



2011-2012 Annual Financial Report

(unaudited)



UNIVERSITY OF CALIFORNIA
UCMERCED







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MESSAGE FROM VICE CHANCELLOR MARY MILLER

Dear Readers,

I am very pleased to present this Annual Financial Report for Fiscal Year 2011-12. The report portrays the continuing and exciting development of this young and growing campus. Although California's financial woes have significantly impacted the entire University of California System, UC Merced has nevertheless managed to stay on a positive trajectory. Applications for admission continue to climb significantly as the campus' reputation expands throughout California and the world. Space limitations have required us to moderately slow growth, as we work to acquire sufficient facilities to accommodate both students and faculty. Design or construction of several facilities is currently underway, with both student housing and classroom/office space expected to open in Fall 2013. The campus was sited in the San Joaquin Valley as a strategic investment in California's future economy. The contribution to date has been sizeable – over \$1.5 billion in direct expenditures statewide, \$815 million of which is focused in the Valley.

In addition to presenting a picture of the financial status of the campus, this document should give you a sense of the vitality, energy, quality and pride that define UC Merced.

Sincerely,

Mary Miller
Vice Chancellor for Administration



Campus Highlights

CAMPUS VISITORS

UC Merced received its first visit by a U.S. senator on August 25, 2011, which was also the first day of the Fall 2011 semester. Senator Barbara Boxer met with Chancellor Dorothy Leland, learned about the work of the Sierra Nevada Research Institute (SNRI), interacted with faculty and student researchers, and spoke to a select group of students and news media.

The senator likened UC Merced's progress to that of UC Berkeley in its formative years, lauded campus achievements in sustainability and design and architecture, and encouraged students to be appreciative of the opportunity they have to attain a UC-quality education in the San Joaquin Valley.

CAMPUS HOSTED ITS FIRST VARSITY SPORTING EVENT

UC Merced hosted its first varsity sporting event on campus September 22, 2011, when the women's volleyball team played its home opener against the Pacific Golden College and won. This was a historical win for the women's volleyball team, as this earned UC Merced its first victory in any sport at the National Association of Intercollegiate Athletics Level.

FORMAL WELCOME CEREMONY FOR CHANCELLOR LELAND

Dorothy Leland was appointed by the University of California Board of Regents to serve as the third chancellor of UC Merced in May 2011. Since assuming her duties in July 2011, she spent her first three months meeting with faculty, staff, students, government and community leaders, and campus supporters throughout California and in Washington D.C.

A formal welcoming ceremony was held for Chancellor Leland on October 3, 2011 where UC President Mark G. Yudof, along with some 300 community members gathered to welcome her to the University in a ceremony held in the Carol Tomlinson-Keasey Quad.

FIRST ALUMNI ASSOCIATION BOARD MEMBERS NAMED

UC Merced announced the formation of the first-ever board of directors for its Alumni Association. Christopher Abrescy ('09), Uday Bali ('08), Josh Bolin ('07), Jason Castillo ('09), Efferman Ezell ('09), Sam Fong ('09), Jose Godinez ('11), James Kirby ('10), Jacqueline Miramontes ('10), Elizabeth Perkins ('11), and Yaasha Sabba ('09) will represent their fellow alumni as the association moves into the next phase of establishing regional alumni chapters, first in California and then nationwide and worldwide.

COMPLETION OF THE SOCIAL SCIENCES AND MANAGEMENT BUILDING

The Social Sciences and Management Building was opened to students and staff in time for the start of the Fall 2011 semester. The 3-story structure is the first academic building completed since UC Merced officially opened in 2005. The building houses the Ernest and Gallo (E&J) School of Management, which is named for the winemaking Gallo family. Besides the School of Management, this building will also contain an entrepreneurship center, teaching and research labs, art studio spaces, general classrooms and research lab offices.



MAJOR CONSTRUCTION UNDERWAY AT UC MERCED

UC Merced is entering a significant phase of construction, the likes of which the campus has not seen since before it opened in 2005. The construction projects will add nearly 270,000 gross square feet in the next two years, which will increase the campus' physical space by about 25 percent. The additions will add critically needed academic, recreation and residential housing space that will allow the university to accommodate its growing population.

Construction is underway on the following projects:

- Housing 4, a new residential unit that will accommodate up to 500 students
- Recreation Center North, an expansion of the Joseph Edward Gallo Recreation and Wellness Center
- Science and Engineering Building 2
- Student Services Building

The estimated cost of the four building projects and an associated infrastructure project is \$170 million. With the exception of Science of Engineering Building 2, funding for the projects comes from non-state sources.

CAMPUS EARNS CONTINUED PRAISE, RECOGNITION FOR SUSTAINABILITY

UC Merced recently earned what might be the most prestigious of a growing list of awards for its Long Range Development Plan, while the campus had its seventh building certified "Gold" by the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) Program. UC Merced's commitment to sustainability can be seen throughout the campus, which now has eight building LEED certified silver or better, and in its ambitious goal to achieve zero net energy use, contribute zero waste to landfills and produce zero net greenhouse gas emissions by 2020 – known as the Triple Zero Commitment.

CAMPUS NAMES VICE CHANCELLOR FOR DEVELOPMENT AND ALUMNI RELATIONS

Chancellor Dorothy Leland announced the hiring of Kyle D. Hoffman as vice chancellor for Development and Alumni Relations, effective May 21, 2012. Hoffman has spent the past 14 years as assistant vice chancellor for Alumni and Constituent Relations at UC Riverside, and he spent 14 years prior to that in various positions at UC Riverside and UC Santa Barbara. He will replace interim Vice Chancellor David Hosley, who has also been serving part-time as executive director of UC Merced's Sierra Nevada Research Institute.

COMMENCEMENT 2012

The University of California, Merced marked a historic milestone at its seventh commencement ceremony held on May 12, 2012 where UC Merced celebrated its largest graduating class of 776 candidates – 81 percent larger than last year's graduating class of 428 members with 7,000 members and friends present. Chancellor Dorothy Leland, presided over her first UC Merced commencement since taking over on July 1, 2011, she praised this year's class for their impressive accomplishments. "The graduation class of 2012 will leave UC Merced as the beneficiaries of an education from one of the most highly regarded universities in the world – the great University of California, with its 10 distinctive campuses, both young and old," Leland said. "The degrees that we will confer tonight were earned through long hours of hard work, determination and persistence. You should be proud – and you clearly are – of your accomplishments."

Former Lt. Governor Cruz Bustamante was chosen to deliver the keynote address at the commencement ceremony.





Management's Discussion and Analysis

The objective of Management's Discussion and Analysis (MD&A) is to give readers an overview of the financial position and operating activities of the University of California, Merced, for the fiscal year ended June 30, 2012, with selected comparative information for the fiscal year ended June 30, 2011. This discussion should be read in conjunction with the financial statements and accompanying notes.

UC Merced is the newest of 10 campuses within the University of California System. The UC Merced Annual Financial Report, while not separately audited, is prepared from the official University of California

records and accounts, which are maintained in accordance with the standards prescribed by the Governmental Accounting Standards Board (GASB). The three basic financial statements in this report, the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows, encompass the UC Merced campus and its discretely presented component, the UC Merced Foundation. However, the MD&A and the Notes to Financial Statements focus only on the campus. The condensed Statement of Net Assets related to the UC Merced Foundation can be found in this publication.



The University of California

The University of California system (the University) is a public, state supported institution. The University's financial statements for the University, the various campus foundations and the University of California Retirement System, are presented as a discrete component of the state's general purpose financial statements. The University encompasses 10 campuses, five medical schools and medical centers, four law schools, and a statewide Division of Agricultural and Natural Resources. The University is also involved in the operation and management of three national laboratories for the U.S. Department of Energy (DOE). The consolidated audited financial reports of the University of California are available at: www.universityofcalifornia.edu/reportingtransparency/.

Campus History

The University of California, Merced is the newest campus in the UC system and the first new American research university of the 21st century. Authorized by the University of California's Board of Regents in 1988, it is the first UC campus built since 1965 and was established in the state's fastest-growing region, the San Joaquin Valley, to address chronically low levels of educational attainment.

The campus celebrated its official grand opening and the arrival of the first class of undergraduate students on Sept. 5, 2005. With a primary mission of research, teaching and service, UC Merced is expected to accommodate as many as 25,000 students when the campus grows to full capacity in about three decades. This year, student enrollment exceeded 5,000 students.

UC Merced currently consists of three schools – the School of Engineering, Natural Sciences, and Social Sciences, Humanities and Arts. A School of Management and a School of Medicine are on the Horizon.

In addition to its educational mission, UC Merced is an important strategic investment in California's future economy. The campus serves as an engine of economic growth throughout the San Joaquin Valley, where unemployment and poverty rates substantially exceed California averages. To date, the campus has contributed approximately \$815 million to the valley economy since initial operations began in July 2000. The \$815 million includes \$531 in local wages and compensation, \$140 million in construction contracts to local businesses, and \$145 million in goods and services purchased from local businesses. Statewide, UC Merced's cumulative economic contribution has amounted to \$1.54 billion.

UC Merced is expanding access to a UC quality research university education and preparing California's future workforce.





