacancies. Demographic changes are resulting in an increasing number of faculty and staff retirements. Normal attrition presents opportunities for reassessment of institutional needs. It is anticipated that significant ongoing savings will derive from this case-by-case evaluative process.

(2) Continued modest growth of non JD programs. UC Hastings has made significant investments in non-JD programs, including its international LLM, MSL, and summer programs. Modest growth in these programs (with tight cost control) will provide additional net income.

(3) Streamlining administrative processes/improvements to the information technology infrastructure that support UC Hastings' financial and administrative systems. The early implementation phase of Project Kaleidoscope - Innovating for Service Excellence - is moving forward. Technology solutions have been procured to enhance business systems at UC Hastings and achieve cost savings.

(4) Space allocations and increased office space leasing. A portion of the space currently allocated to the law library will be repurposed to house the clinics and research centers. These functions currently occupy space at McAllister Tower. When this space is reallocated, it may be monetized by leasing it for compatible non-Hastings uses.

(5) Fundraising: A capital campaign is underway. A leading national consulting firm was retained to conduct a feasibility study. Short and long term goals have been set, and donor cultivation has been initiated. Planning has progressed, and the law school anticipates implementing the public phase of the campaign in the near future.

Concerns over the future of legal education are not without merit and over the past several years – as the extent of the decline in demand for legal education have become clearly evident. Management has planned for this contingency has budgeted accordingly and has managed reserves carefully. UC Hastings is well positioned to navigate the strong headwinds confronting legal education so as to continue the institution's tradition of excellence well into the future.

# University of California Hastings College of the Law

## Statement of Net Position

*June 30, 2014 and 2013*

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | College | Foundation | College | Foundation |
| **Assets** | | | | |
| **Current Assets:** | | | | |
| Cash and cash equivalents (Note 3) | $ 12,653,699 | $ 108,724 | $ 10,744,348 | $ 136,015 |
| Restricted cash and cash equivalents (Notes 2 and 3) | 791,479 | | 1,932,626 | |
| Accounts receivable, net | 2,503,344 | | 2,817,165 | |
| Current portion of notes receivable (Note 5) | 1,183,009 | | 1,220,298 | |
| Pledges receivable, net | | 272,000 | | 65,837 |
| Prepaid expenses and other assets | 80,158 | | 50,059 | 21,095 |
| Total current assets | 17,211,689 | 380,724 | 16,764,496 | 222,947 |
| **Noncurrent Assets:** | | | | |
| Endowment investments (Notes 4 and 9) | 27,980,908 | 423,308 | 23,772,991 | 374,356 |
| Other long-term investments (Note 4) | 39,917,888 | 14,628 | 34,821,467 | 12,721 |
| Notes receivable, net (Note 5) | 15,351,241 | | 14,073,830 | |
| Pledges receivable, net | | 35,766 | | 115,500 |
| Assets held by others (Note 6) | 8,505,518 | | 7,665,997 | |
| Capital assets, net (Note 7) | 92,580,364 | | 94,873,953 | |
| Prepaid expenses and other assets | | | 428,244 | |
| Total noncurrent assets | 184,335,919 | 473,702 | 175,636,482 | 502,577 |
| Total assets | $ 201,547,608 | $ 854,426 | $ 192,400,978 | $ 725,524 |
| **Liabilities** | | | | |
| **Current Liabilities:** | | | | |
| Accounts payable and accrued liabilities | $ 5,681,727 | | $ 5,566,263 | $ 370 |
| Accrued vacation | 740,331 | | 707,910 | |
| Deposits | 304,261 | | 367,128 | |
| Unearned revenues | 1,134,507 | | 874,081 | |
| Current portion of long term debt (Note 8) | 595,000 | | 570,000 | |
| Total current liabilities | 8,455,826 | | 8,085,382 | 370 |
| **Noncurrent Liabilities:** | | | | |
| Bonds payable (Note 8) | 21,751,862 | | 22,359,770 | |
| Accrued vacation | 534,133 | | 403,173 | |
| Revolving fund advance from the State | 811,900 | | 784,900 | |
| Federal contributions to Perkins loan fund | 7,493,924 | | 7,506,962 | |
| Total noncurrent liabilities | 30,591,819 | | 31,054,805 | |
| Total liabilities | 39,047,645 | | 39,140,187 | 370 |

The accompanying notes are an integral part of this statement.

