



**UNIVERSITY OF CALIFORNIA, MERCED**  
**2013 - 2014**  
**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 2013-14.

As the newest campus in the University of California system, marking the commencement of its tenth graduating class in the spring of 2015, UC Merced is entering a critical new chapter in its development.

With student demand growing (UC Merced experienced the largest percentage increase of any UC campus in fall 2015 applications), the campus has embarked on an ambitious initiative to expand facilities to accommodate 10,000 students by 2020. However, with declining State capital construction financial support, UC Merced, the first research university of the 21<sup>st</sup> century, cannot rely on growth strategies used by its sister campuses in the previous century.

Befitting its emerging role as a laboratory for innovation in higher education, the campus has identified and adopted a unique development strategy that designates a single private development team to design, build, finance, operate and maintain the entire project as an integrated, master-planned community, rather than as a collection of individual buildings. The model, which has been tested in other nations but not as great a scope in the United States) allows the university to maintain ownership of the land and buildings throughout the project, as well as to retain responsibilities and control over key areas of the core educational mission to ensure that a “UC experience” is met.

This development strategy is aligned to planning around the campus’s academic aspirations, which are reflected in UC Merced’s new Strategic Academic Focusing Initiative. This faculty-driven plan identifies teaching and research areas of strategic advantage, where focused investment can result in interdisciplinary research and educational programs of distinction, and where society’s most critical problems can serve as a magnet for faculty working towards their solutions. The initiative builds on current academic strengths, important research problems, resource needs, and their alignment with national programs. This will result in a campus where faculty and students operate across physical and disciplinary boundaries in a smaller, collaborative public research environment.

It is an exciting moment for UC Merced, defined by innovation, energy, creativity and a commitment to the aspirations and needs of its unique and growing student body. I hope that the following pages will give you a sense of all this, in addition to providing you with a picture of its financial status.

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, 2014 with selected comparative information for the fiscal year ended June 30, 2013. 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 \$26.6 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\*  
Interdisciplinary Humanities

\* Emphasis within the Individual Graduate Program

During the 2013-2014 academic year, receiving more than 17,000 applications for Fall 2013, UC Merced was able to enroll nearly 6,300 students. This marks the ninth academic year for UC Merced with record enrollment. The increase is attributed to a record high of 1,654 incoming freshmen and a 13% increase in graduate-student enrollment. The number of applications received was up nearly 13% from Fall 2012. During the year, the campus's graduating class increased by 23% to 1,106 degrees awarded in the 2013-2014 academic year as compared to 900 degrees in the prior year. The increase has led to aggressive faculty hiring, adding 32 new faculty members to teach and conduct advanced research increasing the total size of UC Merced's ladder-rank faculty to around 190, 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 21<sup>st</sup> 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 \$34.8 million for fiscal year 2014 as compared to \$33.7 million for 2013. The UC Merced library provides access to approximately 70,000 online journals 635 databases, 120,000 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.

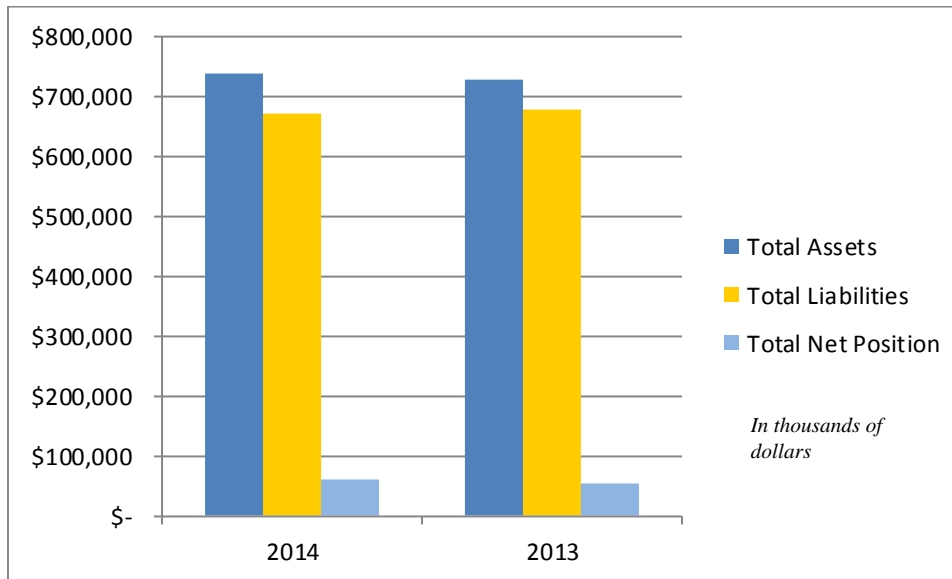
In addition to its educational and research mission, UC Merced is an important strategic investment in California's future economy. The campus serves as an engine of economic growth throughout the San Joaquin Valley where unemployment and poverty rates substantially exceed California averages. Through August 2014 to date, the campus has contributed approximately \$1.1 billion to the valley economy in wages and benefits, employing almost 2,900 employees, construction contracts to local businesses and goods and services purchased from local businesses. Statewide, UC Merced's cumulative economic contribution has exceeded \$2.2 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 3<sup>rd</sup> 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 2014, 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	1,172		124	\$ 9,659	\$ 5,770	\$ 15,429
School of Natural Sciences	1,861		237	14,023	11,337	25,360
School of Social Sciences, Humanities & Arts	2,081		290	13,622	7,467	21,089
Graduate Studies		358	9	743	476	1,219
Undeclared	756					
All others, including auxiliaries, student services, etc.			708	56,819	75,755	132,574
Subtotal	<b>5,870</b>	<b>358</b>	<b>1,368</b>	<b>\$ 94,866</b>	<b>\$ 100,805</b>	<b>\$ 195,671</b>
Depreciation Expense						22,386
Total						<b>\$ 218,057</b>

