



UNIVERSITY OF CALIFORNIA, MERCED

2012–2013

Annual Financial Report

(unaudited)

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Message from Vice Chancellor Michael Reese

Dear Readers,

I am very pleased to present this Annual Financial Report for Fiscal Year 2012-13.

Despite facing unprecedented fiscal challenges over the last few years, the University of California continues to provide a high-quality and affordable education while also driving innovation through its research and public service. As new UC President Janet Napolitano says, “We teach for California. We research for the world.”

UC Merced is proud to be a part of that vision. As the UC System’s newest campus, UC Merced represents a strategic investment in California’s future economy within the San Joaquin Valley. Our contributions to date have been sizeable – over \$1.7 billion in direct expenditures statewide, of which over \$946 million is focused in the Valley.

Student demand is as strong as ever, realizing the vision of the campus’ founders by providing a unique first-class teaching and research experience to underserved and first generation students. Applications for admission continue to climb significantly as the campus’ reputation expands throughout California and the world. In fact, UC Merced is one of the fastest growing campuses within the University of California system, with total applications received during Fall 2013 up over 14 percent compared to Fall 2012. For the Fall 2013 freshmen admit class, 64 percent of admits were the first generation in their family to attend college. UC Merced has had the highest percentages of first generation college students and the highest admission rates within the University of California System for the past three years in a row.

UC Merced is now developing strategies for continuing to meet this demand. With the primary goal of supporting an enrollment level of 10,000 students and becoming a vibrant, collaborative and sustainable campus, we are undergoing a major project titled the 2020 Project designed to develop strategies to include facilities needed to support this ambitious undertaking. The project includes academic, administrative, research and recreational buildings, student residences and student service buildings, utilities and infrastructure, outdoor recreation areas and associated roadways, and parking and landscaping by the year 2020.

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,

Michael Reese
Vice Chancellor for Business and Administrative Services

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 (UC Merced), for the fiscal year ended June 30, 2013 with selected comparative information for the fiscal year ended June 30, 2012. This discussion should be read in conjunction with the financial statements and accompanying notes.

UC Merced is the newest of ten 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 statements of net position, the statements of revenues, expenses and changes in net position, and the statements of cash flows for UC Merced and the affiliated UC Merced Foundation. The financial statements for the UC Merced Foundation are presented discretely from UC Merced. The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements.

The University of California

The University of California, one of the largest and most acclaimed institutions of higher learning in the world, is dedicated to excellence in teaching, research, health care and public service. The University has annual resources of nearly \$25.1 billion and encompasses ten 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 UC Merced Campus

UC Merced is the newest campus within the University of California, opening in the fall of 2005 with the primary mission of research, teaching and service. The financial statements included in this annual report encompass the following:

The Merced campus spans 7,045 acres in Merced and is devoted to undergraduate and graduate scholarship serving over 6,000 students in the following schools and graduate programs:

Academic Schools and Divisions

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

Graduate Studies

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

* Emphasis within the Individual Graduate Program

During the 2012-2013 academic year, receiving more than 15,000 applications for Fall 2012, UC Merced was able to enroll nearly 5,800 students. This marks the eighth academic year for UC Merced with record enrollment. The increase is attributed to a record high of 1,500 incoming freshmen and a 23% increase in graduate-student enrollment. The number of applications received was up nearly 10% from Fall 2011. During the year, the campus's graduating class increased by over 30% to 898 degrees awarded in the 2012-2013 academic year as compared to 683 degrees in the prior year. The increase has led to aggressive faculty hiring, adding 26 new faculty members to teach and conduct advanced research increasing the total size of UC Merced's ladder-rank faculty to more than 150, compared with just 60 when the campus opened in 2005. While UC Merced consists of three schools, the School of Engineering, Natural Sciences, and Social Sciences, Humanities and Arts, there are plans to open two additional schools, a school of management and school of medicine in the future.

The campus' mission also includes a strong dedication to research and public service, embodied in its proud claim of being the first American research university of the 21st century. The amount of money spent at UC Merced on research, including graduate student salaries and benefits, along with supplies and equipment for research projects was \$33.7 million for fiscal year 2013 as compared to \$32.3 million for 2012. The UC Merced library provides access to approximately 70,000 online journals 580 databases, 102,000 books and almost 4.0 million 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.

In addition to its educational and research 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 \$946 million to the valley economy in wages and benefits, employing over 1,300 employees, construction contracts to local businesses and goods and services purchased from local businesses. Statewide, UC Merced's cumulative economic contribution has exceeded \$1.7 billion since the campus opened.

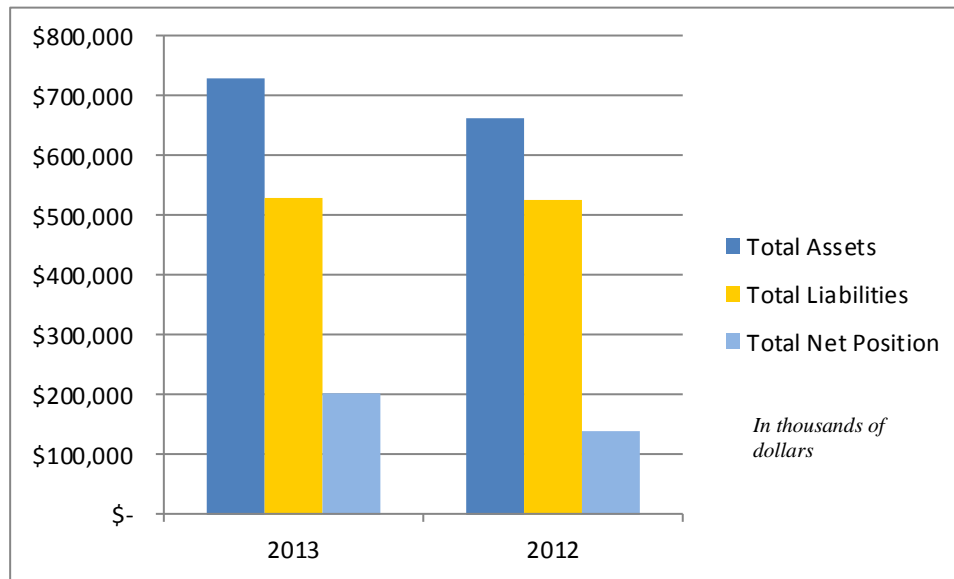
UC Merced is considered a leader in sustainability design and construction with a commitment to being zero waste and zero net emissions by 2020. All of UC Merced's buildings are certified by the 3rd party verification system, Leadership in Energy and Environmental Design (LEED) with the vision of LEED Gold being the campus minimum for all projects since 2009.

While UC Merced's financial information concerning assets, liabilities, revenues and core activity expenditures is discussed in further detail in the subsequent sections of the MD&A, the following table reflects the composition of the campus for 2013, listing enrollment figures, full-time equivalent employee figures and operating expenses by school.