# University of California Hastings College of the Law

## Statement of Net Position

*June 30, 2014 and 2013*

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | College | Foundation | College | Foundation |
| **Net Position** | | | | |
| Net investment in capital assets | $ 70,224,101 | | $ 71,944,184 | |
| Restricted for | | | | |
| Nonexpendable: | | | | |
| Scholarships and fellowships | 14,647,833 | | 13,310,485 | |
| Instruction and research | 5,967,636 | | 5,898,480 | |
| Academic support | | | | |
| Institutional support | 250,000 | $ 178,755 | 250,000 | 178,755 |
| Sub-total restricted, nonexpendable | 20,865,469 | 178,755 | 19,458,965 | 178,755 |
| Expendable: | | | | |
| Student services | 148,585 | | 108,248 | |
| Instruction and research | 7,088,916 | | 5,766,889 | |
| Public and professional services | 182,219 | | 124,066 | |
| Institutional support | 217,932 | 529,462 | 214,412 | 389,145 |
| Capital projects | 766,462 | | 432,627 | |
| Scholarships and fellowships | 10,726,162 | | 8,764,930 | |
| Perkins loan funds | 8,266,301 | | 8,045,656 | |
| Other | 118,224 | | 104,295 | |
| Sub-total restricted, expendable | 27,514,801 | 529,462 | 23,561,123 | 389,145 |
| Unrestricted | 43,895,592 | 146,209 | 38,296,519 | 157,254 |
| Total net position | 162,499,963 | 854,426 | 153,260,791 | 725,154 |
| Total liabilities and net position | $ 201,547,608 | $ 854,426 | $ 192,400,978 | $ 725,524 |

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, 2014 and 2013*

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | College | Foundation | College | Foundation |
| **Revenues:** | | | | |
| Operating revenues: | | | | |
| Tuition and fees | $ 46,934,614 | | $ 49,531,621 | |
| Less: Hastings' grants | (12,571,257) | | (13,800,337) | |
| Less: Tuition and fee scholarships | (1,035,550) | | (1,034,213) | |
| Tuition and fees, net | 33,327,807 | | 34,697,071 | |
| Contributions, capital campaign | | $ 4,203,950 | | $ 2,025,037 |
| Government grants and contracts | 572,353 | | 593,942 | |
| Private grants and contracts | 486,307 | | 221,797 | |
| Sales and services of auxiliary enterprises | 7,314,372 | | 7,737,196 | |
| Other operating revenues | 995,026 | 6,134 | 531,635 | 1,480 |
| Loan interest, net of expenses | 49,344 | | 45,939 | |
| Federal Perkins loan interest | 220,645 | | 172,623 | |
| Total operating revenues | 42,965,854 | 4,210,084 | 44,000,203 | 2,026,517 |
| **Expenses:** | | | | |
| Operating expenses: | | | | |
| Salaries and wages: | | | | |
| Faculty | 12,869,576 | | 12,804,538 | |
| Non-Faculty | 13,800,433 | | 13,673,919 | |
| Benefits | 8,042,354 | | 7,039,112 | |
| Scholarships and fellowships | 850,649 | | 707,853 | |
| Auxiliary enterprises, including depreciation expense of $887,914 ($957,010 in 2013) | 5,122,969 | | 5,823,113 | |
| Utilities | 932,206 | | 853,119 | |
| Supplies and services | 10,720,183 | 6,242 | 9,312,796 | 12,900 |
| Depreciation, excluding auxiliary enterprise portion | 2,139,681 | | 2,303,606 | |
| Events | | 132,486 | | 16,971 |
| Grants | | 2,897,139 | | 1,334,533 |
| Block grant - allocation to the College | | 1,049,000 | | 1,049,000 |
| Other | 2,334,738 | 70,000 | 2,470,872 | 50,018 |
| Total operating expenses | 56,812,789 | 4,154,867 | 54,988,928 | 2,463,422 |
| Operating income (loss) | (13,846,935) | 55,217 | (10,988,725) | (436,905) |
| **Nonoperating Revenues (Expenses):** | | | | |
| State operating appropriations | 8,505,122 | | 8,027,024 | |
| Gifts, capital campaign | 2,417,857 | | 1,673,848 | |
| Gifts, noncapital | 431,605 | | 1,737,902 | |
| Investment income | 1,036,081 | 12,559 | 910,003 | 20,559 |
| Realized and unrealized net gains on investments | 9,599,733 | 61,496 | 6,187,561 | 37,349 |
| Interest on debt | (1,431,992) | | (1,652,195) | |
| Block grant - allocation from the Foundation | 1,049,000 | | 1,049,000 | |
| Net nonoperating revenues | 21,607,406 | 74,055 | 17,933,143 | 57,908 |
| Income (loss) before other changes in net position | 7,760,471 | 129,272 | 6,944,418 | (378,997) |
| **Other Changes in Net Position:** | | | | |
| Capital grants and gifts | 92,389 | | 99,947 | |
| Endowed gifts, capital campaign | 447,125 | | 179,043 | |
| Gifts and other changes to endowment | 939,187 | | 1,023,664 | |
| Total other changes in net position | 1,478,701 | - | 1,302,654 | - |
| **Increase (Decrease) in Net Position** | 9,239,172 | 129,272 | 8,247,072 | (378,997) |
| **Net Position, beginning of year** | 153,260,791 | 725,154 | 145,013,719 | 1,104,151 |
| **Net Position, end of year** | $ 162,499,963 | $ 854,426 | $ 153,260,791 | $ 725,154 |