## 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 \$737.5 million in 2014, compared to \$728.2 million in 2013. Generally, over the past two years, capital assets and cash and cash equivalents have increased.

Cash and cash equivalents increased by \$24.4 million from the prior year due primarily to an increase in state educational appropriations to meet operating needs. Investments held by trustees relates to unspent bond proceeds for capital projects. The decline was primarily attributable to capital spending as further discussed below.

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 \$57.5 million in 2014 compared to \$86.5 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' Deferred Outflows of Resources

Losses on debt refundings and changes in the net pension liability are reported as deferred outflows of resources. The increase of \$13.5 million in deferred outflows of resources in 2014 is primarily related to the combination of UC Merced's portion of a debt refinancing, which increased by \$25.6 million due to a current year refinancing by the University of California offset by the recognition of changes in UC Merced's share of the University's net pension liability of \$12.1 million.

### The Campus' Liabilities

Campus liabilities decreased slightly by \$6.5 million due primarily to an increase in the total debt of the campus offset by a decrease \$27.9 million in pension and other postretirement benefit liabilities. The combined total of commercial paper and long-term debt of the campus increased from \$493.8 million in the prior year to \$512.9 million due to a bond refinancing and one new issuance which was used to pay back commercial paper issued in the prior year for capital projects. Further, because the University's variable-rate demand bonds issued this year rest weekly, in the event of a failed remarketing, can be put back to The

Regents for tender. As a result, the Campus classified its portion, totaling \$81.4 million. The Campus did not have variable-rate demand bonds in the prior year.

**The Campus' Deferred Inflows of Resources**

Deferred inflows of resources are related to changes in the net pension liability. Deferred inflows of resources in 2014 increased by \$22.8 million due to higher than expected earnings on pension investments.

**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 \$55.3 million to \$61.9 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 2014 and 2013, 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)

	2014			2013		
	Operating	Nonoperating	Total	Operating	Nonoperating	Total
<b>REVENUES</b>						
Student tuition and fees, net	\$ 51,031		\$ 51,031	\$ 52,907		\$ 52,907
State educational appropriations		\$ 109,365	109,365		\$ 79,573	79,573
Pell grants		16,426	16,426		14,805	14,805
Grants and contracts, net	17,699		17,699	18,858		18,858
Auxiliary enterprises, net	21,782		21,782	17,538		17,538
Private gifts, net		2,256	2,256		1,858	1,858
Investment income, net		3,011	3,011		1,792	1,792
Other revenues	6,091	1,535	7,626	5,553	17,917	23,470
<b>Revenues supporting core activities</b>	<b>96,603</b>	<b>132,593</b>	<b>229,196</b>	<b>94,856</b>	<b>115,945</b>	<b>210,801</b>
<b>EXPENSES</b>						
Salaries and benefits	133,102		133,102	131,677		131,677
Scholarships and fellowships	8,908		8,908	12,438		12,438
Utilities	4,458		4,458	3,575		3,575
Supplies and materials	19,188		19,188	17,583		17,583
Depreciation and amortization	22,386		22,386	21,294		21,294
Interest expense		19,172	19,172		16,224	16,224
Other expenses	30,015	59	30,074	28,154	911	29,065
<b>Expenses associated with core activities</b>	<b>218,057</b>	<b>19,231</b>	<b>237,288</b>	<b>214,721</b>	<b>17,135</b>	<b>231,856</b>
<b>Income (loss) from core activities</b>	<b>\$ (121,454)</b>	<b>\$ 113,362</b>	<b>\$ (8,092)</b>	<b>\$ (119,865)</b>	<b>\$ 98,810</b>	<b>\$ (21,055)</b>
<b>OTHER CHANGES IN NET POSITION</b>						
Capital gifts and grants, net			2,066			6,470
State capital appropriations			296			1,576
Contributions from the University for building programs			12,010			50,656
Other transfers			261			12,578
<b>Increase in net position</b>			<b>6,541</b>			<b>50,225</b>
<b>NET POSITION</b>						
Beginning of year			55,333			5,108
<b>End of year</b>			<b>\$ 61,874</b>			<b>\$ 55,333</b>