Campus Mission

The University of California, Merced's mission is embodied in its proud claim of being the first American research university of the twenty-first century. As the tenth campus of the University of California, UC Merced will achieve excellence in carrying out the University's mission of teaching, research and service, benefiting society through discovering and transmitting new knowledge, and functioning as an active repository of organized knowledge. As a key tenet in carrying out this mission, UC Merced promotes and celebrates the diversity of all members of its community.

A research university is a community bound by learning, discovery and engagement. As the first American student-centered research university of the twenty-first century, UC Merced's strong graduate and research programs will mesh with high quality undergraduate programs. New knowledge increasingly depends on links among the disciplines, working together on questions that transcend the traditional disciplines. UC Merced fosters and encourages cross-disciplinary inquiry and discovery.

Interdisciplinary practice in research will nourish undergraduate learning, building a foundation in connecting the ways that academic disciplines understand and grapple with society's problems. Undergraduates will experience education inside and outside the classroom, applying what they learn through undergraduate research, service learning and leadership development. As apprentice scholars, graduate students will build their understanding of and ability to do independent research in their chosen field, as the groundwork for entering professional life. Lifelong learners will continue to hone their knowledge and workplace skills.

The twenty-first century has opened with the promise of new ways of connecting people to new knowledge and to one another. UC Merced opens as a network, not simply a single place, linking its students, faculty and staff to the educational resources of the state, nation and world. The idea of network extends to UC Merced's relationships with neighboring institutions: educational, cultural and social. Born as a member of the distinguished network known as the University of California, UC Merced seeks strong and mutually supportive relationships with a variety of collaborators in its region: public and private colleges and universities; federal and state organizations that share UC Merced's educational and research goals; and cultural and social institutions.

The idea of network will also be realized through the physical and intellectual integration between UC Merced and its surrounding community. The campus is planned as a model of physical sustainability for the twenty-first century, inviting all members of the campus and surrounding community to think and act as good stewards of the environment, that they will convey to future generations. UC Merced celebrates its location in the San Joaquin Valley, reflecting the poetry of its landscape, history, resources and diverse cultures, while capitalizing on and expanding the Valley's connections to the emerging global society. UC Merced recognizes that research that begins with the natural laboratory at home can extend what is known in the state, nation and world.

The Merced Campus of the University of California

The financial statements included in this annual report encompass the following:

Academic Programs

ACADEMIC SCHOOLS AND DIVISIONS

School of Engineering
School of Natural Sciences
School of Social Sciences, Graduate Division, Humanities & Arts

GRADUATE PROGRAM AREAS OF EMPHASIS

Applied Mathematics
Biological Engineering & Small-Scale Technologies
Chemistry and Chemical Biology
Cognitive and Information Sciences
Electrical Engineering and Computer Science
Environmental Systems
Mechanical Engineering and Applied Mechanics
Physics and Chemistry
Psychological Sciences
Quantitative and Systems Biology
Social and Cognitive Sciences
World Cultures



Student and Employee Data

Fall 2012 Fall 2011

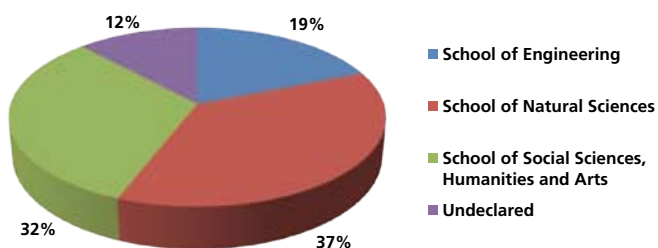
Student Full Time Equivalent (FTE)

Undergraduate	5,359	4,862
Graduate	325	262

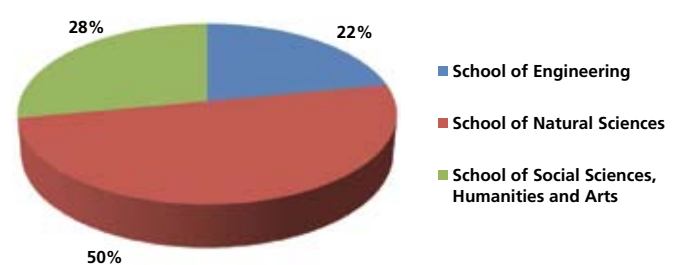
Employee Full Time Equivalent (FTE)

Faculty	272	234
All Other	735	744

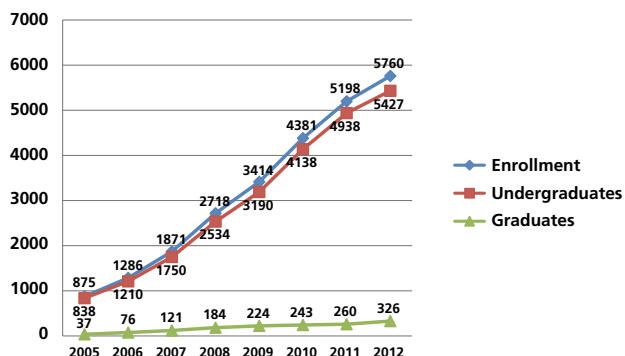
Fall 2012 Undergraduate Enrollment By School



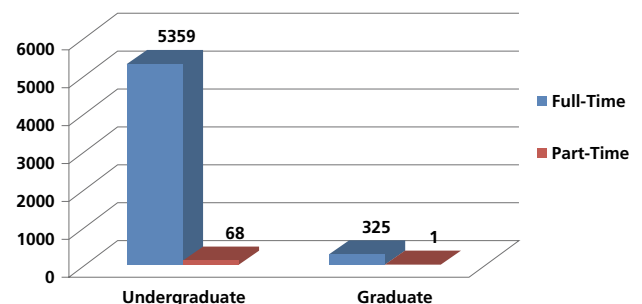
Fall 2012 Graduate Enrollment By School



Historical Student Enrollment – Fall 2012



Fall 2012 Student Level and Enrollment Status



Student Housing

UC Merced guarantees housing for all new freshmen. 75% of incoming freshmen in Fall 2011 lived on campus.

Study at UC Merced

CLASSROOM ENVIRONMENT

Students per Faculty	21 to 1
Undergraduate classes with fewer than 30 students	55%
Undergraduate classes with fewer than 50 students	75%

Instructional Faculty

Total Full-time Instructional Faculty	220
% Women Faculty	40%
% Faculty from Minority Groups	30%
% Faculty with Ph.D. or Equivalent	79%

Degrees Awarded at UC Merced in 2011-2012

Bachelor's	641
Master's	23
Doctoral	19

Majors at UC Merced with the largest number of Undergraduate Degrees Awarded in 2012

Biological Sciences	21%
Psychology	21%
Management	9%
Political Science	6%
Mechanical Engineering	6%
All other degree areas	37%
Total	100%



Library

The UC Merced Library provides access to approximately 70,000 online journals, 580 databases, 102,000 books and 3,965,000 e-books. The on-site collection is supplemented by access to the entire University of California collection of approximately 39 million volumes, which includes 2.7 million books in digital full-text format. Wireless connectivity throughout the library building allows users to access the entirety of the online information resources provided by the UC Merced Library. Interlibrary Loan Services allows our campus to borrow books and articles from other UC Campuses and libraries outside the UC System. During the 2011-2012 fiscal year, 6,789 items were borrowed for students, faculty and staff and 7,268 items were loaned to other libraries. The UC Merced Library was also utilized for instructional purposes and housed more than 156 classes, workshops, orientations, and presentations to UC Merced students, faculty, or staff; more than a total of 182 hours of instructional sessions with 3,879 participants, many attending more than 1 session.

Campus Research

The amount of money spent at UC Merced on research, including graduate student salaries and benefits, along with supplies and equipment for research projects increased from \$15 million to \$15.9 million. Grant funded research awards also increased from \$18 million to \$22.3 million. Despite a decrease in private support from \$4.4 million to \$3.9 million, research contributions increased from \$660,000 to \$975,000, respectively.



Interdisciplinary Research Institutes

SIERRA NEVADA RESEARCH INSTITUTE (SNRI)

SNRI experts in the natural sciences, engineering and policy sciences, work together to address resource-related questions for the Sierra Nevada and the Central Valley of California, exploring fields like hydrology, fire science, ecology and climate change.

SNRI's mission is to discover and disseminate new knowledge that contributes to sustaining natural resources and promoting social well being in the Sierra Nevada Central Valley regions of California, and related regions worldwide.

SNRI currently operates three facilities that support research activities in the Great Valley and Sierra Nevada Region:

The Environmental Analytical Laboratory (EAL), Yosemite Field Station in Wawona and Sequoia Field Station in Wolverton.

ENERGY RESEARCH INSTITUTE

Rising energy prices and the impact of fossil fuels on the environment are driving increased research of renewable energy supply systems. UC Merced is developing novel solutions for a reliable, cost-competitive and environmentally friendly energy system. As part of an international community of energy experts, UC Merced is positioned to develop new technologies that challenge the status quo of the current energy economic system. UC Merced's Energy Research Institute's research focus areas include: energy efficiency and intelligent infrastructure, thermal science, nanotechnology, power transmission, optoelectronics and biofuels. Cross-disciplinary research is being conducted to lead to new and improved renewable and sustainable energy generation technologies, set the standard for institutional energy efficiency and sustainable energy futures, educate the energy industry and the next generation of energy scholars and practitioners, and examine domestic and global energy policy.