(\$ amounts in thousands)

	Headcount		FTE		Salaries & Wages	Other Expenditures	Total Expenditures
	Under-graduates	Graduates	Employees				
School of Engineering	1,027		120	\$	9,099	\$ 5,648	\$ 14,747
School of Natural Sciences	1,749		219		13,201	9,448	22,649
School of Social Sciences, Humanities & Arts	2,002		252		11,209	6,525	17,734
Graduate Studies		329	7		600	429	1,029
Undeclared	670						
All others, including auxiliaries, student services, etc.			705		52,109	71,905	124,014
Subtotal	5,448	329	1,303	\$	86,218	\$ 93,955	\$ 180,173
Depreciation Expense							21,294
Total							<u>\$ 201,467</u>

The Campus' Financial Position



The statement of net position presents UC Merced's financial position at the end of the fiscal year. It displays all of UC Merced's assets and liabilities. The difference between assets and liabilities is net position.

The Campus' Assets

UC Merced's total assets have grown to \$728.2 million in 2013, compared to \$662.8 million in 2012. Generally, over the past two years, capital assets and cash and cash equivalents have increased.

Cash and cash equivalents increased by \$20.5 million from the prior year due primarily to an increase in state educational appropriations to meet operating needs, which offset a decline in contracts and grants receipts from state resources as compared to the prior year. Accounts receivable increased from \$14.5 million in 2012 to \$16.6 million in 2013 primarily due to timing of receipts of state financing appropriations.

Capital spending continues to increase in order to provide the facilities necessary to support UC Merced's teaching, research and public service mission. The facilities include core academic buildings, a library, student services, housing and auxiliary enterprises, utility plant and infrastructure. Total additions to capital assets were \$86.5 million in 2013 compared to \$46.4 million in the prior year. Capitalized buildings and improvements include a new science and engineering building which is in progress of being constructed, a student services building, and a new 364 bed student housing building.

The Campus' Liabilities

Campus liabilities remained relatively unchanged in 2013 as compared to the prior year. Current liabilities increased by \$9.8 million compared to 2012 primarily due to an increase in salary and wage liabilities and an increase in accounts payable to vendors for goods and services, both of which are due to timing of payment. Further, the increase in current liabilities was offset by a \$8.0 million decrease in long-term debt as a result of normal debt service on capital lease obligations.

The Campus' Net Position

Net position represents the residual interest in UC Merced's assets after all liabilities are deducted. During the year, net position increased from \$137.2 million to \$200.7 million due primarily to its continued investment in its physical facilities.

The Campus' Results of Operations

The statement of revenues, expenses and changes in net position 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 operational support of the core instructional mission of the campus are required to be recorded as nonoperating revenues, including state educational appropriations, private gifts, and investment income.

A summarized comparison of the operating results from 2013 and 2012, arranged in a format that matches the revenue supporting the core activities of UC Merced with the expenses associated with core activities, is as follows:

(in thousands of dollars)

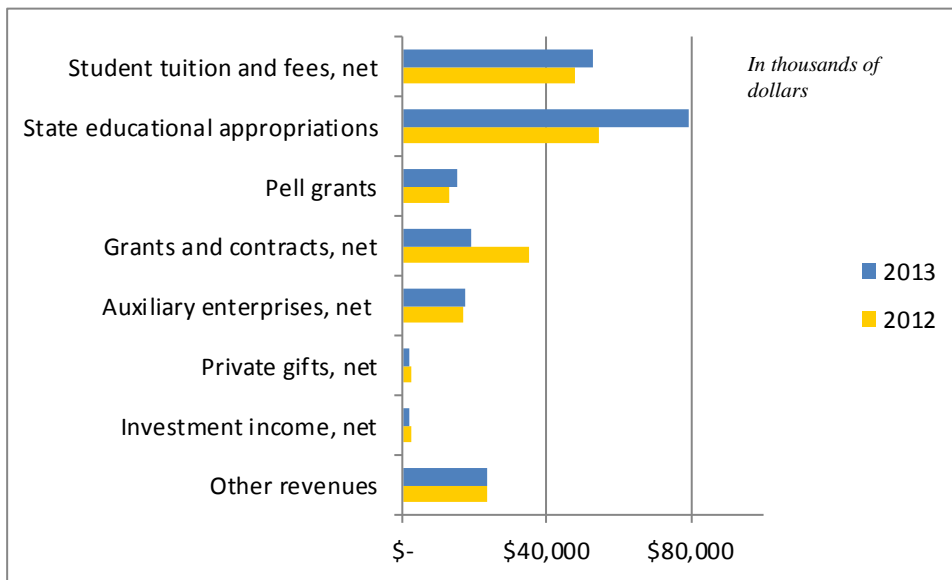
	2013			2012		
	Operating	Nonoperating	Total	Operating	Nonoperating	Total
REVENUES						
Student tuition and fees, net	\$ 52,907		\$ 52,907	\$ 47,673		\$ 47,673
State educational appropriations		\$ 79,573	79,573		\$ 54,549	54,549
Pell grants		14,805	14,805		12,939	12,939
Grants and contracts, net	18,858		18,858	35,027		35,027
Auxiliary enterprises, net	17,538		17,538	17,012		17,012
Private gifts, net		1,858	1,858		2,364	2,364
Investment income, net		1,792	1,792		2,166	2,166
Other revenues	5,553	17,917	23,470	4,954	18,225	23,179
Revenues supporting core activities	94,856	115,945	210,801	104,666	90,243	194,909
EXPENSES						
Salaries and benefits	118,423		118,423	102,857		102,857
Scholarships and fellowships	12,438		12,438	9,498		9,498
Utilities	3,575		3,575	4,377		4,377
Supplies and materials	17,583		17,583	17,747		17,747
Depreciation and amortization	21,294		21,294	20,865		20,865
Interest expense		16,224	16,224		17,200	17,200
Other expenses	28,154	911	29,065	24,975	1,673	26,648
Expenses associated with core activities	201,467	17,135	218,602	180,319	18,873	199,192
Income (loss) from core activities	\$ (106,611)	\$ 98,810	\$ (7,801)	\$ (75,653)	\$ 71,370	\$ (4,283)
OTHER CHANGES IN NET POSITION						
Capital gifts and grants, net			6,470			17,450
State capital appropriations			1,576			2,087
Contributions from the University for building programs			50,656			21,914
Other transfers			12,578			840
Increase in net position			63,479			38,008
NET POSITION						
Beginning of year			137,175			99,167
End of year			\$ 200,654			\$ 137,175

Revenues Supporting Core Activities

Revenues to support UC Merced's core activities, including those classified as nonoperating revenues, grew from \$194.9 million in 2012 to \$210.8 million in 2013, an increase of 15.9 million.