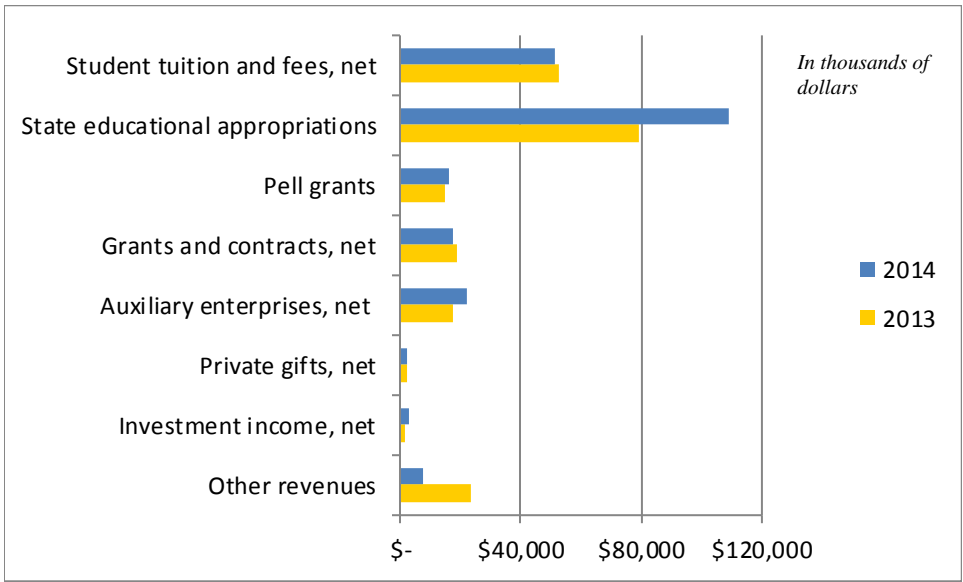
### Revenues Supporting Core Activities

Revenues to support UC Merced's core activities, including those classified as nonoperating revenues, grew from \$210.8 million in 2013 to \$229.2 million in 2014, an increase of 18.4 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.

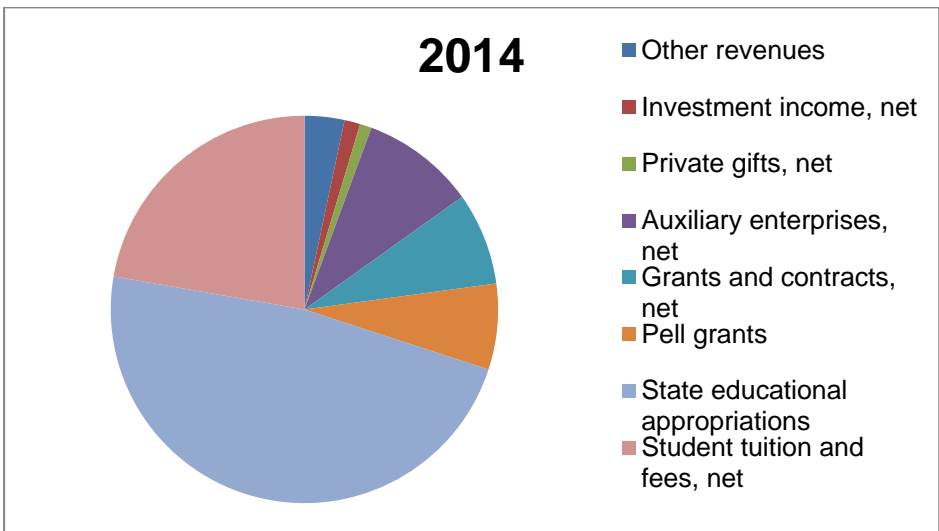


Revenues in various categories have increased or decreased over the last year as follows:



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 2014 are as follows:



**Student Tuition and Fees** revenue, net of scholarship allowances, decreased by \$1.9 million and account for 22% of UC Merced’s revenue.