UC ADVANCED SOLAR TECHNOLOGIES INSTITUTE (UC SOLAR)

UC Solar is a multi-campus research institute made up of faculty from the University of California's Merced, Berkeley, Santa Barbara, Davis and San Diego campuses. UC Solar was officially launched in 2010. Headquartered at UC Merced, UC Solar conducts cross-disciplinary research that leads to new and improved solar energy generation technologies and educates the energy industry and the next generation of energy scholars. Initial UC Solar research areas include advancing the state-of-the-art solar concentration (for photovoltaic and thermal systems), employing nanotechnology in both collector/concentrator and device structures, and developing new devices that capture useable energy in the UV portion of the solar spectrum. UC Solar faculty, students, and postdoctoral researchers are dedicated to designing and developing innovative solar energy generation technologies that are more efficient, more affordable, and the first choice for California and the world.

UC MERCED CENTER OF EXCELLENCE ON HEALTH DISPARITIES (NCMHD)

In September 2009, UC Merced was awarded a program grant by the National Institutes of Health's National Institute on Minority Health and Health Disparities (NIMHD) to develop a Center of Excellence for the study of health disparities in the Central Valley. UC Merced's Center of Excellence for the Study of Health Disparities (COEHD) in rural and ethnic underserved populations goals are to increase the number of students who are knowledgeable about health disparities, improve the number of students from under-represented and disadvantaged groups performing research in health disparities, and expand the capacity and competence of UC Merced in conducting health sciences research that address health disparities in the region.

HEALTH SCIENCES RESEARCH INSTITUTE (HSRI)

The Health Sciences Research Institute (HSRI) applies knowledge from advanced research to create solutions for complex health issues in the San Joaquin Valley and across the world, that affect the community's health, and future generations.

HSRI's main goals are to: catalyze high-impact health-related research on complex human health issues, effectively tackle complex health issues and issues related to health by applying state-of-the-art technologies and innovative approaches to study health across different cultures, disease prevention, and multiple determinants of health and well-being, provide solutions to the health disparity challenges faced by underserved populations in the region, and establish a research arm that builds the groundwork for a UC Merced medical school.

MEDICAL EDUCATION PROGRAM

UC Merced has formed a partnership with the UC Davis School of Medicine to train medical students in the San Joaquin Valley. The collaboration represents another step forward in UC Merced's multiphase process to develop a medical education program and to enhance health and healthcare in the Valley. The UC Merced San Joaquin Valley Program in Medical Education (PRIME) draws on the established strengths of the internationally recognized medical education and research programs at UC Davis, particularly the campus' existing Rural - PRIME.

The new PRIME also builds on the emerging strengths of the Health Sciences Research Institute and the Center of Excellence on Health Disparities at UC Merced. The focus of the UC Merced San Joaquin Valley – PRIME is to prepare the best and brightest students for rewarding careers in medicine in the ethnically diverse and underserved San Joaquin Valley. The first cohort of five medical students entered the program in Fall 2011, with clinical rotations in the Valley to begin at partner institutions in 2013.

RESEARCH PROGRAMS AND ORGANIZATIONS

The Center for Computational Biology (CCB) is a research and education center at UC Merced that sponsors multidisciplinary scientific projects in which biological understanding is guided by computational modeling. The center also facilitates the development and dissemination of undergraduate and graduate course materials based on the latest research in computational biology.

CENTER FOR AUTONOMOUS AND INTERACTIVE SYSTEMS (CAIS)

The Center for Autonomous and Interactive Systems (CAIS) is a Centralized Research Unit (CRU) that was established on July 1st, 2010. CAIS is a multidisciplinary research center promoting research in a variety of topics related to autonomy and interaction, including robotics, virtual characters, cognitive science, and human-computer interfaces. CAIS

is also part of CITRIS, the Center for Information Technology Research Interest in Society, which was established in 2001 when researchers within the UC System realized that real opportunities lay not just in developing new and innovative technologies, but in applying them.

CITRIS Seed funding was provided to UC Merced in 2007 to start the development of CAIS activities on campus. The numerous scientific and technological goals CITRIS and CAIS share provides CAIS faculty and students with unique opportunities to benefit from partnerships and collaborations that have been established with more than 300 faculty, and thousands of students from numerous departments from UC Campuses (Berkeley, Davis, Merced and Santa Cruz), and industrial researchers from over 60 corporations.

STEM CELL RESEARCH CONSORTIUM

The Stem Cell Research Consortium at UC Merced consists of a multidisciplinary group of faculty that are focused on understanding the mechanisms that control cell fate decisions and also on ways to predict cell behavior.

UC Merced's central location is a significant advantage in promoting cross-institutional collaborations throughout the state. The campus will eventually serve as an anchor to build much-needed biotechnology and high technology industries in the valley.

UC Merced's Stem Cell Consortium's mission is to understand stem cell biology using dynamic interdisciplinary approaches and tools, with the ultimate goal of assisting the development of regenerative medicine, provide high-quality training for the next generation of stem cell biologists and engineers, and educate the public on stem cell research, and promote science education at all levels.





Overview information by School

SCHOOL OF ENGINEERING

The School of Engineering is a research community devoted to learning, discovery and service. The School provides an exceptional technical and professional education and instills in our students advanced problem-solving skills, effective leadership qualities, and the ability to recognize and build on individual strengths throughout one's career. UC Merced Engineering students have the unique opportunity to learn from the very best faculty research in the world. Small classroom settings provide students with an opportunity to network with peers and partner with professors, which further enriches the learning process.

The Dean of the School of Engineering is Dean E. Daniel Hirleman.

SCHOOL OF NATURAL SCIENCES

The School of Natural Sciences is developing stellar academic programs for discoveries and applications in science and technology and for graduate and undergraduate education. The research and teaching programs will serve as an economic engine for the region and the State of California and contribute to development of a college-going culture in the San Joaquin Valley. Faculty and students are interested in understanding the physical and natural world. Advances in biology, chemistry, earth sciences, mathematics, and physics promise solutions to many of humankind's most pressing problems – from fighting disease, to creating sustainable energy sources. Solutions to complex problems depend upon understanding physical and biological processes. The academic and research programs in the School of Natural Sciences create the environment for excellence in student achievement and cutting edge research in the broad areas of life, physical, and environmental sciences.

The Dean of the School of Natural Sciences is Dean Juan C. Meza.

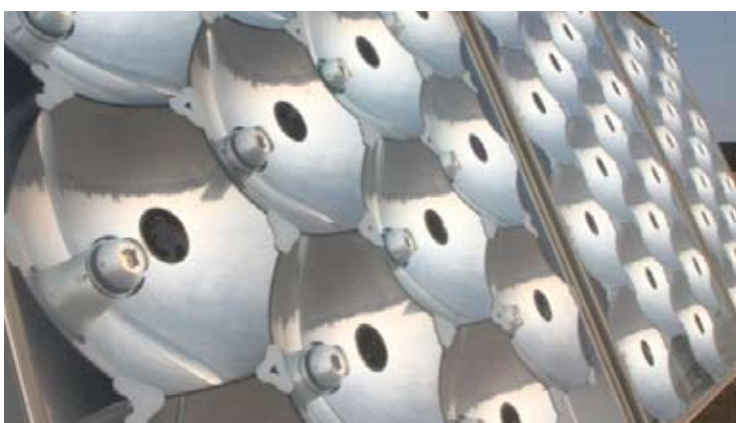
SCHOOL OF SOCIAL SCIENCES, HUMANITIES AND ARTS

The School of Social Sciences, Humanities and Arts embraces many disciplines, including economics, management, cognitive science, history, political science, literature, psychology, philosophy, anthropology, sociology, and the creative arts. Our faculty are among the very best scholars in the world in their respective disciplines and have joined UC Merced to create exciting new programs that appeal to our leaders of the future.

The educational mission of our school is to create a rich learning environment by looking at people and society through the lenses of the many disciplines known as social sciences, humanities and arts. As a new campus, UC Merced has the singular opportunity to foster an integrative environment that draws from these disciplinary research traditions, but is not limited by their boundaries.

The Dean of the School of Social Sciences, Humanities and Arts is Dean Mark Aldenderfer.





The Campus' Financial Position

The Statement of Net Assets presents UC Merced's financial position at the end of the fiscal year. It displays the assets and liabilities of the campus, accounted for on a local level. The difference between assets and liabilities is net assets, representing a measure of the current financial condition of the campus. At June 30, 2012 the statement of net assets shows campus' total assets of \$549 million, liabilities of \$121 million and net assets of \$428 million.

The schedule below presents the campus' liabilities and net assets including the external financing associated with the investment in capital assets. This information is presented differently than the Statement of Net Assets on page 21, and corresponding information presented in this report, which reflects the amount invested in capital assets, net of related debt. The inclusion of debt related to capital assets reduces total net assets for fiscal year 2011-2012 and 2010-2011, to \$311 million and \$273 million, respectively.