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, 2014 and 2013*

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | College | Foundation | College | Foundation |
| **Cash Flows from Operating Activities:** | | | | |
| Tuition and fees (net of all scholarships and grants) | $ 32,567,159 | | $ 34,069,220 | |
| Contributions | | $ 4,013,656 | | $ 2,064,267 |
| Grants and contracts | 1,058,660 | | 815,739 | |
| Events | | (132,857) | | (16,601) |
| Payments to vendors | (13,711,259) | 14,853 | (10,310,882) | (33,996) |
| Salaries and benefits | (34,712,362) | | (33,517,569) | |
| Foundation awards | | (3,946,139) | | (2,383,533) |
| Loans issued to students | (4,962,705) | | (6,054,874) | |
| Collections of student loans | 3,654,772 | | 4,512,406 | |
| Sales - Auxiliary enterprises | 7,314,372 | | 7,737,196 | |
| Expenses - Auxiliary enterprises | (4,235,056) | | (4,866,104) | |
| Loan interest income net of expenses | 269,989 | | 218,561 | |
| Other receipts (payments) | 2,562,304 | | (264,392) | |
| Net cash used by operations | (10,194,126) | (50,487) | (7,660,699) | (369,863) |
| **Cash Flows from Noncapital Financing Activities:** | | | | |
| State appropriations | 8,464,789 | | 7,973,358 | |
| Gifts for endowment | 448,225 | | 746,351 | |
| Other gifts | 2,849,462 | | 4,380,750 | |
| Net cash provided by noncapital financing activities | 11,762,476 | - | 13,100,459 | - |
| **Cash Flows from Capital and Related Financing Activities:** | | | | |
| Purchases of capital assets | (542,629) | | (894,677) | |
| Amortization of bond(premium)/discount | (12,907) | | 57,223 | |
| Principal paid on long term debt | (570,000) | | (775,000) | |
| Interest paid on long, term debt | (1,009,805) | | (1,405,466) | |
| Defeasance of bond | | | (6,935,000) | |
| Net cash used by capital and related financing activities | (2,135,341) | - | (9,952,920) | - |
| **Cash Flows from Investing Activities:** | | | | |
| Proceeds from sale of investments | 913,795 | | 7,708,131 | |
| Interest on investments | 1,335,195 | 23,196 | 187,897 | 29,074 |
| Purchase of investments | (913,795) | | (6,065,104) | |
| Net cash provided by investing activities | 1,335,195 | 23,196 | 1,830,924 | 29,074 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 768,204 | (27,291) | (2,682,236) | (340,789) |
| **Cash and Cash Equivalents,** beginning of year | 12,676,974 | 136,015 | 15,359,210 | 476,804 |
| **Cash and Cash Equivalents,** end of year | $ 13,445,178 | $ 108,724 | $ 12,676,974 | $ 136,015 |