(in thousands of dollars)

	2014	2013	Change
Student tuition and fees	\$ 85,475	\$ 77,695	\$ 7,780
Summer sessions	-	5,619	(5,619)
Scholarship allowances	(34,444)	(30,407)	(4,037)
<b>Total student tuition and fees</b>	<b>\$ 51,031</b>	<b>\$ 52,907</b>	<b>\$ (1,876)</b>

Student enrollment increased by 12% on a year-over-year basis with enrolled students of 5,958 and 5,324 in the fall of 2013 and 2012, respectively. Student tuition and fees increased by 10.0% in 2014 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 13% increase in scholarship allowances.

**State educational appropriations** from the state of California was \$109.4 million and 79.6 million in 2014 and 2013, respectively, accounting for 48% of UC Merced’s revenue. While the University of California received a 22% 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 37% as a result of the University’s commitment to UC Merced’s growth.

**Grants and Contracts, net** from federal, state, and private sources recognized as expenditures incur, including an overall facilities and administration cost recovery of \$3.2 million and \$3.4 million in 2014 and 2013, respectively, was \$17.7 million and \$18.9 million.

(in thousands of dollars)

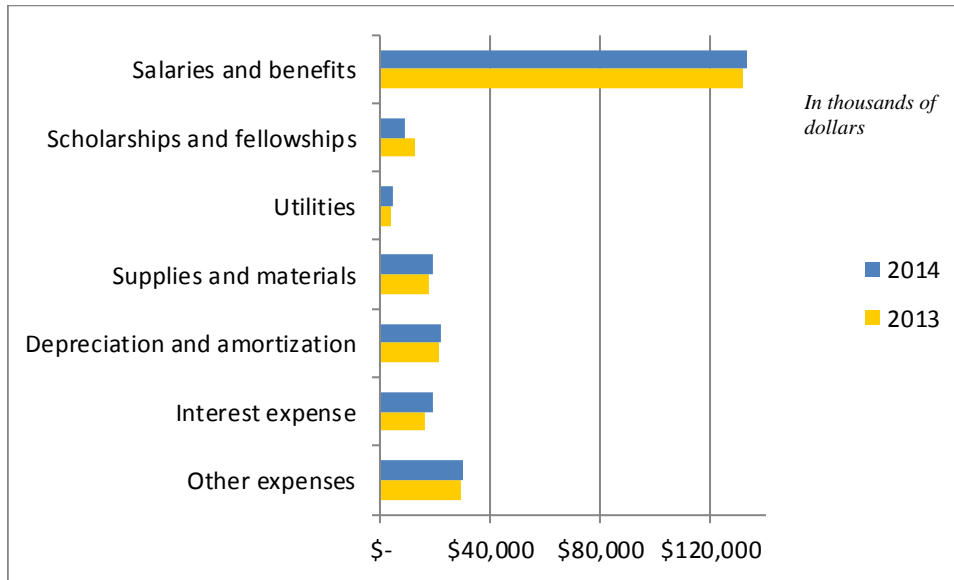
	2014	2013	Change
Federal government	\$ 14,274	\$ 14,700	\$ (426)
State agencies	638	1,389	(751)
Private industries	2,787	2,769	18
<b>Total grants and contracts, net</b>	<b>\$ 17,699</b>	<b>\$ 18,858</b>	<b>\$ (1,159)</b>

State grant and contract revenue remained relatively unchanged from 2013.