(In Thousands of Dollars):

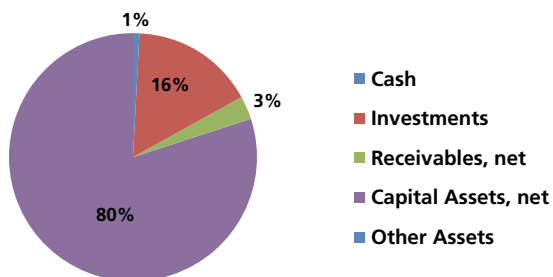
	2011-12	2010-11
Assets		
Cash	153	180
Investments	86,788	74,213
Receivables, net	15,220	14,267
Inventories	612	731
Capital Assets, net	441,175	417,308
Other Assets	5,459	5,327
Total Assets	549,406	512,025
Liabilities		
Current Debt	7,073	3,996
Other Liabilities	19,796	25,952
Long-Term Debt	210,539	208,380
Total Liabilities	237,408	238,328
Net Assets		
Invested in Capital Assets	231,450	210,180
Other	80,547	63,517
Total Net Assets	311,997	273,697

The Campus' Assets

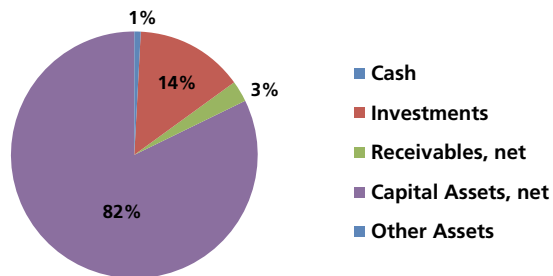
Long-term investments, the campus' portion of pooled debt, and the retirement system are accounted for on a system-wide basis through the Office of the President and are not reflected in UC Merced's stand-alone Financial Statements. UC Merced does participate in a temporary investment pool that is administered by the Office of the President and the balance in this pool is reflected as part of the campus' assets on UC Merced's Financial Statements under cash and cash equivalents. These funds are primarily invested in US Treasury securities, commercial paper and short-term corporate notes with cost approximating market value. The amount invested in the short-term investment pool at June 30, 2012, totaled \$86 million, an increase of \$12 million from June 30, 2011, which was primarily due to the timing of cash needs from one year to the next. Accounts receivable increased from \$14.2 million in 2011 to \$15.2 million in 2012. Accounts receivable include those from state and federal governments, revenue investment activity, local and private grants, and those related to student fees.

Capital assets (original cost less depreciation) increased from \$417 million to \$441 million. Capital assets include land, infrastructure, buildings and improvements, equipment, software, library, special collections and construction in progress. The increase was primarily attributable to the completion of the Social Science and Management (SS&M) Building.

2011-12 Campus Assets



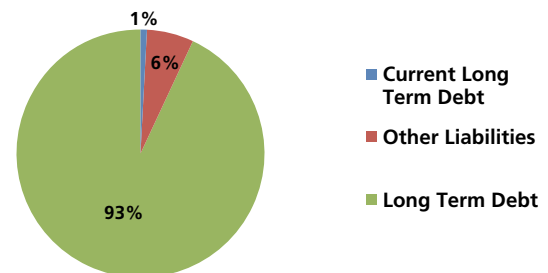
2010-11 Campus Assets



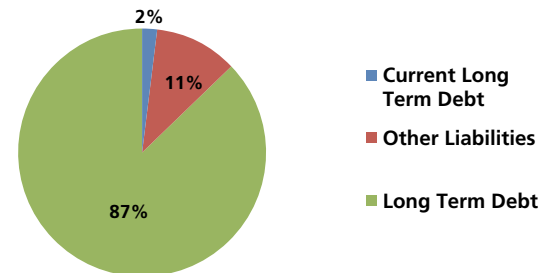
The Campus' Liabilities

Current liabilities of the campus, remained at \$121 million from fiscal year 2010-2011. Current liabilities consist largely of accounts payable to vendors for goods and services from operating activities, accrued compensation costs due to employees for services performed, deferred revenue and current portions of long-term debt utilized to finance capital assets.

2011-12 Campus Liabilities



2010-11 Campus Liabilities



The Campus' Net Assets

Net assets represent the residual interest in the campus' assets after all liabilities are deducted. During the year, the campus' net assets increased from \$390 million to \$428 million, which is the result of an increase in liabilities specifically related to long-term debt.

The Campus' Results of Operations

The Statement of Revenues, Expenses and Changes in Net Assets is a presentation of the campus' operating results for the year. It indicates whether the financial condition has improved or deteriorated. In accordance with Governmental Accounting Standards Board (GASB) requirements, certain significant revenues relied upon and budgeted for fundamental operation support of the core instructional mission of the campus, including state education appropriations, private gifts, and investment income, are mandated to be recorded as non-operating revenue.

Other Non-Operating Activities and Changes in Net Assets

UC Merced's non-operating activities are generally non-cash transactions and thus are not available to support operations. This includes the financing costs associated with capital acquisitions, as well as the gain or loss on the disposal of capital assets.

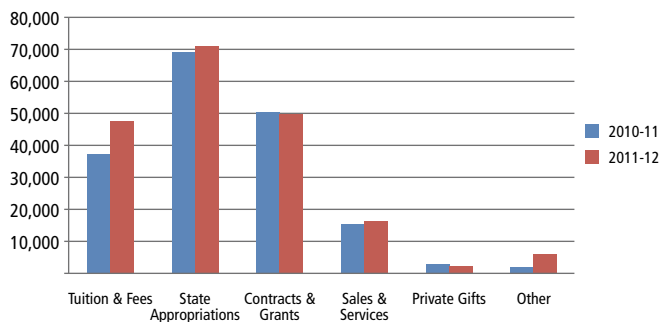
Revenues

Revenues to support the University's core activities increased from \$179 million to \$194 million in fiscal year 2011-2012. State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of the University. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside prominent researchers. Gifts to campus allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Other revenues are derived from educational activities, and auxiliary enterprises such as student housing, food service and parking.

(In Thousands of Dollars):

	2011-12	2010-11
Tuition & Fees	47,673	37,037
State Appropriations	70,903	68,887
Contracts & Grants	47,966	50,799
Sales & Services	17,012	16,412
Private Gifts	2,364	3,435
Other	8,620	2,453

Revenues Supporting Core Activities



Cash Flows

The Statement of Cash Flows presents the significant sources and uses of cash. UC Merced does not have its own bank accounts. UC Merced's cash is handled by the Office of the President, which invests available funds on a daily basis.

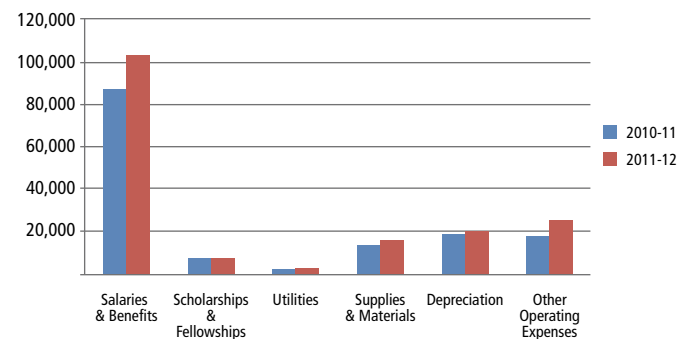
Expenditures

Expenses associated with the University's core activities, including those classified as non-operating expenses increased from \$152 million to \$180 million in fiscal year 2011-2012. Core expenses are related to goods and services used for operation of core activities of the campus, depreciation of capital assets, and scholarship and fellowship payments to students.

(In Thousands of Dollars):

	2011-12	2010-11
Salaries & Benefits	102,857	87,828
Scholarships & Fellowships	9,498	9,784
Utilities	4,377	3,745
Supplies & Materials	17,747	13,260
Depreciation	20,865	19,552
Other Operating Expenses	24,975	18,470

Expenses Associated With Core Activities



UC Merced Foundation

Under University policies approved by The Regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although an independent board governs the UC Merced Foundation, its assets are dedicated for the benefit of UC Merced.

During the years ended June 30, 2012 and 2011, gifts of \$2,018,029 and \$1,829,575, respectively were transferred to UC Merced from the UC Merced Foundation. In 2012 and 2011, the Foundation's net assets were \$7,562,358 and \$8,564,607 respectively.

CONDENSED STATEMENT OF NET ASSETS

(In Thousands of Dollars)

	2011-12	2010-11
Assets		
Current Assets	792	1,255
Noncurrent Assets	6,781	7,312
Total Assets	7,573	8,566
Liabilities		
Current Liabilities	11	2
Total Liabilities	11	2
Net Assets		
Unrestricted	376	556
Restricted		
Nonexpendable (Endowment)	5,164	5,156
Expendable (Endowment Income and Appreciation)	614	881
Expendable (Gift)	1,409	1,972
Total Net Assets	7,562	8,565

The Foundation's Assets

Current assets of the Foundation consist of cash, funds held by University and pledges receivable expected to be collected in the current year. In 2012, current assets decreased by \$463,056 as compared to 2011, primarily due to a decrease in pledges receivable.

Noncurrent assets consist of investment balances primarily pertaining to endowment principal funds, as well as pledges receivable expected to be collected after the end of the next fiscal year. In 2012, noncurrent assets decreased by \$530,205 as compared to 2011. The investments book value decreased by \$107,752 due to endowment payout net of additions and interest earned. In addition, the decrease in investments was a result of a decrease in unrealized appreciation from \$734,231 as of June 30, 2011 to an unrealized appreciation of \$579,792 as of June 30, 2012.