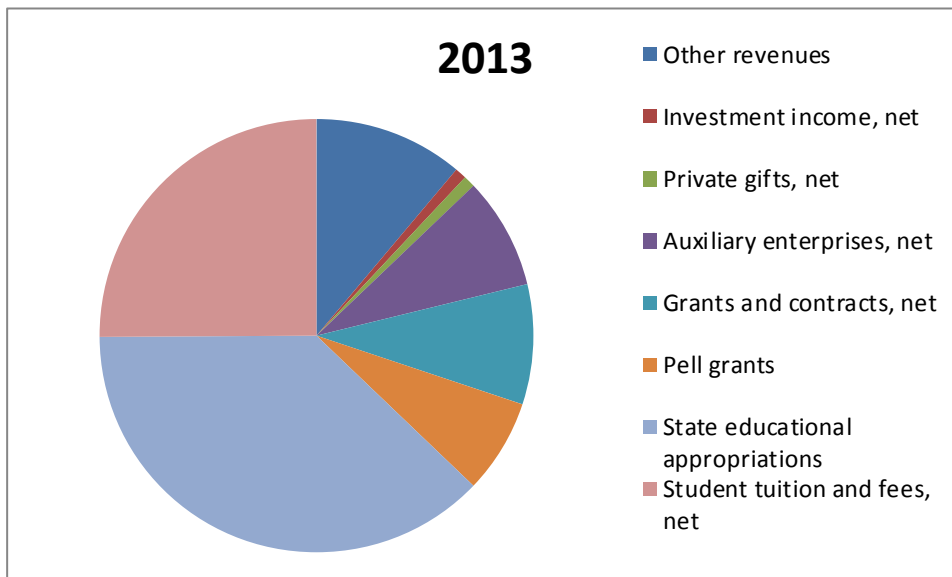
State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of the University. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside 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.

Revenues in various categories have increased or decreased over the last year as follows:



A major financial strength of UC Merced includes a diverse source of revenues, including those from student fees, federally sponsored grants and contracts, the state of California, private support, self-supporting enterprises, and the commitment of the University of California ensuring UC Merced's success as a newer campus within the UC System.

Categories of both operating and nonoperating revenue that supported UC Merced's core activities in 2013 are as follows:



Student Tuition and Fees revenue, net of scholarship allowances, increased by \$5.2 million and account for 25% of UC Merced's revenue.

(in thousands of dollars)

	2013	2012
Student tuition and fees	\$ 77,695	\$ 68,956
Summer sessions	5,619	5,306
Scholarship allowances	(30,407)	(26,589)
Total student tuition and fees	\$ 52,907	\$ 47,673

Student enrollment increased by 11% on a year-over-year basis with enrolled students of 5,777 and 5,210 in the fall of 2012 and 2011, respectively. Student tuition and fees increased 12.7% in 2013 over the prior year, primarily as a result of increased student enrollment. Consistent with past practices, approximately one-third of the revenue generated from tuition and fees was used for financial aid. The increase in enrollment also resulted in a 14% increase in scholarship allowances.

State educational appropriations from the state of California was \$79.6 million and 54.5 million in 2013 and 2012, respectively, accounting for 38% of UC Merced's revenue. While the University of California received a 10% increase in state educational appropriations from the state of California due to tax initiatives approved by the voters of California in November 2012, UC Merced's share, an allocation determined by the University, increased by 18% as a result of the University's commitment to UC Merced's growth. The remaining \$15.0 million is due to start-up funding received from the State to support the growth of UC Merced classified in previous years as operating revenue with state grant and contracts revenue.

Grants and Contracts, net from federal, state, and private sources recognized as expenditures incur, including an overall facilities and administration cost recovery of \$3.4 million in both 2013 and 2012, was \$18.9 million and \$35.0 million.

(in thousands of dollars)

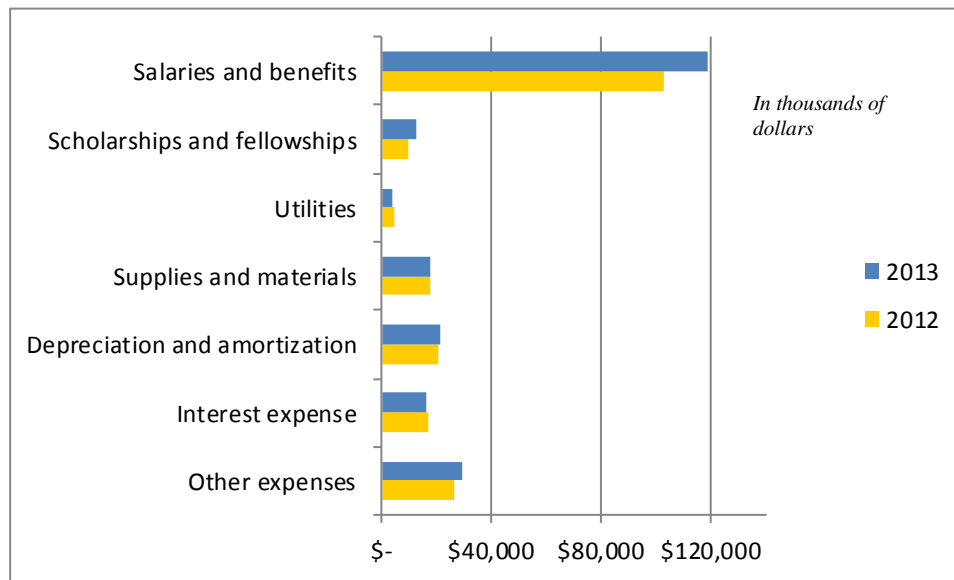
	2013	2012	Change
Federal government	\$ 14,700	\$ 15,245	\$ (545)
State agencies	1,389	18,501	(17,112)
Private industries	2,769	1,281	1,488
Total grants and contracts, net	\$ 18,858	\$ 35,027	\$ (16,169)

State grant and contract revenue decreased by \$17.1 million from 2012 primarily due from state appropriations related to the planning, start-up, and on-going support for the UC Merced campus. In 2013, the State included amounts for this activity as a special appropriation separate from state educational appropriations, which are classified as nonoperating revenue; however, due to changes in the state budget for fiscal year 2013, these amounts are grouped with state educational appropriations for 2013.