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, 2014 and 2013*

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | College | Foundation | College | Foundation |
| **Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:** | | | | |
| Operating income (loss) | $ (13,846,935) | $ 55,217 | $ (10,988,725) | $ (436,905) |
| Depreciation and amortization | 3,027,595 | | 3,260,616 | |
| Allowance for doubtful accounts | 383,371 | | 673,609 | |
| Loss on disposal of capital assets | 21,067 | | 100,535 | |
| Noncash scholarship expense | 90,000 | | 80,000 | |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable, net | 986,349 | | (1,437,703) | |
| Pledges receivable | | (126,429) | | 87,767 |
| Notes receivable | (1,307,933) | | (1,542,468) | |
| Accounts payable | 121,519 | (370) | 2,084,200 | 370 |
| Deposits | (62,867) | | (125,483) | |
| Unearned revenue | 260,426 | | 93,549 | |
| Prepaid expenses and other assets | (30,099) | 21,095 | 291,436 | (21,095) |
| Accrued vacation | 163,381 | | (150,265) | |
| Net cash used by operations | $ (10,194,126) | $ (50,487) | $ (7,660,699) | $ (369,863) |
| **Noncash Transactions:** | | | | |
| Scholarships from assets held by others | $ 90,000 | | $ 80,000 | |
| Gifts in kind | $ 92,389 | | $ 99,947 | |
| **Components of Cash and Cash Equivalents:** | | | | |
| Current, cash and cash equivalents | $ 12,653,699 | $ 108,724 | $ 10,744,348 | $ 136,015 |
| Current, restricted cash and cash equivalents | 791,479 | | 1,932,626 | |
| **Total, Cash and Cash Equivalents**, end of year | $ 13,445,178 | $ 108,724 | $ 12,676,974 | $ 136,015 |

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 and 65 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, 2014 and 2013, 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 $791,479 and $1,932,626 at June 30, 2014 and 2013, respectively. Restricted cash of $774,901 and $1,845,936 for 2014 and 2013, respectively, relates to the Federal Perkins student loan program. The remaining funds of $16,578 and $86,690 at June 30, 2014 and 2013, respectively, relate to institutional loan funds. These balances are recorded in restricted cash and cash equivalents.

d. Accounts Receivable, net

Accounts receivable are $2,503,344 and $2,817,165 as of June 30, 2014 and 2013, respectively. Of these amounts, $1,416,158 and $1,375,825 are due from the State of California for current year general appropriations. Additionally, these include other receivables of $1,087,186 and $1,441,340 as of June 30, 2014 and 2013 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. Prepaid Expenses

Prepaid expenses primarily consist of deposits to secure space at a local hotel for a future event.

g. 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.

h. 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.

i. 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.

j. Unearned Revenues

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

k. 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.

l. 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.

m. 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.

n. 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.

o. 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.

p. 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.

q. 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.

r. 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.

s. New Accounting Pronouncements Adopted or Under Consideration

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 implemented the guidance of this pronouncement, and it did not have a significant impact on its financial statements, with the exception of a change in accounting for bond issuance costs.

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.

The GASB issued statement No. 71, *pension transition for contributions made subsequent to the measurement date – an amendment of GASB No. 68.* The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, Accounting and Financial Reporting for Pensions, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. 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, 2014 and 2013 consist of the following:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | College | Foundation | College | Foundation |
| Cash in banks and on hand | $ 1,609,844 | | $ 2,978,267 | |
| Government money market | (1) | | (1) | |
| Pooled cash included in STIP | $ 11,835,334 | $ 108,724 | $ 9,698,708 | $ 136,015 |
| Total cash and cash equivalents | $ 13,445,177 | $ 108,724 | $ 12,676,974 | $ 136,015 |

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, 2014 and 2013, respectively, the carrying amounts of the College's deposits were $1,609,843 and $2,978,266 and the bank balances were $1,823,959 and $3,280,504.