The Foundation's Liabilities

The increase in liabilities for accounts payable is not significant.

The Foundation's Net Assets

Nonexpendable restricted net position increased by \$7,815 due to a combination of \$14,506 in contributions to existing endowments and unrealized depreciation. Due to past market declines in the Foundation's long-term investments; the fair value of certain donor restricted endowments continues to be below the original donated value. Of the total endowments, the Foundation identified a decline below the original donated value of \$14,461 in 7 funds at June 30, 2012. Expendable restricted net position decreased by \$830,159 primarily due to a decrease in contributions and unrealized appreciation (depreciation).



Financial Statements Transmittal Letter

(unaudited)

The accompanying Financial Statements reflect the financial position and the results of operations of the University of California, Merced for the fiscal year ended June 30, 2012.

The UC Merced Financial Statements are not individually audited, but rather are audited as part of the Consolidated Annual Financial Report of the University of California by the firm of PricewaterhouseCoopers, whose report is transmitted to The Regents.

The accompanying Financial Statements and Management's Discussion and Analysis, detail only local campus activity. This separate UC Merced Annual Financial Report, while not separately audited, is prepared from the official University of California records and accounts, which are maintained in accordance with the standards prescribed by the Governmental Accounting Standards Board (GASB).

In compliance with GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, the financial activity of the legally separate, tax-exempt UC Merced Foundation can be found discretely recorded in the campus' Annual Financial Report on page 19 titled UC Merced Foundation.

University of California, Merced
STATEMENT OF NET ASSETS (UNAUDITED)
For Fiscal Years Ended June 30, 2012 and 2011
(In Thousands of Dollars)

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 86,941	\$ 74,393
Accounts receivable, net		
State and federal government	12,871	10,784
Other	1,622	2,816
Pledges receivable	304	146
Inventories	612	731
Other current assets	-	-
Total current assets	102,350	88,870
Noncurrent Assets		
Pledges receivable	423	521
Land, buildings, equipment, libraries and special collections	561,737	517,709
Less: Accumulated depreciation	(120,562)	(100,401)
Other noncurrent assets	5,459	5,327
Total noncurrent assets	447,056	423,156
Total assets	549,406	512,025
LIABILITIES		
Current liabilities		
Accounts payable	13,099	7,262
Accrued salaries and benefits	2,260	7,220
Deferred revenue	1,232	4,365
Current portion of long-term debt	-	433
Funds held for others	428	394
Other current liabilities	52,140	48,548
Total current liabilities	69,158	68,222
Noncurrent liabilities		
Federal refundable loans	(1,161)	(87)
Long-term debt	48,700	48,700
Mortgages and other borrowings	-	474
Capital lease obligations	448	684
Other noncurrent liabilities	3,938	3,717
Total noncurrent liabilities	51,926	53,489
Total liabilities	121,084	121,711
NET ASSETS		
Invested in capital assets, net of related debt	347,774	326,798
Restricted		
Expendable		
Endowment Income	3,566	2,756
Gifts	8,472	8,614
Capital projects	(4,300)	(4,231)
Debt service	(254)	(466)
Appropriations	(22)	(40)
Other	-	392
Unrestricted		
Unrestricted	73,085	56,492
Total net assets	\$ 428,324	\$ 390,314

See Notes to Financial Statements on Page 24.

University of California, Merced

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (UNAUDITED)

For Fiscal Years Ended June 30, 2012 and 2011

(In Thousands of Dollars)

	2012	2011
OPERATING REVENUES		
Student tuition and fees, net	\$ 47,673	\$ 37,037
<u>Grants and contracts</u>		
Federal	15,245	14,489
State	18,501	22,540
Private	1,281	2,098
Local	0	(1)
Educational activities	7	4
Auxiliary enterprises, net	17,005	16,408
Other operating revenues, net	4,954	2,357
Total operating revenues	104,666	94,932
OPERATING EXPENSES		
Salaries and wages	76,274	67,100
Benefits	26,583	20,728
Scholarships and fellowships	9,498	9,784
Utilities	4,377	3,745
Supplies and materials	17,747	13,260
Depreciation	20,865	19,552
Other operating expenses	24,975	18,470'
Total operating expenses	180,319	152,639
Operating loss	(75,653)	(57,707)
NonOperating Revenues (Expenses)		
State educational appropriations	54,549	52,466
State financing appropriations	16,354	16,421
Federal financing appropriation	1,871	5
Federal pell grants	12,939	11,673
Private gifts	2,364	3,435
Investment Income	1,699	3
Interest expense	(17,261)	(17,224)
Loss on disposal of capital assets, net	(1,650)	(108)
Other nonoperating expenses	(23)	(367)
Total nonoperating revenues	70,842	66,304
Income (Loss) before other changes in net assets	(4,811)	8,597
OTHER CHANGES IN NET ASSETS		
State capital appropriations	17,450	16,717
Capital gifts and grants	2,087	738
Transfer	23,283	(31,107)
Increase (Decrease) in Net Assets	38,009	(5,055)
NET ASSETS		
Net assets, beginning of year	390,314	395,368
Net assets, end of year	\$ 428,324	\$ 390,314

See Notes to Financial Statements on Page 24.

University of California, Merced
STATEMENT OF CASH FLOWS (UNAUDITED)
For Fiscal Years Ended June 30, 2012 and 2011
(In Thousands of Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 47,723	\$ 37,006
Grants and contracts	34,564	38,259
Educational activities	7	4
Auxiliary enterprises	17,157	16,175
Payments to employees	(81,004)	(66,393)
Payments for benefits	(26,478)	(20,591)
Payments to suppliers and utilities	(46,166)	(34,701)
Payments for scholarships and fellowships	(9,498)	(9,784)
Other receipts (payments)	3,654	(404)
Net cash provided (used) by operating activities	(60,041)	(40,429)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State educational appropriations	54,549	52,466
Federal pell grants	12,917	11,663
Other private gifts	2,303	3,155
Other receipts (payments)	1,831	(782)
Net cash flows from noncapital financing activities	71,600	66,502
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Commercial Paper Financing:		
Interest Paid	(6)	0
State capital appropriations	16,165	19,515
State financing appropriations	16,400	14,805
Federal financing appropriations	1,659	5
Capital gifts and grants	1,588	647
Proceeds from debt issuance	2,730	51,465
Proceeds from the sale of capital assets	-	2
Purchases of capital assets	(48,028)	(48,064)
Principal paid on debt and capital leases	(612)	(226)
Interest paid on debt and capital leases	(17,519)	(15,868)
Net cash provided (used) by capital and related financing activities	(27,623)	22,281
CASH FLOWS FROM TRANSFERS	23,283	(31,107)
Net increase (decrease) in cash	12,548	18,436
Cash and cash equivalents, beginning of year	74,393	55,957
Cash and cash equivalents, end of year	\$ 86,941	\$ 74,393

See Notes to Financial Statements on Page 24.





Notes to Financial Statements (unaudited)

For Fiscal Years Ended June 30, 2012, and 2011

ORGANIZATION

The University of California ("the University") was founded in 1868 as a public, state-supported institution. The California State Constitution provides that the University shall be a public trust administered by the corporation, "The Regents of the University of California," which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26 member independent governing board (The Regents) are appointed by the Governor and approved by the state Senate. Various University programs and capital outlay projects are funded through appropriations from the state's Annual Budget Act. The University's Financial Statements are discretely presented in the state's general purpose financial statements as a component unit.

FINANCIAL REPORTING ENTITY

UC Merced's financial statements includes the operations of most student government or associated student organizations as part of the primary financial reporting entity because the Regents have certain fiduciary responsibility for these organizations. In addition, the financial position and operating results of certain other legally separate organizations included in the University's financial reporting entity on a blended basis, if the Regents is determined to be financially accountable for the organization. Organizations that are not significant or financially accountable to the University, such as booster and alumni organizations are not included in the reporting entity. However, cash invested with the University by these organizations, along with the related liability, is included in the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets exclude the activities associated with these organizations.

The accounts of the UC Merced campus are subject to limited-scope procedures as a part of the annual audit of the financial statements of the entire University of California System. The financial statements for the Merced campus have not been individually audited.

The University of California, Merced has a legally separate, tax-exempt, affiliated campus foundation that is organized for the purpose of accepting and administering the full range of private contributions for the campus. The financial activities of the separately incorporated foundations are not reflected in the campus' records until such time as gifts are transferred from the Foundation.

In accordance with the Statements of the Governmental Accounting Standards Board (GASB), foundation activity is noted on the campus' financial statements.

The Regents has fiduciary responsibility for the University of California Retirement System (UCRS) that includes two defined benefit plans, the University of California Retirement Plan (UCRP) and the University of California Public Employees' Retirement System (PERS) Voluntary Early Retirement Incentive Plan (PERS-VERIP), and four defined contribution plans in the University of California Retirement Savings Program, (UCRSP), consisting of the Defined Contribution Plan (DC Plan), the Supplemental

Defined Contribution Plan (SDC Plan), the Tax Deferred 403(b) Plan and the Deferred Compensation Plan 457(b) Plan.