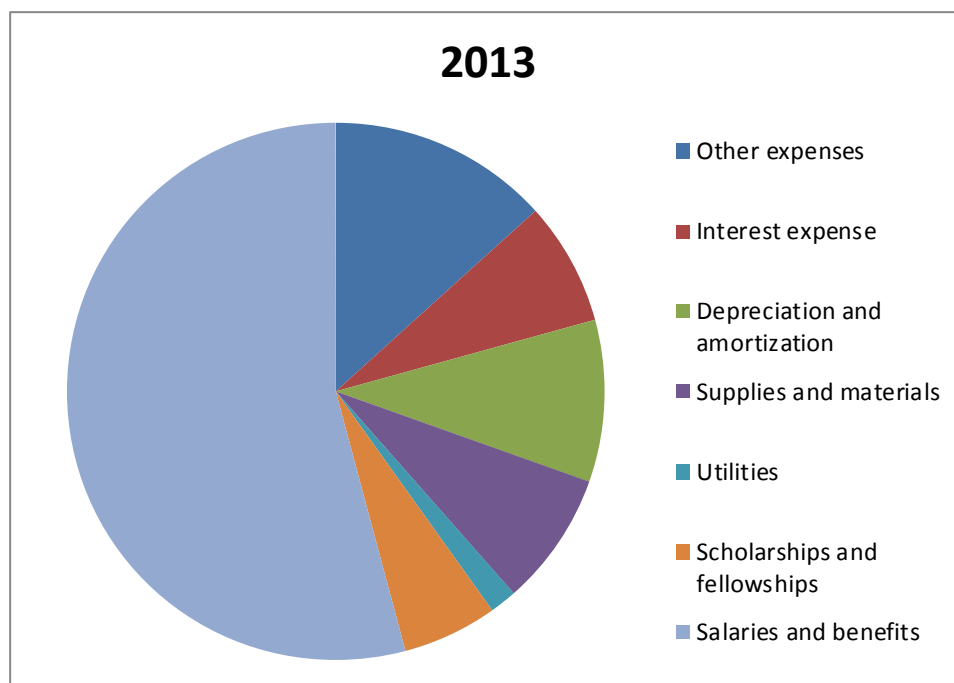
Expenses Associated with Core Activities

Expenses associated with UC Merced's core activities, including those classified as nonoperating expenses, were \$218.6 million and \$199.2 million in 2013 and 2012, respectively. Expenses increased in 2013 by \$19.4 million, due to higher salaries and benefits and an increase in payments to students for financial aid.

Expenses in the various categories have increased or decreased over the last year as follows:



Categories of both operating and nonoperating expenses that support core activities, as of June 30, 2013 are as follows:



Salaries and benefits cover approximately 1303 full-time-equivalent (FTE) positions, a 12% increase over the prior year. Over 54% of UC Merced's expenses are related to salaries and benefits, which increased by \$15.6 million. In 2013, salaries increased by 15.1%, \$11.8 million due to an increase in the number of FTEs and \$3.8 million due to an increase in the average salary per FTE. In 2012, salaries increased by 17.1%, \$9.8 million due to an increase in the number of FTEs and \$5.3 million due to an increase in the average salary per FTE. Employee benefits increased by 21% due to increased contributions to pension benefits, as determined by the University and higher health insurance costs.

Scholarship and fellowships, represented as payments of financial aid made directly to students, UC Merced places a high priority on student financial aid as part of its commitment to affordability. Reported as operating expenses, UC Merced experienced an increase of \$2.9 million or 31.0% in 2013.

Scholarship allowances, representing financial aid and fee waivers awarded by UC Merced, were \$36.6 million and \$32.4 million in 2013 and 2012, respectively. On a combined basis, as UC Merced continues its commitment to provide financial support for needy students, financial aid in all forms increased by \$7.1 million or 17.1%.

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

Operating Losses

In accordance with the GASB's reporting standards, operating losses were \$106.6 million and \$75.7 million in 2013 and 2012, respectively. The operating loss in 2013 was partially offset by \$98.8 million of net revenue that is required by the GASB to be classified as nonoperating, but clearly supports core operating activities. Expenses associated with core activities in 2013 exceeded revenue available to support core activities by \$7.8 million.

The operating loss in 2012 was partially offset by \$71.4 million of net revenue that is required by the GASB to be classified as nonoperating, but clearly supports core operating activities of the University. Expenses associated with core activities in 2012 exceeded revenue available to support core activities by \$4.3 million.

Other Changes in Net Position

Similar to other nonoperating activities discussed above, other changes in net position are also not available to support the University's operating expenses in the current year. State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital assets. Only income earned from gifts of permanent endowments is available in future years to support the specified program. UC Merced's enrollment growth requires new facilities; however, while other higher education institutions have a continuing need for renewal, modernization and seismic correction of existing facilities, because UC Merced is a newer campus fit to meet all safety regulations and meet most modern needs, we can put a higher level of our funds towards growing the campus with new facilities.

The Campus' Cash Flows

The statement of cash flows presents the significant sources and uses of cash. A summary comparison of cash flows for 2013 and 2012 is as follows:

(in thousands of dollars)

	2013	2012
Cash received from operations	\$ 108,989	\$ 113,947
Cash payments for operations	(172,152)	(163,146)
Net cash used by operating activities	(63,163)	(49,199)
Net cash provided by noncapital financing activities	96,354	71,600
Net cash provided by operating and noncapital financing activities	33,191	22,401
Net cash used by capital and related financing activities	(14,410)	(11,688)
Net cash provided (used) by investing activities	1,712	1,699
Net increase (decrease) in cash	20,493	12,412
Cash, beginning of year	86,941	74,529
Cash, end of year	\$ 107,434	\$ 86,941

UC Merced's cash, primarily held in demand deposit accounts, is minimized by sweeping available cash balances into investment accounts managed by the Office of the President on a daily basis.

Cash provided by operating and noncapital financing activities were \$33.2 million and \$22.4 million in 2013 and 2012, respectively. In accordance with GASB requirements, certain cash flows relied upon for fundamental operational support of the core instruction mission are reported as noncapital financing activities, including state educational appropriations, private gifts and grants, and investment income.

Net cash of \$14.4 million and \$11.7 million was used in 2013 and 2012, respectively, for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments, partially offset by sources that include state and federal capital appropriations, gifts for capital purposes, and contributions from the University to partially fund capital purchases.

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 (the Foundation), its assets are dedicated for the benefit of UC Merced.

During the years ended June 30, 2013 and 2012, gifts of \$1.7 million and \$2.0 million, respectively were transferred to UC Merced from the UC Merced Foundation. In 2013 and 2012, the Foundation's net position was \$8.1 million and \$7.6 million respectively.

The Foundation's Financial Position

The Foundation's statement of net position presents their financial position at the end of the year. It displays all of the assets, liabilities and net position. The difference between assets and liabilities are net position, representing a measure of their current financial condition.