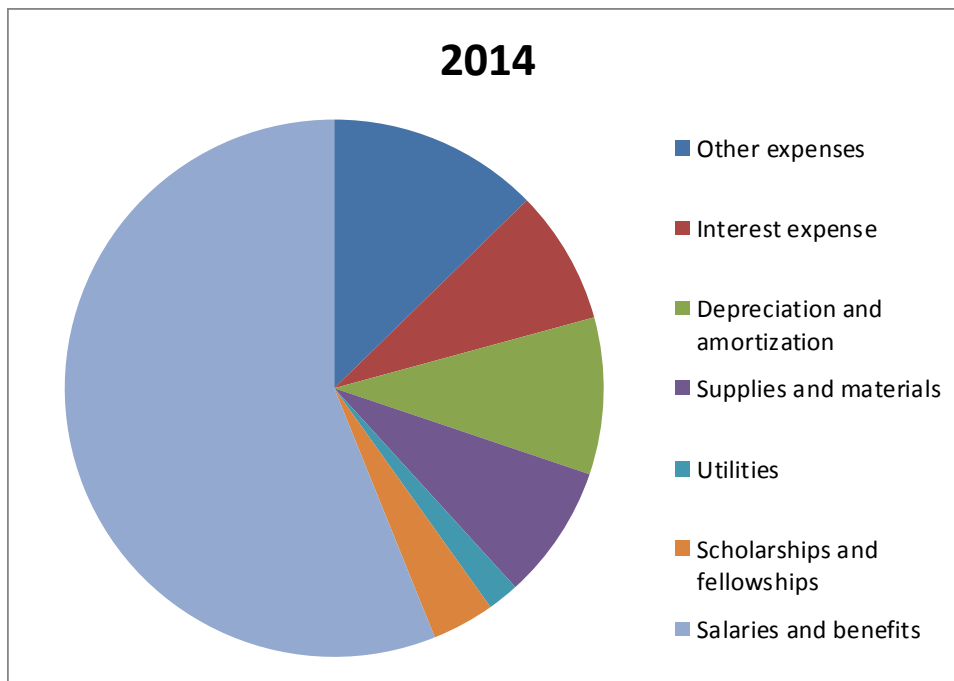
#### **Expenses Associated with Core Activities**

Expenses associated with UC Merced’s core activities, including those classified as nonoperating expenses, were \$237.3 million and \$231.9 million in 2014 and 2013, respectively. Expenses remained relatively unchanged, increasing in 2014 by \$5.4 million.

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, 2014 are as follows:



**Salaries and benefits** cover approximately 1368 full-time-equivalent (FTE) positions, a 5% increase over the prior year. Over 56% of UC Merced's expenses are related to salaries and benefits, which remained relatively unchanged in 2014 due to an increase in salaries offset by a decrease in pension expense. In 2014, salaries increased by 10%, \$4.3 million due to an increase in the number of FTEs and \$4.3 million due to an increase in the average salary per FTE. In 2013, salaries increased by 13%, \$8.7 million due to an increase in the number of FTEs and \$1.2 million due to an increase in the average salary per FTE. In 2014, employee benefits decreased by \$7.2 million due to a decrease in the actuarially determined pension

expense associated with the University's retirement plan due to increased contributions and better than expected returns on retirement plan investments.

*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 a decrease of \$3.5 million.

Scholarship allowances, representing financial aid and fee waivers awarded by UC Merced, were \$42.8 million and \$36.6 million in 2014 and 2013, 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 \$2.7 million totaling \$51.7 million and \$49.0 million in 2014 and 2013, respectively.

*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 \$121.4 million and \$119.9 million in 2014 and 2013, respectively. The operating loss in 2014 was partially offset by \$113.4 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 2014 exceeded revenue available to support core activities by \$8.1 million.

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 \$21.1 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.



## 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, 2014 and 2013, gifts of \$1.5 million and \$1.7 million, respectively were transferred to UC Merced from the UC Merced Foundation. In 2013 and 2012, the Foundation's net position was \$9.3 million and \$8.1 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 2014 and 2013 are as follows:

*(in thousands of dollars)*

	2014	2013
<b>ASSETS</b>		
Investments	\$ 8,197	\$ 6,897
Pledges receivable, net	720	1,054
Other assets	403	149
<b>Total assets</b>	<b>9,320</b>	<b>8,100</b>
<b>LIABILITIES</b>		
Accounts payable and other liabilities	-	37
<b>Total liabilities</b>	<b>-</b>	<b>37</b>
<b>NET POSITION</b>		
Restricted:		
Nonexpendable	6,073	5,812
Expendable	3,013	2,022
Unrestricted	234	229
<b>Total net position</b>	<b>\$ 9,320</b>	<b>\$ 8,063</b>

Investments increased in 2014 due to strong performance in the equity markets. 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 due to collections of existing pledges.