The Regents also has fiduciary responsibility for the University of California Retiree Health Benefit Trust (UCRHBT). UCRHBT allows certain University locations and affiliates – primarily campuses and medical centers that share the risks, rewards and costs of providing retiree health benefits to fund such benefits on a cost-sharing basis and accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. The Regents serves as Trustee of UCRHBT and has the authority to amend and terminate the Trust.

Summary of Significant Accounting Policies

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

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, effective for the University's fiscal year beginning July 1, 2011. This Statement modifies the existing requirements for the assessment of component units that should be included in the financial statements of the University. Implementation of Statement No. 61 had no effect on the University's net position or changes in net position for the years ended June 30, 2012 and 2011.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for the University's fiscal year beginning July 1, 2012; however, the University early adopted this Statement effective for the fiscal year beginning July 1, 2011. The effect of the changes from the implementation of Statement No. 63 did not have an impact on the presentation of the University's financial statements for the year ended June 30, 2011, as there were no deferred inflows or outflows reported. The adoption of Statement No. 63 did not result in any adjustments to the financial statements for the campus foundations UCRS or UCRHBT.

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, effective for fiscal year beginning July 1, 2012; however, the University early adopted this Statement effective for the fiscal year beginning July 1, 2011. This Statement clarifies the existing requirements for the termination of hedge accounting. Implementation of Statement No. 64 had no effect on the University's net position or changes in net position for the years ended June 30, 2012 and 2011. The significant accounting policies followed by UC Merced are as follows:

CASH:

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

SHORT-TERM INVESTMENTS:

UC Merced participates in a temporary investment pool that is administered by the University of California Office of the President. Income earned on investments is distributed based on average investments in the pool. This pool invests primarily in US Treasury securities, commercial paper and short-term corporate notes with cost approximating market value. These temporary investments are considered cash equivalents for the purposes of the Statement of Cash Flows.

INVESTMENTS:

Investments for endowment monies and other similar funds are primarily administered centrally by the Office of the President and are not reflected on the UC Merced local financial statements. These funds consist of endowments, funds functioning as endowments, and annuity and life income funds. Endowments require that the principal be invested in perpetuity, with the income used in accordance with the terms specified by the donor. Funds functioning as endowments are primarily gifts and related gains that the University treats as endowments, with the exception that any portion of these funds may be expended at the University's discretion. Annuity and life income funds are held in trust by the University with the annuity or income paid periodically to designated beneficiaries. Principal of these funds vests with the University and payments cease upon the death of the beneficiaries.

Monies are invested by the Treasurer of The Regents and the income is transferred to individual campuses annually. A substantial portion of the net assets of endowment and similar funds participates in a general endowment pool. Each individual fund subscribes to or disposes of units on the basis of the market value per unit at the end of the calendar month within which the transaction takes place. Investments include equities and bonds.

PARTICIPANTS' INTEREST IN MUTUAL FUND:

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

ACCOUNTS RECEIVABLE, NET:

Accounts receivable, net of allowance for uncollectible amounts, includes reimbursements due from state and federal sponsors of externally funded research and other receivables. Other receivables include local government and private grants and contracts, educational activities and amounts due from students, employees and faculty for services.

PLEDGES RECEIVABLE, NET:

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

NOTES RECEIVABLE, NET:

Loans to students, net of allowance for uncollectible amounts are provided from federal student loan programs and from other University sources. Loans to students are provided from federal student loan programs and from other university sources.

INVENTORIES:

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

CAPITAL ASSETS:

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

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

Estimated economic lives are generally as follows:

Infrastructure	25 years
Buildings and Improvements	15-33 years
Equipment	2-20 years
Computer software	3-7 years
Library Books and Materials	15 years

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

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

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

DEFERRED REVENUE:

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

FEDERAL REFUNDABLE LOANS:

Certain loans to students are administered by UC Merced with funding primarily supported by the federal government. UC Merced's Statement of Net Assets includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

FUNDS HELD FOR OTHERS:

Funds held for others result from UC Merced acting as an agent or fiduciary on behalf of organizations that are not significant or financially accountable to UC Merced.

SELF-INSURANCE PROGRAMS:

The University is self-insured for medical malpractice, worker's compensation, employee health care and general liability claims. These risks are subject to various claims and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred, but not reported. The estimated

liabilities are based upon an independent actuarial determination of the present value of the anticipated future payments. Each campus funds the self-insurance liability through predetermined rates applied to payroll and other expenses.

NET ASSETS:

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

Invested in capital assets, net of related debt: This category includes all of UC Merced's capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction or improvement of those assets.

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

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

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

Unrestricted: Net assets that are neither restricted nor invested in capital assets, net of related debt, are classified as unrestricted net assets. Unrestricted net assets may be designated for specific purposes by management or The Regents. Substantially all of the unrestricted net assets are allocated for academic and research initiatives or programs or for capital programs.

REVENUES AND EXPENSES:

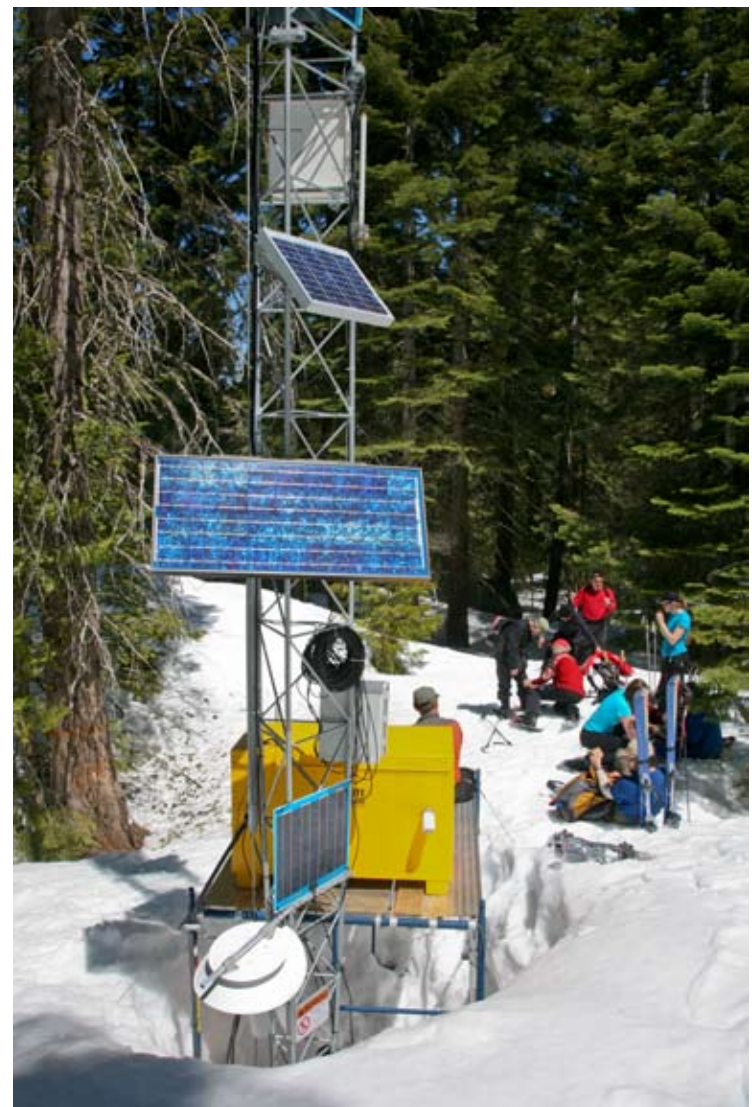
Operating revenues include receipts from student tuition and fees, grants and contracts for specific operating activities, and sales and services from educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of UC Merced are presented in the Statement of Revenues, Expenses and Changes in Net Assets.

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

The campus foundation was established to financially support UC Merced. Private gifts to the campus foundation are recognized as operating revenues on the Foundation's Financial Statements since, in contrast to the University, such contributions are fundamental to the core mission of the foundation. Foundation grants to UC Merced are recognized as operating expenses. When the gift is transferred from the foundation to UC Merced, the campus records the revenue as non-operating revenue.

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

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



STUDENT TUITION AND FEES:

Substantially all of the student tuition and fees provide for current operations of the campus. A small portion of student fees is required for debt service associated with the recreation center. Certain waivers of student tuition and fees considered scholarship allowances are recorded as an offset to revenue.

STATE APPROPRIATIONS:

The State of California provides appropriations to UC Merced on an annual basis. State educational appropriations are recognized as non-operating revenue; however, the related expenses are incurred to support either educational operations or other specific operating purposes. State financing appropriations provide for principal and interest payments associated with lease-purchase agreements with the State Public Works Board and are also reported as non-operating revenue.

State appropriations for capital projects are recorded as revenue on the Statement of Revenues, Expenses, and Changes in Net Assets, under Other Changes in Net Assets when the related expenditures are incurred. A special state appropriation for tobacco related disease research is reported as grant revenue.