The major components of the assets, liabilities and net position of the Foundation at 2013 and 2012 are as follows:

(in thousands of dollars)

	2013	2012
ASSETS		
Investments	\$ 6,897	\$ 5,772
Pledges receivable, net	1,054	1,608
Other assets	149	193
Total assets	8,100	7,573
LIABILITIES		
Accounts payable and other liabilities	37	11
Total liabilities	37	11
NET POSITION		
Restricted:		
Nonexpendable	5,801	5,164
Expendable	1,877	2,022
Unrestricted	385	376
Total net position	\$ 8,063	\$ 7,562

Investments increased in 2013 due to strong performance in the equity markets and a new \$0.5 million endowment received during the year for scholarships. The Foundation Board of Trustees is responsible for its specific investment policy, although the Foundation relies on the Investment Committee of The Regents. All of the Foundation's investments are managed by the University's Chief Investment Officer.

Pledge receivables decreased by \$554 thousand due primarily to collections of existing pledges offset by a new \$110 thousand pledge received in 2013.

The Foundation's Results of Operations

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

A summarized comparison of the operating results for 2013 and 2012 is as follows:

(in thousands of dollars)

	2013	2012
Operating revenues		
Private gifts and other revenues	\$ 983	\$ 1,205
Total operating revenues	983	1,205
Operating expenses		
Grants to campuses and other expenses	1,797	2,173
Total operating expenses	1,797	2,173
Operating income (loss)	(814)	(968)
NONOPERATING REVENUES (EXPENSES)		
Investment income	77	87
Net appreciation (depreciation) in fair value of investments	615	(136)
Income (loss) before other changes in net position	(122)	(1,017)
OTHER CHANGES IN NET POSITION		
Permanent endowments	623	15
Increase (decrease) in net position	501	(1,002)
NET POSITION		
Beginning of year	7,562	8,564
End of year	\$ 8,063	\$ 7,562

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

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

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

Financial Statements Transmittal Letter

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, 2013 and 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' financial statements under a separate column titled "UC Merced Foundation."

Respectfully submitted,

Michael R Riley, CPA
Interim Controller – Business and Financial Services

University of California, Merced
STATEMENTS OF NET POSITION
At June 30, 2013 and 2012 *(in thousands of dollars)*

	Campus		Foundation	
	2013	2012	2013	2012
Assets				
Cash and cash equivalents	\$ 107,434	\$ 86,941	\$ 5	\$ 5
Accounts receivable, net	16,600	14,493		
Pledges receivable, net	255	304	394	598
Inventories	706	612		
Other current assets			144	188
Current assets	124,995	102,350	543	791
Investments	23,111	21,130	6,897	5,772
Investments held by trustees	68,233	92,306		
Pledges receivable, net	112	423	660	1,010
Capital assets, net	506,274	441,175		
Other noncurrent assets	5,458	5,459		
Noncurrent assets	603,188	560,493	7,557	6,782
Total assets	728,183	662,843	8,100	7,573
Liabilities				
Accounts payable	16,992	13,099	12	11
Accrued salaries	5,297	675		
Employee benefits	1,157	1,585		
Unearned revenue	1,016	1,232	25	
Commercial paper	8,763	8,411		
Current portion of long-term debt	9,625	9,219		
Funds held for others	645	428		
Other current liabilities	6,297	5,335		
Current liabilities	49,792	39,984	37	11
Long-term debt	474,174	482,907		
Other noncurrent liabilities	3,563	2,777		
Total Noncurrent Liabilities	477,737	485,684	-	-
Total Liabilities	527,529	525,668	37	11
Net position				
Invested in capital assets net of related debt	84,954	35,496		
Restricted:				
Nonexpendable:				
Endowments and gifts	15,630	15,141	5,801	5,164
Expendable:				
Endowments and gifts	14,957	18,027	1,877	2,022
Other	1,087	271		
Unrestricted	84,026	68,240	385	376
Total net position	\$ 200,654	\$ 137,175	\$ 8,063	\$ 7,562

See Accompanying Notes to Financial Statements

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITIONAs of for the year then ended June 30, 2013 and 2012 *(in thousands of dollars)*

	Campus		Foundation	
	2013	2012	2013	2012
OPERATING REVENUES				
Student tuition and fees, net	\$ 52,907	\$ 47,673		
Grants and contracts, net				
Federal	14,700	15,245		
State	1,389	18,501		
Private	2,769	1,281		
Auxiliary enterprises, net	17,538	17,012		
Campus foundation private gifts			\$ 870	\$ 1,106
Other operating revenues, net	5,553	4,954	113	99
Total operating revenues	94,856	104,666	983	1,205
OPERATING EXPENSES				
Salaries and wages	86,218	76,274		
UCRP benefits	7,333	4,691		
Retiree health benefits	1,782	2,124		
Other employee benefits	23,090	19,768		
Supplies and materials	17,583	17,747		
Depreciation and amortization	21,294	20,865		
Scholarships and fellowships	12,438	9,498		
Utilities	3,575	4,377		
Campus foundation grants			1,698	2,018
Other operating expenses	28,154	24,975	99	155
Total operating expenses	201,467	180,319	1,797	2,173
Total operating loss	(106,611)	(75,653)	(814)	(968)
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	79,573	54,549		
State financing appropriations	16,330	16,354		
Federal financing appropriations	1,587	1,871		
Federal pell grants	14,805	12,939		
Private gifts, net	1,858	2,364		
Investment income:				
Short Term Investment Pool and other, net	1,170	1,422		
Endowment, net	622	744		
Campus foundations			77	87
Net appreciation (depreciation) in fair value of investments			615	(136)
Interest expense	(16,224)	(17,200)		
Loss on disposal of capital assets	(139)	(1,650)		
Other nonoperating (expenses) revenues, net	(772)	(23)		
Net nonoperating revenues	98,810	71,370	692	(49)
Income (loss) before other changes in net position	(7,801)	(4,283)	(122)	(1,017)
OTHER CHANGES IN NET POSITION				
Capital gifts and grants, net	6,470	17,450		
State capital appropriations	1,576	2,087		
Permanent endowments			623	15
Contributions from the University for the building program	50,656	21,914		
Other transfers	12,578	840		
Increase (decrease) in net position	63,479	38,008	501	(1,002)
NET POSITION				
Beginning of year	137,175	99,167	7,562	8,564
End of Year	\$ 200,654	\$ 137,175	\$ 8,063	\$ 7,562

See Accompanying Notes to Financial Statements

STATEMENTS OF CASH FLOWSAs of for the year then ended June 30, 2013 and 2012 *(in thousands of dollars)*