### 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 2014 and 2013 is as follows:

*(in thousands of dollars)*

	2014	2013
<b>Operating revenues</b>		
Private gifts and other revenues	\$ 1,280	\$ 983
<b>Total operating revenues</b>	<b>1,280</b>	<b>983</b>
<b>Operating expenses</b>		
Grants to campuses and other expenses	1,564	1,797
<b>Total operating expenses</b>	<b>1,564</b>	<b>1,797</b>
<b>Operating income (loss)</b>	<b>(284)</b>	<b>(814)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	72	77
Net appreciation (depreciation) in fair value of investments	1,233	615
<b>Income (loss) before other changes in net position</b>	<b>1,021</b>	<b>(122)</b>
<b>OTHER CHANGES IN NET POSITION</b>		
Permanent endowments	236	623
<b>Increase (decrease) in net position</b>	<b>1,257</b>	<b>501</b>
<b>NET POSITION</b>		
Beginning of year	8,063	7,562
<b>End of year</b>	<b>\$ 9,320</b>	<b>\$ 8,063</b>

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, 2014 and 2013.

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 KPMG, 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  
Controller and AVC – Business and Financial Services

University of California, Merced

**STATEMENTS OF NET POSITION**

At June 30, 2014 and 2013 (in thousands of dollars)

	Campus		Foundation	
	2014	2013	2014	2013
<b>Assets</b>				
Cash and cash equivalents	\$ 131,835	\$ 107,434	\$ 5	\$ 5
Accounts receivable, net	13,694	16,600		
Pledges receivable, net	100	255	191	394
Inventories	856	706		
Other current assets	2,840		398	144
<b>Current assets</b>	<u>149,325</u>	<u>124,995</u>	<u>594</u>	<u>543</u>
Investments	27,582	23,111	8,197	6,897
Investments held by trustees	13,658	68,233		
Pledges receivable, net	16	112	529	660
Capital assets, net	541,322	506,274		
Other noncurrent assets	5,646	5,458		
<b>Noncurrent assets</b>	<u>588,224</u>	<u>603,188</u>	<u>8,726</u>	<u>7,557</u>
<b>Total assets</b>	<u>737,549</u>	<u>728,183</u>	<u>9,320</u>	<u>8,100</u>
<b>Deferred outflows of resources</b>	51,044	37,552		
<b>Liabilities</b>				
Accounts payable	11,867	16,992		12
Accrued salaries	7,341	5,297		
Employee benefits	2,747	1,157		
Unearned revenue	6,480	1,016		25
Commercial paper	1,164	8,763		
Current portion of long-term debt	90,622	9,737		
Funds held for others	922	645		
Other current liabilities	2,998	6,297		
<b>Current liabilities</b>	<u>124,141</u>	<u>49,904</u>	<u>-</u>	<u>37</u>
Long-term debt	421,086	475,250		
Pension and other postretirement benefits	120,632	148,560		
Other noncurrent liabilities	4,942	3,563		
<b>Total Noncurrent Liabilities</b>	<u>546,660</u>	<u>627,373</u>	<u>-</u>	<u>-</u>
<b>Total Liabilities</b>	<u>670,801</u>	<u>677,277</u>	<u>-</u>	<u>37</u>
<b>Deferred inflows of resources</b>	55,918	33,125		
<b>Net position</b>				
Invested in capital assets net of related debt	60,327	84,954		
Restricted:				
Nonexpendable:				
Endowments and gifts	16,613	15,630	6,073	5,812
Expendable:				
Endowments and gifts	24,007	14,957	3,013	2,022
Other	14,677	1,087		
Unrestricted	(53,750)	(61,295)	234	229
<b>Total net position</b>	<u>\$ 61,874</u>	<u>\$ 55,333</u>	<u>\$ 9,320</u>	<u>\$ 8,063</u>