GRANT AND CONTRACT REVENUE:

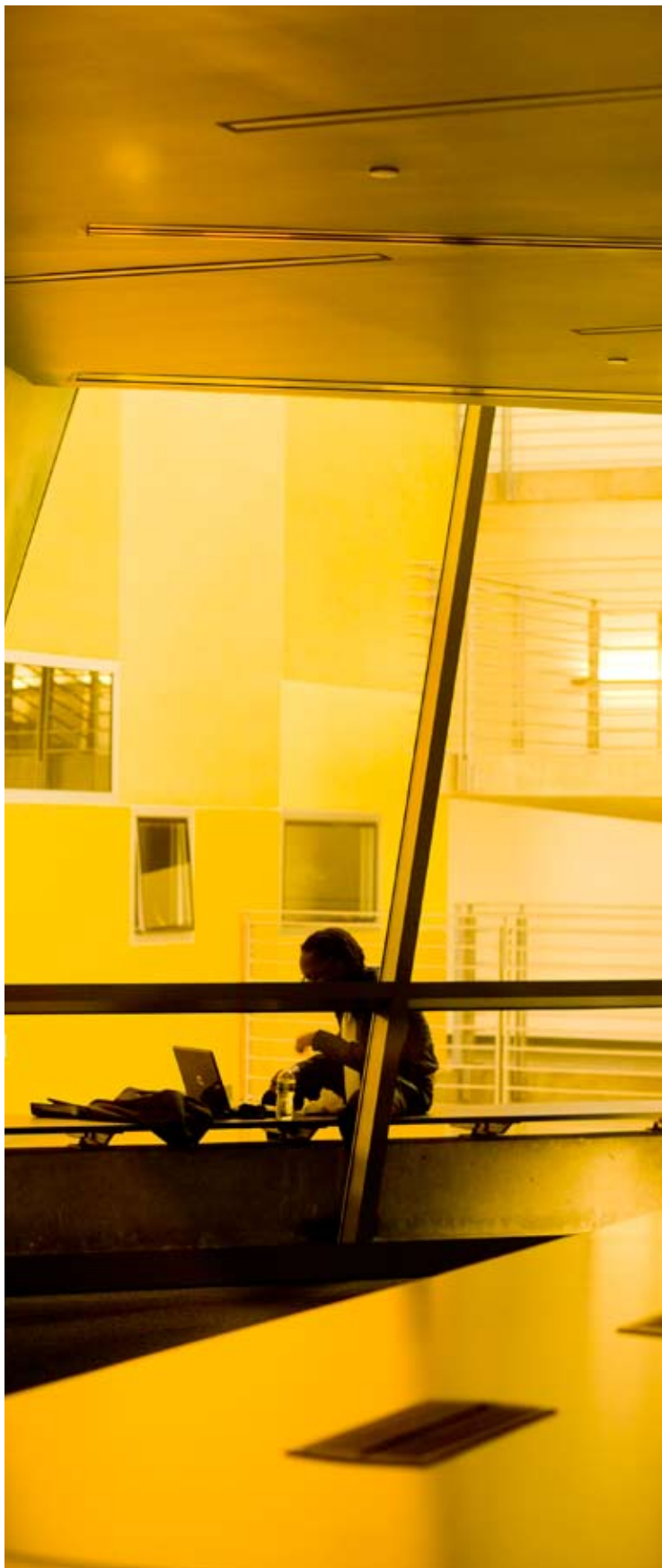
UC Merced receives grant and contract revenue from governmental and private sources. The campus recognizes revenue associated with the direct costs of sponsored programs as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs is at an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

For the fiscal year ended June 30, 2012 the facilities and administrative cost recovery totaled \$3,434,492 which consisted of \$249,800 from state sponsored programs, \$2,882,234 from federally sponsored programs and \$302,458 from other sponsors. For the fiscal year ended June 30, 2011, the facilities and administrative cost recovery totaled \$3,272,746, which consisted of \$319,377 from state sponsored programs, \$2,714,044 from federally sponsored programs and \$239,325 from other sponsors.

SCHOLARSHIP ALLOWANCES:

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





COMPENSATED ABSENCES:

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

UNIVERSITY OF CALIFORNIA RETIREMENT PLAN (UCRP) BENEFITS AND OBLIGATION TO UCRP:

The University's cost for campus UCRP benefits expense is based upon the annual required contribution to UCRP, as actuarially determined. Campus contributions toward UCRP benefits, at rates determined by the University, are made to UCRP and reduce the University's obligation to UCRP in the Statement of Net Assets.

RETIREE HEALTH BENEFITS AND OBLIGATIONS FOR RETIREE HEALTH BENEFITS:

The University's cost for campus retiree health benefits expense is based upon the annual required contribution to the retiree health plan, as actuarially determined. Campus contributions toward retiree health benefits, at rates determined by the University, are made to UCRHBT and reduce the obligation for retiree health benefits in the Statement of Net Assets.

UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT):

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

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

ENDOWMENT SPENDING:

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

TAX EXEMPTION:

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

USE OF ESTIMATES:

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

NEW ACCOUNTING PRONOUNCEMENTS:

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for the University's fiscal year beginning July 1, 2012. This Statement requires the University to report the activities for certain public-private partnerships as service concession arrangements in the financial statements. Service concession arrangements are recorded when the arrangements meet certain criteria which include building and operating a facility, obtaining the right to collect fees from third parties and transferring ownership of the facility to the University at the end of the arrangement. The University is evaluating the effect that Statement No. 60 will have on its financial statements.

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

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

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, effective for the University's fiscal year beginning July 1, 2013. This Statement revises existing standards for financial reporting for pension plans by changing the approach by measuring the net pension liability. The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that

plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. Statement No. 67 will affect the information presented in the footnotes to the financial statements and required supplementary information for UCRP. The University is evaluating the effect that Statement No. 67 will have on its financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for the University's fiscal year beginning July 1, 2014. This Statement revises existing standards for measuring and reporting pension liabilities for pension plans provided by the University to its employees. This Statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. As of June 30, 2012, the University reported an obligation to UCRP of \$1.9 billion, representing unfunded contributions to UCRP based upon the University's funding policy. Under Statement No. 68, The University's obligation to UCRP is expected to increase. The University is evaluating the effect that Statement No. 68 will have on its financial statements.



COMPARATIVE INFORMATION:

2011 financial information is included as comparative values to the 2012 presentation.

1. CASH AND CASH EQUIVALENTS

The University maintains centralized management for substantially all of its cash and cash equivalents. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis. All University operating entities invest surplus cash balances in a Short Term Investment Pool (STIP) and a Total Return Investment Pool (TRIP) managed by the Treasurer of the Regents. The Regents are responsible for managing the STIP and TRIP investments and establishing investment policy, which is carried out by the Treasurer of the Regents. At June 30, 2012 and 2011, the carrying amount of UC Merced's demand deposits was \$153,000 and \$180,000, respectively.

2. ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for uncollectible amounts at June 30, 2012 and 2011, are as follows:

(In Thousands of Dollars)

	State and Federal Government	Other	Total
At June 30, 2012			
Accounts receivable	\$12,871	\$1,730	\$14,601
Allowance for uncollectible amounts	—	(108)	(108)
Accounts receivable, net	\$12,871	\$1,622	\$14,493
At June 30, 2011			
Accounts receivable	\$10,784	\$2,933	\$13,717
Allowance for uncollectible amounts	—	(117)	(117)
Accounts receivable, net	\$10,784	\$2,816	\$13,600

Accounts receivable are primarily related to private grants and contracts, tuition and fees, and auxiliary enterprises.

3. PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2012, and 2011 is summarized as follows:

(In Thousands of Dollars)

	2012	2011
Total pledges receivable outstanding	\$765	\$715
Less: Unamortized discount to present value	(15)	(27)
Allowance for uncollectible amounts	(23)	(22)
Total pledges receivable, net	\$727	\$666
Less: Current portion of pledges receivable	304	146
Noncurrent portion of pledges receivable	\$423	\$520





Payments of pledges receivable for the fiscal years subsequent to June 30, 2012 and thereafter are as follows:

(In Thousands of Dollars)

Year ended June 30

2013	313
2014	263
2015	188

Total payments on pledges receivable \$764

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

The campus' capital asset activity for the years ended June 30, 2012 and 2011, is as follows:

(In Thousands of Dollars)

ORIGINAL COST	2011	ADDITIONS	DISPOSALS	2012
Land	12,029	0	0	12,029
Buildings & improvements	353,480	43,935	0	397,415
General Improvements/Infrastructure	49,356	1,750	(70)	51,036
Equipment	36,286	3,765	(259)	39,793
Software under \$10 million	1,527	56	0	1,583
Libraries & collections	10,492	1,522	0	12,013
Special collections	132	0	0	132
Third party capital assets	2,025	0	(2,025)	0
Construction in progress	52,382	*(4,647)	0	47,735
Capital assets at original cost	\$517,709	\$46,381	(\$2,354)	\$561,736

*Net change in expenses and capitalized projects

ACCUMULATED DEPRECIATION AND AMORTIZATION

	2011	ADDITIONS	DISPOSALS	2012
Buildings & improvements	64,018	13,538	0	77,556
General Improvements/Infrastructure	13,456	2,582	(14)	16,024
Equipment	18,885	4,000	(157)	22,728
Software under \$10 million	1,415	46	0	1,461
Libraries & collections	2,094	699	0	2,793
Third party capital assets	534	0	(534)	0
Total Accumulated Depreciation	\$100,402	\$20,865	(\$705)	\$120,562
Net Capital Assets	\$417,308			\$441,174

5. DEBT

The Regents of the University of California may finance the construction, renovation, and acquisition of certain facilities and equipment for UC Merced and other UC campuses through the issuance of debt obligations. Long-term financing includes revenue bonds, mortgages, capital lease obligations, and other borrowings. UC Merced's outstanding debt at June 30, 2012 and 2011 is as follows:

(In Thousands of Dollars)

	INTEREST RATE	MATURITY YEARS	2012	2011
Notes payable to UCOP	2.4% - 2.6%	Various	4,809	5,248
Endowment advances	Various	Various	41,994	37,691
Commercial Paper Advances	Various	Various	2,257	2,528
Capital lease obligations	3.49% - 4.03%	2012-2014	448	819
Mortgage	Various	2011-2018	0	536
Revenue Bonds*	Various	Various	165,024	165,318
Total Outstanding Debt			\$214,532	\$212,140

*Includes related debt from Invested In Capital Assets (Net of Related Debt) reflected on the Statement of Net Assets on page 21.