	Campus		Foundation	
	2013	2012	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	\$ 52,978	\$ 47,723		
Grants and contracts	22,530	34,564		
Auxiliary enterprises	17,500	17,164		
Campus foundation private gifts			\$ 1,449	\$ 1,890
Payments to employees	(81,921)	(81,004)		
Payments to suppliers and utilities	(45,320)	(46,166)		
Payments to UCRP	(7,703)	(4,506)		
Payments for retiree health benefits	(1,782)	(2,278)		
Payments for other employee benefits	(22,988)	(19,694)		
Payments for scholarships and fellowships	(12,438)	(9,498)		
Payments to campuses and beneficiaries			(1,698)	(2,018)
Other receipts (payments)	5,553	3,654	15	(47)
Transfers	10,428	10,842		
Net cash used by operating activities	(63,163)	(49,199)	(234)	(175)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	79,573	54,549		
Federal pell grants	14,840	12,917		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes			623	15
Other private gifts	2,218	2,303		
Student direct lending receipts	25,995	23,127		
Student direct lending payments	(25,995)	(23,127)		
Other receipts (payments)	(934)	1,831		
Transfers	657	-		
Net cash provided by noncapital financing activities	96,354	71,600	623	15
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
State capital appropriations	5,900	16,165		
State financing appropriations	16,386	16,400		
Federal financing appropriations	1,587	1,659		
Capital gifts and grants	1,495	1,588		
Proceeds from debt issuance	27,162	2,730		
Purchases of capital assets	(116,328)	(48,028)		
Scheduled principal paid on debt & capital leases	(361)	(612)		
Interest paid on debt and capital leases	(16,089)	(17,525)		
Transfers	65,838	15,935		
Net cash used by capital and related financing activities	(14,410)	(11,688)	-	-
Cash Flows from Investing Activities				
Proceeds from sale & maturities of investments			1,795	2,165
Purchase of investments			(2,262)	(2,092)
Investment income, net of investment expenses	1,712	1,699	78	87
Net cash provided (used) by investing activities	1,712	1,699	(389)	160
Net increase (decrease) in cash and cash equivalents	20,493	12,412	-	-
Cash and cash equivalents, beginning of year	86,941	74,529	5	5
Cash and cash equivalents, end of year	\$ 107,434	\$ 86,941	\$ 5	\$ 5

See Accompanying Notes to Financial Statements

UC Merced

Notes to Financial Statements (unaudited)

Years ended June 30, 2013, and 2012

Organization

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

Financial Reporting Entity

The University of California, Merced (UC Merced) campus is the tenth and newest of the University of California’s campuses, established in 2005. UC Merced was the first American research university to be built in the 21st century. The financial statements included in this annual report present the activities of the Merced campus. The University of California System is subject to an annual audit of the consolidated statements, of which UC Merced is a part. The financial statements for the Merced campus have not been individually audited.

The UC Merced Foundation (the Foundation) is a 501(c)3 organization established for the purpose of encouraging voluntary private gifts, trusts, and bequests for the benefit of UC Merced. The financial activities of the separately incorporated Foundation are not reflected in the campus’ records until such time as gifts are transferred from the Foundation to the campus.

In accordance with the statements of the Governmental Accounting Standards Board (GASB), Foundation activity is disclosed on UC Merced’s financial statements in a separate column.

Significant Accounting Policies

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

The significant accounting policies followed by UC Merced are as follows:

Cash and cash equivalents. UC Merced considers all balances in demand deposit accounts to be cash.

Investments. Investments are carried at fair value. Investments consist of investments in the UC Regents General Endowment Pool (“GEP”). The basis of determining the fair value of pooled funds or mutual funds is determined as the number of units held in the pool multiplied by the price per unit share.

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, net of allowance for uncollectible amounts, of private gifts to UC Merced or to the UC Merced Foundation 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. Receivables and contribution revenue

associated with externally-held investment trusts are not reflected in the accompanying financial statements. UC Merced recognizes contribution revenue when all eligibility requirements have been 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.

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 asset, net. 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. Equipment under capital leases is amortized over the estimated useful life of the equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the life of the applicable lease, or the economic life of the asset.

Estimated economic lives are generally as follows:

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

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

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

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

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

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.

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 position includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

Self-insurance programs. The University is self-insured or insured through a wholly-owned captive insurance company for medical malpractice, 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 on a systemwide basis 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. These amounts are reflected as operating expenses in UC Merced's statement of revenue, expenses, and changes in net position. UC Merced's financial statements do not reflect any liabilities for self-insurance claims, as these estimated liabilities are recorded on a systemwide basis.

Net position. Net position is 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 and the Foundation classify the net position resulting from transactions with purpose restrictions as restricted net position until the specific resources are used for the required purpose, or for as long as the provider requires the resources to remain intact.

Nonexpendable. The net position subject to externally imposed restrictions that must be retained in perpetuity by UC Merced or the Foundation, is classified as nonexpendable net position. This includes UC Merced and the Foundation permanent endowment funds.

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

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

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

Revenues and expenses. Operating revenues of UC Merced 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 position as operating activities.

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 nonoperating revenues, including state educational appropriations, certain federal grants for student financial aid, private gifts, and investment income, since the GASB does not consider them to be related to the principal operating activities of UC Merced.

The Foundation was established to financially support UC Merced. Private gifts to the Foundation are recognized as operating revenues 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

by the Foundation. Private gift or capital gift revenues associated with the Foundation grants to UC Merced are recorded by UC Merced as gifts when the Foundation transfers the gift to UC Merced.

Nonoperating revenues and expenses include state educational appropriations, state financing appropriations, federal pell grants, 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 position.

Student tuition and fees. Substantially all of the student tuition and fees provide for current operations of UC Merced. A small portion of student fees is required for debt service associated with the recreation center.

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

Scholarship allowances are netted in the statement of revenues, expenses and changes in net position for the years ended June 30, 2013 and 2012 as follows:

(in thousands of dollars)

	2013	2012
Student tuition and fees	\$ 30,407	\$ 26,589
Auxiliary enterprises	6,063	5,693
Other operating revenues	82	73
Scholarship allowances	\$ 36,552	\$ 32,355

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

Grant and Contract revenue, net. 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 U.S. Department of Health and Human Services. For the year ended June 30, 2013 the facilities and administrative cost recovery totaled \$3,367 which consisted of \$200 from state sponsored programs, \$2,800 from federally sponsored programs and \$367 from other sponsors. For the fiscal year ended June 30, 2012, the facilities and administrative cost recovery totaled \$3,434, which consisted of \$250 from state sponsored programs, \$2,882 from federally sponsored programs and \$302 from other sponsors.

University of California Retirement Plan (UCRP) benefits. 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 effectively made to a cost-sharing single-employer defined benefit pension plan administered by the University. As a result, UC Merced's required contributions, if any, are recognized as an expense in the statement of revenues, expenses and changes in net position.

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 recognized as an expense in the statement of revenues, expenses and changes in net position.

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

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

Tax exemption. The University, which includes 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 and the reported amounts of revenues and expenditures during the reporting period. Although management believes the estimates and assumptions are reasonable, they are based upon information available at the time the estimates and judgment is made and actual amounts could differ from those estimates.

New accounting pronouncements. 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. 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, 2013, the University reported an obligation to UCRP of \$3.4 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.