See Accompanying Notes to Financial Statements



University of California, Merced

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

As of for the year then ended June 30, 2014 and 2013 *(in thousands of dollars)*

	Campus		Foundation	
	2014	2013	2014	2013
<b>OPERATING REVENUES</b>				
Student tuition and fees, net	\$ 51,031	\$ 52,907		
Grants and contracts, net				
Federal	14,274	14,700		
State	638	1,389		
Private	2,787	2,769		
Auxiliary enterprises, net	21,782	17,538		
Campus foundation private gifts			\$ 1,240	\$ 870
Other operating revenues, net	6,091	5,553	40	113
<b>Total operating revenues</b>	<b>96,603</b>	<b>94,856</b>	<b>1,280</b>	<b>983</b>
<b>OPERATING EXPENSES</b>				
Salaries and wages	94,866	86,218		
UCRP benefits	9,954	20,587		
Retiree health benefits	2,473	1,782		
Other employee benefits	25,809	23,090		
Supplies and materials	19,188	17,583		
Depreciation and amortization	22,386	21,294		
Scholarships and fellowships	8,908	12,438		
Utilities	4,458	3,575		
Campus foundation grants			1,546	1,698
Other operating expenses	30,015	28,154	18	99
<b>Total operating expenses</b>	<b>218,057</b>	<b>214,721</b>	<b>1,564</b>	<b>1,797</b>
<b>Total operating loss</b>	<b>(121,454)</b>	<b>(119,865)</b>	<b>(284)</b>	<b>(814)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State educational appropriations	109,365	79,573		
State financing appropriations	10	16,330		
Federal financing appropriations	1,525	1,587		
Federal pell grants	16,426	14,805		
Private gifts, net	2,256	1,858		
Investment income:				
Short Term Investment Pool and other, net	2,407	1,170		
Endowment, net	604	622		
Campus foundations			72	77
Net appreciation (depreciation) in fair value of investments			1,233	615
Interest expense	(19,172)	(16,224)		
Loss on disposal of capital assets	(109)	(139)		
Other nonoperating (expenses) revenues, net	50	(772)		
<b>Net nonoperating revenues</b>	<b>113,362</b>	<b>98,810</b>	<b>1,305</b>	<b>692</b>
<b>Income (loss) before other changes in net position</b>	<b>(8,092)</b>	<b>(21,055)</b>	<b>1,021</b>	<b>(122)</b>
<b>OTHER CHANGES IN NET POSITION</b>				
Capital gifts and grants, net	2,066	6,470		
State capital appropriations	296	1,576		
Permanent endowments			236	623
Contributions from the University for the building program	12,010	50,656		
Other transfers	261	12,578		
<b>Increase (decrease) in net position</b>	<b>6,541</b>	<b>50,225</b>	<b>1,257</b>	<b>501</b>
<b>NET POSITION</b>				
<b>Beginning of year, as previously reported</b>	<b>55,333</b>	<b>137,175</b>	<b>8,063</b>	<b>7,562</b>
Cumulative effect of accounting change		(132,067)		
<b>Beginning of year, as restated</b>	<b>55,333</b>	<b>5,108</b>	<b>8,063</b>	<b>7,562</b>
<b>End of Year</b>	<b>\$ 61,874</b>	<b>\$ 55,333</b>	<b>\$ 9,320</b>	<b>\$ 8,063</b>

See Accompanying Notes to Financial Statements

**STATEMENTS OF CASH FLOWS**

As of for the year then ended June 30, 2014 and 2013 (in thousands of dollars)

	Campus		Foundation	
	2014	2013	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Student tuition and fees	\$ 50,918	\$ 52,978		
Grants and contracts	17,732	22,530		
Auxiliary enterprises	21,797	17,500		
Campus foundation private gifts			\$ 1,549	\$ 1,449
Payments to employees	(91,949)	(81,921)		
Payments to suppliers and utilities	(58,650)	(45,320)		
Payments to UCRP	(8,880)	(7,703)		
Payments for retiree health benefits	(2,263)	(1,782)		
Payments for other employee benefits	(25,570)	(22,988)		
Payments for scholarships and fellowships	(8,908)	(12,438)		
Payments to campuses and beneficiaries			(1,546)	(1,698)
Other receipts (payments), net	13,206	16,881	10	15
<b>Net cash (used) provided by operating activities</b>	<u>(92,567)</u>	<u>(62,263)</u>	<u>13</u>	<u>(234)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
State educational appropriations	106,168	79,573		
Federal pell grants	16,431	14,840		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes			236	623
Other private gifts	2,507	2,218		
Student direct lending receipts	25,287	25,995		
Student direct lending payments	(25,287)	(25,995)		
Scheduled principal paid on debt	(844)	(382)		
Interest paid on debt	(448)	(518)		
Other receipts (payments), net	4,344	(277)		
<b>Net cash provided by noncapital financing activities</b>	<u>128,158</u>	<u>95,454</u>	<u>236</u>	<u>623</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
State capital appropriations	2,746	5,900		
State financing appropriations	1,524	16,386		
Federal financing appropriations	1,540	1,587		
Capital gifts and grants	-	1,495		
Proceeds from debt issuance	302,342	7,433		
Purchases of capital assets	(57,518)	(89,166)		
Refinancing/Prepayment Outstanding Debt	(269,900)	(7,265)		
Scheduled principal paid on debt & capital leases	(5,759)	(2,651)		
Interest paid on debt and capital leases	(18,656)	(21,843)		
Commercial paper financing:				
Proceeds from Issuance	1,164	8,763		
Payments of Principal	(8,763)	(8,411)		
Interest Paid	(19)	(5)		
Other receipts (payments), net	37,098	73,367		
<b>Net cash used by capital and related financing activities</b>	<u>(14,201)</u>	<u>(14,410)</u>	<u>-</u>	<u>-</u>
<b>Cash Flows from Investing Activities</b>				
Proceeds from sale & maturities of investments			1,601	1,795
Purchase of investments			(1,921)	(2,262)
Investment income, net of investment expenses	3,011	1,712	71	78
<b>Net cash provided (used) by investing activities</b>	<u>3,011</u>	<u>1,712</u>	<u>(249)</u>	<u>(389)</u>
<b>Net increase in cash and cash equivalents</b>	24,401	20,493	-	-
<b>Cash and cash equivalents, beginning of year</b>	107,434	86,941	5	5
<b>Cash and cash equivalents, end of year</b>	<u>\$ 131,835</u>	<u>\$ 107,434</u>	<u>\$ 5</u>	<u>\$ 5</u>