The Great Valley Center's separation from UC Merced effective July 01, 2011 was the result of a Transfer and Disposition Agreement that was entered into between the Great Valley Center and The Regents on behalf of UC Merced. This agreement released UC Merced from its contractual obligations for the Great Valley Center's mortgage for their office building located in Modesto.

6. SELF INSURANCE AND OTHER LIABILITIES

UC Merced's other liabilities consist of the following:

(In Thousands of Dollars)

	2012		2011	
	Current	Non-current	Current	Non-current
Compensated absences	2,578	3,938	2,466	3,717
Other liabilities	499	0	610	0
Total Other Liabilities	\$3,077	\$3,938	\$3,076	\$3,717

Changes in other non-current liabilities for the years ended June 30, 2012 and 2011 are as follows:

(In Thousands of Dollars)

Compensated Absences	2012	2011
Liabilities at June 30	3,717	1,808
New obligations	2,799	4,294
Reclassification to current	(2,578)	(2,385)
Liabilities at June 30	\$ 3,938	\$ 3,717

Self-insurance amounts are reflected as operating expenses in UC Merced's Statement of Revenues, Expenses and Changes in Net Assets. UC Merced's Financial Statements do not reflect any liability amounts for self-insurance claims as these estimated liabilities are recorded on a system-wide basis.





7. ENDOWMENTS AND FOUNDATION GIFTS

Endowment funds consist of monies gifted to UC Merced for which the donor has specified that only the earnings from investment of the principal may be expended. Expenditures of these funds are typically restricted to a specific purpose. Funds donated to UC Merced, like those donated to the nine other University of California campuses, are managed by the Treasurer of The Regents of the University of California.

The financial activities of the separately incorporated campus foundation are not included in UC Merced's Financial Statements until such time as gifts are transferred from the campus foundation to UC Merced. The portion of investment returns earned on endowments held by The Regents and distributed each year to support current operations is based on a rate (stated in dollars per share) that is approved by The Regents. The total distribution from endowments held by The Regents to UC Merced was \$1,290,398 and \$1,294,295 for fiscal years ended June 30, 2012 and 2011, respectively.

8. OPERATING EXPENSES BY FUNCTION

Operating expenses, by functional classification, for fiscal years ended June 30, 2012 and 2011, are as follows:

(In Thousands of Dollars)

	2012	2011
Instruction	33,786	28,389
Research	15,862	15,048
Public service	3,942	5,001
Academic support	14,686	12,013
Student services	14,220	9,540
Institutional support	34,435	27,955
Operations and maintenance of plant	14,718	12,863
Student financial aid	9,498	9,784
Auxiliary enterprises	13,617	11,752
Depreciation	20,865	19,552
Other	4,689	742
Total Operating Expenses	\$180,318	\$152,639

9. THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

Most employees of UC Merced participate in the University of California Retirement System (UCRS), a single employer, defined benefit plan funded with University and employee contributions; the University of California Retirement Savings Program (UCRSP), which includes four defined contribution plans with options to participate in internally and externally managed investment portfolios generally funded with employee non-elective and elective contributions; and the California Public Employees' Retirement System (PERS) Voluntary Early Retirement Incentive Program (PERS-VERIP), a defined benefit plan for University employees who were members of PERS who elected early retirement. The Regents has the authority to establish and amend the benefit plans.

10. UNIVERSITY OF CALIFORNIA RETIREMENT PLAN

The UCRP provides lifetime retirement income, disability protection, death benefits and pre-retirement survivor benefits to eligible employees. Benefits are based on the average of the highest three years of compensation, age; and years of service, and are subject to limited cost-of-living increases. Contributions to the UCRP may be made by the campus and by the employees. The rates for contributions as a percentage of payroll are determined annually pursuant to The Regents' funding policy and are based on recommendations of the consulting actuary. The Regents determine the portion of the total contribution to be made by the campus and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements.

The net assets held in trust for pension benefits attributable to the University's campuses and medical centers included in the UCRP Statement of Plan's Fiduciary Net Assets were \$41.8 billion and \$41.9 billion at June 30, 2012 and June 30, 2011, respectively.

University and employee contributions were \$1.9 billion and \$272.4 million, respectively, during the year ended June 30, 2012. University and employee contributions were \$1.7 billion and \$143.3 million, respectively, during the year ended June 30, 2011.



11. THE UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PROGRAM

The University of California Retirement Savings Program (UCRSP) plans (DC Plan, SDC Plan, 403(b) Plan and 457(b) Plan) provides retirement savings incentives that are generally available to all University employees. Participants' interests in plans are fully and immediately vested and are distributable at retirement, termination of employment or death. Participants may also elect to defer distribution until age 70 ½ or separation from service after age 70 ½, whichever is later, in accordance with Internal Revenue Code minimum distribution requirements. The plans also accept qualified rollover contributions.

The Defined Contribution (DC Plan) accepts both pre-tax and after-tax employee contributions that are fully vested. The University has a provision for matching employer and employee contributions to the DC Plan for certain summer session teaching or research compensation for eligible academic employees. The University may also make contributions in behalf of certain members of management. Employer contributions to the DC Plan were \$4.4 million and \$4.2 million for the years ended June 30, 2012 and 2011, respectively.

The Supplemental Defined Contribution (SDC Plan) accepts employer contributions in behalf of certain designated employees. Employer contributions are fully vested and there is no provision for employee contributions. There were no employer contributions to the SDC Plan for the years ended June 30, 2012 or 2011.

The University's Tax-Deferred 403(b) accepts pre-tax employee contributions. The University may also make contributions on behalf of certain members of management. Employer contributions to the 403(b) Plan were \$1.6 million and \$1.5 million for the years ended June 30, 2012 and 2011, respectively.



The University's 457 (b) Deferred Compensation Plan accepts pretax employee contributions. The University may also make contributions in behalf of certain members of management. There were no employer contributions to the 457(b) Plan for the years ended June 30, 2012 and 2011.

Information related to plan assets and liabilities, as they relate to campus employees, is not readily available. Additional information on the retirement plans can be obtained from the 2011-2012 annual report of the University of California Retirement System.

12. RETIREE HEALTH BENEFIT COSTS AND OBLIGATIONS

The University administers single-employer health plans to provide health and welfare benefits — primarily medical, dental and vision benefit to eligible retirees and their eligible family members (retirees) of the University of California and its affiliates. The Regents has the authority to establish and amend the benefit plans. Membership in the UCRP is required to become eligible for retiree health benefits.

13. CONTRIBUTION POLICY

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

Contributions toward medical and dental benefits are shared with the retiree. Contributions toward wellness benefits are made by the University. The University does not contribute toward the cost of other benefits available to retirees. Retirees employed by the campus prior to 1990 and not rehired after that date are eligible for the University's maximum contribution if they retire before the age of 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least five years of service. Retirees employed by the University after 1989 and not rehired after that date are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 % of the maximum University contribution, increasing to 100 % after 20 years of service.

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

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

Additional information on the retiree health plans can be obtained from the 2011-2012 annual report of the University of California Retiree Health Benefit Trust.

13. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

Amounts committed but unexpended for construction projects totaled \$97,733,719 and \$8,227,358 at June 30, 2012 and 2011, respectively. UC Merced leases buildings and equipment under agreements recorded as operating leases. The terms of operating leases extend through July 2015. Future minimum payments on operating leases with initial or remaining non-cancelable terms in excess of one year are as follows:

Yearly Schedule of Future Payments

Fiscal Year	Buildings	Equipment	Total
2012/2013	1,307,713	13,450	1,321,162
2013/2014	1,098,362	10,262	1,108,624
2014/2015	469,854	6,384	476,238
2015/2016	34,859	-	34,859
Grand Total	2,910,788	30,096	2,940,884

CONTINGENCIES

Substantial amounts are received and expended by UC Merced under federal and state grants and contracts and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, and other programs. UC Merced management believes that any liabilities arising from such audits will not have a material effect on UC Merced's Financial Statements. UC Merced is contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, UC Merced management and general counsel are of the opinion that the outcome of such matters will not have a material effect on UC Merced's financial position.







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