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

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

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*, effective for the University's fiscal year beginning July 1, 2014. This Statement addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The University is evaluating the effect that Statement No. 71 will have on its financial statements.

Comparative information. 2012 financial information is included as comparative values to the 2013 presentation.

1. Cash and Cash Equivalents

Cash and cash equivalents consist of balances in bank demand deposits and funds held with the University. UC Merced invests surplus cash balances in the University of California's Short Term Investment Pool (STIP) as managed by the Chief Investment Officer of the University. Substantially all of UC Merced's cash is deposited into the STIP. Deposits into STIP are considered demand deposits. Unrealized gains and losses associated with the fluctuation in the fair value of the investment included in STIP are not recorded by UC Merced but are absorbed by the University as manager of the pool.

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

(in thousands of dollars)

	UC Merced		UC Merced Foundation	
	2013	2012	2013	2012
Checking accounts	\$ 326	\$ 153	\$ 5	\$ 5
University of California Managed Short-Term Investment Pool (STIP)	107,108	86,788	-	-
Total cash and cash equivalents	\$ 107,434	\$ 86,941	\$ 5	\$ 5

The checking accounts at June 30, 2013 and 2012 were insured by federal depository insurance. UC Merced and UC Merced Foundation minimizes cash balances held in checking accounts by sweeping available balances into investment accounts on a regular basis. To mitigate the risk of custodial credit risk, UC Merced's cash and investments have been placed with high quality counter parties.

The University of California's STIP invests primarily in U.S. Treasury securities, prime-grade commercial paper, and short-term corporate notes with cost approximating market value. UC Merced earns income based on its average investment in the pool and such income is reported as investment income in the statement of revenue, expenses, and changes in net position.

2. Investments

The Regents, as the governing Board, is responsible for the oversight of the University's investments and establishes investment policy, which is carried out by the Chief Investment Officer. These investments are associated with the Short Term Investment Pool (STIP) and General Endowment Pool (GEP) managed by the Chief Investment Officer, or is separately invested. UC Merced's investments balance consists solely of its investment in the GEP.

GEP is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. GEP is a balanced portfolio and the primary investment vehicle for endowed gift funds. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

Investments authorized by The Regents for GEP include equity securities, fixed-income securities and certain other asset classes. The equity portion of the investment portfolios include both domestic and foreign common and preferred stocks which may be included in actively or passively managed strategies, along with a modest exposure to private equities. The University's investment portfolios may include foreign currency denominated equity securities. The fixed-income portion of the investment portfolios may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. Fixed-income investment guidelines permit the use of futures and options on fixed-income instruments in the ongoing management of the portfolios. Real estate investments are authorized for the GEP. Absolute return strategies, which may incorporate short sales, plus derivative positions to implement or hedge an investment position, are also authorized for GEP.

More detail about the University of California's investments can be found in the 2012–2013 annual report of the University.

3. Investments Held by Trustees

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

be used for capital projects. The combined fair value of all of the investments and deposits held by trustees was \$1.5 billion and \$1.6 billion at June 30, 2013 and 2012, respectively. UC Merced's portion, as determined by the University, was \$68,233 and \$92,306 at June 30, 2013 and 2012, respectively related to capital projects.

4. Accounts Receivable

Accounts receivable and the allowances for uncollectible amounts at June 30, 2013 and 2012 are as follows:

(in thousands of dollars)

	UC Merced			UC Merced Foundation	
	State and Federal Government	Other	Total		
<i>At June 30, 2013</i>					
Accounts receivable	\$ 14,001	\$ 2,678	\$ 16,679	\$ -	
Allowance for uncollectible amounts		(79)	(79)		
Accounts receivable, net	\$ 14,001	\$ 2,599	\$ 16,600	\$ -	
<i>At June 30, 2012</i>					
Accounts receivable	\$ 12,871	\$ 1,730	\$ 14,601	\$ -	
Allowance for uncollectible amounts		(108)	(108)		
Accounts receivable, net	\$ 12,871	\$ 1,622	\$ 14,493	\$ -	

UC Merced's other accounts receivable are primarily related to private grants and contracts, tuition and fees, and auxiliary enterprises.

5. Pledges Receivable

The composition of pledges receivable at June 30, 2013, and 2012 is summarized as follows:

(in thousands of dollars)

	UC Merced		UC Merced Foundation	
	2013	2012	2013	2012
Total pledges receivable outstanding	\$ 690	\$ 765	\$ 1,270	\$ 1,805
Less: Unamortized discount to present value	(8)	(15)	(66)	(73)
Allowance for uncollectible pledges	(315)	(23)	(150)	(124)
Total pledges receivable, net	367	727	1,054	1,608
Less: Current portion of pledges receivable	(255)	(304)	(394)	(598)
Noncurrent portion of pledges receivable	\$ 112	\$ 423	\$ 660	\$ 1,010

Payments of pledges receivable for the fiscal years subsequent to June 30, 2013 and thereafter are as follows:

(in thousands of dollars)

	UC Merced	UC Merced Foundation
<i>Year Ending June 30</i>		
2014	325	420
2015	150	175
2016	50	165
2017	50	255
2018	50	111
2019-2023	65	144
Total payments on pledges receivable	\$ 690	\$ 1,270

6. Capital Assets

The campus' capital asset activity for the years ended June 30, 2013 and 2012 is as follows:

(in thousands of dollars)

	2011	Additions	Disposals	2012	Additions	Disposals	2013
Original Cost							
Land	\$ 12,068		\$ (39)	\$ 12,029			\$ 12,029
Infrastructure	31,052	\$ 1,750		32,802	\$ 175		32,977
Buildings and improvements	373,750	43,936	(2,036)	415,650	11,307		426,957
Equipment, software and intangibles	37,833	3,821	(279)	41,375	3,046	\$ (742)	43,679
Libraries and collections	10,492	1,522		12,014	1,597		13,611
Special collections	132			132	-		132
Construction in progress	52,382	(4,647)		47,735	70,406		118,141
Capital assets, at original cost	\$ 517,709	\$ 46,382	\$ (2,354)	\$ 561,737	\$ 86,531	\$ (742)	\$ 647,526

	2011	Depreciation and Amortization	Disposals	2012	Depreciation and Amortization	Disposals	2013
Accumulated depreciation and amortization							
Infrastructure	\$ 7,070	\$ 1,366		\$ 8,436	\$ 1,376		\$ 9,812
Buildings and improvements	70,918	14,754	\$ (528)	85,144	15,192		100,336
Equipment, software and intangibles	20,320	4,046	(177)	24,189	3,925	\$ (604)	27,510
Libraries and collections	2,094	699		2,793	801		3,594
Accumulated depreciation and amortization	\$ 100,402	\$ 20,865	\$ (705)	\$ 120,562	\$ 21,294	\$ (604)	\$ 141,252
Capital assets, net	\$ 417,307			\$ 441,175			\$ 506,274