Included in the government money market funds are the Series 2008 bond funds of ($1) for both June 30, 2014 and 2013.  Of the bank balances for 2014, $456,086 was covered by federal depository insurance and $1,367,873 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, 38.5% to 68.5%. 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, 2014 and 2013 are as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | College | Foundation | College | Foundation |
| Public equity | $ 22,974,077 | $ 148,179 | $ 20,011,271 | $ 128,035 |
| Fixed income | 6,959,361 | 44,887 | 6,678,638 | 42,731 |
| Other investments | 37,965,358 | 244,870 | 31,889,882 | 204,035 |
| Total investments | $ 67,898,796 | $ 437,936 | $ 58,579,791 | $ 374,801 |

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, 2014 and 2013 were 5.41 and 5.41, 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, 2014 and 2013 were $13,155,117 and $12,875,249, respectively.

**Note 5 - Notes Receivables:**

Notes receivable of the College at June 30, 2014 and 2013 consists of the following:

| | 2014 | 2013 |
|---|---|---|
| Federal Perkins and NDSL loans | $ 15,774,380 | $ 14,451,283 |
| O'Neill loans | 1,059,194 | 1,122,750 |
| Hastings loans | 399,392 | 450,551 |
| California Bar Preparation loans | 172,643 | 73,092 |
| Public Interest Career Assistance Program (PICAP) loans | 1,775 | 1,775 |
| Less: Allowance for doubtful accounts | (873,134) | (805,323) |
| | $ 16,534,250 | $ 15,294,128 |

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 $90,000 and $80,000 for 2014 and 2013, respectively, was distributed by the external trustees to recipients of the Tony Patino Fellowship. The market value of the Tony Patino endowment was $3,312,767 and $2,953,978 as of June 30, 2014 and June 30, 2013, 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 endowment payout amount received from these endowments in fiscal 2014 and 2013 was $214,908 and $208,706, 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 $4,999,370 and reflected in the College's statement of net position as "Assets Held by Others" as of June 30, 2014 and $4,418,972 as of June 30, 2013. 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, 2014 and 2013 is $817,835 and $722,889, 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 at June 30, 2013, of which the entire balance was removed as of June 30, 2014. $35,000 held as an interest account in Citizens Business Bank for workers' compensation payments at June 30, 2014 and June 30, 2013. In addition, assets held by others include the beneficial interest in a charitable remainder trust of $158,381 and $149,548, for June 30, 2014 and 2013, respectively.

### Note 7 - Capital Assets:

The activities related to capital assets during fiscal 2014 and 2013 for the College are summarized below:

| | 2013 | Additions/ Transfers | Disposals/ Transfers | 2014 |
|---|---|---|---|---|
| **Original Cost:** | | | | |
| Land and improvements | $ 5,088,532 | | | $ 5,088,532 |
| Buildings | 84,402,917 | | | 84,402,917 |
| Building Improvements | 32,990,349 | $ 230,733 | | 33,221,082 |
| Equipment, furniture and fixtures | 6,584,224 | 327,365 | $ (592,563) | 6,319,026 |
| Software | 1,093,361 | | (42,369) | 1,050,993 |
| Library books | 15,303,673 | 96,778 | | 15,400,451 |
| Works of art | 421,309 | | | 421,309 |
| Construction in progress | | 142,565 | | 142,565 |
| Capital assets at original cost | 145,884,365 | 797,441 | (634,932) | 146,046,874 |
| **Accumulated Depreciation:** | | | | |
| Buildings | (21,635,218) | (1,221,130) | | (22,856,348) |
| Building improvements | (11,597,485) | (1,050,619) | | (12,648,104) |
| Equipment, furniture and fixtures | (4,640,487) | (331,212) | 571,497 | (4,400,202) |
| Software | (390,234) | (70,869) | | (461,103) |
| Library books | (12,746,988) | (353,765) | | (13,100,753) |
| Accumulated depreciation | (51,010,412) | (3,027,595) | 571,497 | (53,466,510) |
| Capital assets, net | $ 94,873,953 | $ (2,230,154) | $ (63,435) | $ 92,580,364 |

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 |

## Note 8 - Long-Term Debt:

Long-term debt of the College consists of the following at June 30, 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| 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%) | $ 22,470,000 | $ 23,040,000 |
| Unamortized bond (premium) | (123,138) | (110,230) |
| Total bonds payable | $ 22,346,862 | $ 22,929,770 |