7. Long-term 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 that have been issued on behalf of UC Merced in the name of The Regents. UC Merced's outstanding debt at June 30, 2013 and 2012 is as follows:

(in thousands of dollars)

	Interest Rate Range	Maturity Years	2013	2012
Interim Financing:				
Commercial paper	0.1 - 0.3%	2014	\$ 8,763	\$ 8,411
Long-term Financing:				
University of California General Revenue Bonds	2.8 - 7.6%	2014 - 2043	174,715	174,973
Capital lease obligations	4.03%	2013 - 2017	262,780	270,348
Note payables to UCOP	1.6 - 2.6%	2014 - 2039	46,304	46,805
Total outstanding debt			492,562	500,537
Less: Commercial paper			(8,763)	(8,411)
Current portion of outstanding debt			(9,625)	(9,219)
Noncurrent portion of outstanding debt			\$ 474,174	\$ 482,907

More detail about the University of California's debt can be found in the 2012–2013 annual report of the University.

8. Endowments and Foundation Gifts

Endowments and gifts are held and administered either by the University or by UC Merced's Foundation. The value of endowments and gifts held and administered by the University at June 30, 2013 and 2012 is as follows:

(in thousands of dollars)

	UC Merced		UC Merced Foundation	
	2013	2012	2013	2012
Restricted				
Endowments and gifts	\$ 15,630	\$ 15,141	\$ 5,801	\$ 5,164
Nonexpendable	15,630	15,141	5,801	5,164
Endowments	8,779	6,435	1,113	614
Funds functioning as endowments	3,251	3,003		
Gifts	2,927	8,589	764	1,408
Expendable	14,957	18,027	1,877	2,022
Unrestricted	788	789	385	376
University endowments and gifts	\$ 31,375	\$ 33,957	\$ 8,063	\$ 7,562

The endowments held by the University are administered on a Systemwide basis. The University's endowment income distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution provided by dividend and interest income and by capital gains

may vary significantly from year to year. The University's policy is to retain the realized and unrealized appreciation with the endowment after the annual income distribution has been made to UC Merced.

The portion of investment returns earned on endowments held by the University and distributed at the end of each year to support current operations for the following year is based upon a rate that is approved by The Regents. The annual income distribution transferred to UC Merced from endowments held by the University was \$1,257 and \$1,290 for the years ended June 30, 2013 and 2012, respectively.

9. Operating Expenses by Function

Operating expenses, by functional classification, for fiscal years ended June 30, 2013 and 2012, are as follows:

<i>(in thousands of dollars)</i>	2013	2012
Instruction	\$ 39,804	\$ 33,786
Research	17,332	15,862
Public service	4,177	3,942
Academic support	16,643	14,686
Student services	17,582	14,220
Institutional support	39,654	34,435
Operation and maintenance of plant	14,480	14,718
Student financial aid	12,403	9,498
Auxiliary enterprises	14,332	13,617
Depreciation and amortization	21,294	20,865
Other	3,766	4,690
Total	\$ 201,467	\$ 180,319

10. Retirement Plans

Substantially all full-time employees of UC Merced participate in the University of California Retirement System ("UCRS") that is administered by the University. The UCRS consists of The University of California Retirement Plan ("UCRP"), a single-employer defined benefit plan, and the University of California Retirement Savings Program ("UCRSP") that includes four defined contribution plans with several investment portfolios generally funded with employee non-elective and elective contributions. The Regents has the authority to establish and amend the benefit plans.

The UCRP provides lifetime retirement income, disability protection and survivor benefits to eligible employees. Benefits are based on the average highest three years' compensation, age and years of service, and are subject to limited cost-of-living increases.

Contributions to the UCRP may be made by UC Merced and the employees. The rates for contributions as a percentage of payroll are determined annually pursuant to The Regents' funding policy and based upon recommendations of the consulting actuary. The Regents determine the portion of the total contribution to be made by UC Merced and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements.

Contributions for fiscal years ended June 30, 2013 and 2012 are as follows:

<i>(in thousands of dollars)</i>	2013	2012
UC Merced	\$ 6,896	\$ 4,308
Employees	3,100	1,888
Total	\$ 9,996	\$ 6,196

The actuarial value of UCRP assets and the actuarial accrued liability associated with the University's campuses and Medical Centers using the entry age normal cost method as of July 1, 2012, the date of the latest actuarial valuation, were \$35.7 billion and \$45.8 billion, respectively, resulting in a funded ratio of 78.1 percent. The net position held in trust for pension benefits on the UCRP Statement of Plan's Fiduciary Net position were \$45.3 billion and \$41.8 billion at June 30, 2013 and 2012, respectively.

For the years ended June 30, 2013 and 2012, the University's campuses and Medical Centers contributed a combined \$0.9 billion and \$1.5 billion, respectively. The University's annual UCRP benefits expense for its campuses and Medical Centers was \$2.1 billion and \$1.9 billion for the years ended June 30, 2013 and 2012, respectively. As a result of contributions that were less than the UCRP benefits expense, the University's obligation for UCRP benefits attributable to its campuses and Medical Centers increased by \$1.2 billion and \$361.8 million for the years ended June 30, 2013 and 2012, respectively.

The UCRS plans (DC Plan, Supplemental DC Plan, 403(b) Plan and 457(b) Plan) provide savings incentives and additional retirement security for all eligible employees. The DC Plan accepts both pre-tax and after-tax employee contributions. The Supplemental DC Plan accepts employer contributions on behalf of certain qualifying employees. The 403(b) and 457(b) plans accept pre-tax employee contributions and the Medical Centers may also make contributions on behalf of certain members of management. Benefits from the plans are based on participants' mandatory and voluntary contributions, plus earnings, and are immediately vested.

Information related to plan assets and liabilities as they relate to individual campuses and Medical Centers is not readily available. Additional information on the retirement plans can be obtained from the 2012–2013 annual report of the University of California Retirement System.

11. Commitments and Contingencies

Contractual Commitments

Amounts committed but unexpended for construction projects totaled \$50,037 and \$97,733 at June 30, 2013 and 2012, respectively.

UC Merced leases buildings and equipment under agreements recorded as operating leases. The terms of operating leases extend through December 2017. Operating lease expenses for the years ended June 30, 2013 and 2012 were \$1,200 and \$1,261, respectively.

Future minimum payments on operating leases with initial or remaining non-cancelable terms in excess of one year are as follows:

(in thousands of dollars)

	Minimum Annual Lease Payments	
<i>Year Ending June 30</i>		
2014	\$	1,342
2015		500
2016		14
2017		14
2018		10
2019-2023		3
Total	\$	1,883

Contingencies

Substantial amounts are received and expended by UC Merced under federal and states programs 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 position.

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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