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 activity with respect to the College's current and noncurrent debt for the year ended June 30, 2014 and 2013 is as follows:

| | Series 2008 Bonds |
|---|---|
| Current portion at June 30, 2013 | $ 570,000 |
| Principal payments in fiscal 2013 | (570,000) |
| Reclassification from noncurrent | 595,000 |
| Current portion at June 30, 2014 | $ 595,000 |
| Noncurrent portion at June 30, 2013 excluding unamortized bond (discount) premium | $ 22,470,000 |
| Unamortized bond (discount) premium | (123,138) |
| Reclassification to current | (595,000) |
| Noncurrent portion at June 30, 2014 | $ 21,751,862 |

| | Series 2008 Bonds | Series 2003 Bonds | Total |
|---|---|---|---|
| Current portion at June 30, 2012 | $ 550,000 | $ 225,000 | $ 775,000 |
| Principal payments in fiscal 2012 | (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 |

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 |
|---|---|---|---|
| 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 | 705,000 | 890,538 | 1,595,538 |
| 2020-2024 | 3,945,000 | 4,030,431 | 7,975,431 |
| 2025-2029 | 4,850,000 | 3,124,125 | 7,974,125 |
| 2030-2034 | 6,060,000 | 1,912,419 | 7,972,419 |
| 2035-2037 | 4,370,000 | 421,563 | 4,791,563 |
| | $ 22,470,000 | $ 14,216,839 | $ 36,686,839 |

**Note 9 - Endowments:**

The endowments held by the College at June 30, 2014 are as follows:

| | Restricted Net Assets | | Unrestricted | |
|---|---|---|---|---|
| | Nonexpendable | Expendable | Net Assets | Total |
| Endowments | $ 12,553,332 | $ 9,133,206 | | $ 21,686,538 |
| Funds functioning as endowments | | | $ 7,097,424 | 7,097,424 |
| Endowment assets held by others | 8,312,137 | | | 8,312,137 |
| College's endowments | $ 20,865,469 | $ 9,133,206 | $ 7,097,424 | $ 37,096,099 |

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 |

Endowments held by the Foundation at June 30, 2014 and 2013 are as follows:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Restricted Net Assets | | Restricted Net Assets | |
| | Nonexpendable | Expendable | Nonexpendable | Expendable |
| Foundation's endowments | $ 178,755 | $ 244,553 | $ 178,755 | $ 195,601 |

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 both 2014 and 2013 was 4.35%, 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 $904,405 and $840,780 for the years ended June 30, 2014 and 2013. $890,828 and $827,192 was distributed to the College, and $13,577 and $13,588 was distributed to the Foundation, for the years ended June 30, 2014 and June 30, 2013, 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 10 - 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, 2012. 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 or for less than one year and accumulate 1,000 hours on pay status during 12 consecutive months. 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. Benefits vary also by date of hire. Tier 2013 employees (those hired on or after July 01, 2013) can elect to retire and receive benefits at any time after they become eligible — that is, when they reach age 55 and leave UC employment with at least five years of service credit. Tier 2013 employees may choose a lifetime monthly benefit.

Tier 1976 employees (those hired prior to July 1, 2013) can elect to retire and receive benefits at any time after they become eligible — that is, when you reach age 50 and leave UC employment with at least five years of service credit. Tier 1976 employees may choose a lifetime monthly benefit or a lump sum cashout,

UCRP is funded by contributions from both the employer and employee. 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, 2014, the College contributed 12.65% ($3,077,755) of the applicable monthly gross salary. For the years ended June 30, 2013 and 2012, the College Contributed 10.80% in 2013 and 7.68% in 2012 ($2,620,424 for 2013 and $1,872,881 for 2012) of the applicable monthly gross salary. Employee contributions in fiscal 2014 were 6.5% of the gross salary, and in fiscal 2015 will be: a) 8.0% of gross salary for Tier 1976 employees (hired prior to July 1, 2013), and b) 7% for Tier 2013 employees (hired on or after July 1, 2013). 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 Note 11, Retiree Health Plan for more information.

## Note 11 - 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, 2014, the assessed rate was 3.41 percent per $100.00 of UCRP covered compensation, and the rate for fiscal 2015 is 2.82 percent. The assessed rate for fiscal year 2013 was 3.89 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, 2014 were $846,526, which equaled the required contribution for the year; the amount the College paid for retiree costs for the year ended June 30, 2013 was $626,061. 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 12 - 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 13 - 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 14 - 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 15 - 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.