See Accompanying Notes to Financial Statements

# UC Merced

## Notes to Financial Statements (unaudited)

### Years ended June 30, 2014, and 2013

#### 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. 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 economic resources received or held by the Foundation are entirely 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.

Because of the nature and significance of its relationship with UC Merced, including their ongoing financial support, the Foundation is reported under Governmental Accounting Standards Board (GASB) requirements as a discretely presented component unit of UC Merced. In accordance with the statements of 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.

In March 2012, the GASB issued Statement No. 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 expenses, certain items that were previously reported as assets and liabilities.

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*.

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. The University has elected to early implementation of this Statement, effective July 1, 2013. 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.

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.

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.

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.

Implementation of Statements Nos. 65, 66, 69, 70 and 71 had no effect on the UC Merced's beginning net position. The adoption of Statements Nos. 65 and 68 did not result in any adjustments to the financial statements. To implement Statement No. 68, UC Merced recorded the net pension liabilities for its share of the University's defined benefit plans. The impact on UC Merced's net position as of June 30, 2013 of adopting Statements No 68 was a reduction totaling \$132,067.

**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:

	<b>Years</b>
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 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.

**Deferred outflows of resources and deferred inflows of resources.** Changes in net pension liability not included in pension expenses are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

**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, 2014 and 2013 as follows:

*(in thousands of dollars)*

	2014	2013
Student tuition and fees	\$ 34,444	\$ 30,407
Auxiliary enterprises	8,246	6,063
Other operating revenues	97	82
<b>Scholarship allowances</b>	<b>\$ 42,787</b>	<b>\$ 36,552</b>

**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, 2014 the facilities and administrative cost recovery totaled \$3,203, which consisted of \$97 from state sponsored programs,

\$2,663 from federally sponsored programs and \$442 from other sponsors. For the fiscal 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.

**Pension Obligations.** The University of California Retirement Plan (“UCRP”) provides retirement benefits to retired employees of UC Merced. UC Merced is required to contribute to UCRP at a rate set by The Regents. Pension obligations include UC Merced’s share of the University’s net pension liability for UCRP. UC Merced’s share of net pension liability, deferred inflows of resources, deferred outflows of resources and pension expense have been determined based upon their proportionate share of covered compensation for the fiscal year. The fiduciary net position and changes in fiduciary net position of UCRP have been measured consistent with the accounting policies used by the Plan. For purposes of measuring UCRP’s fiduciary net position, investments are reported at fair value and benefit payments are recognized when due and payable in accordance with the benefit terms.

Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for pension benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

**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 the UC Merced Foundation (the Foundation), 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.

**Comparative information.** 2013 financial information is included as comparative values to the 2014 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, 2014, and 2013, consist of the following:

*(in thousands of dollars)*

	UC Merced		UC Merced Foundation	
	2014	2013	2014	2013
Checking accounts	\$ 232	\$ 326	\$ 5	\$ 5
University of California Managed Short Term Investment Pool (STIP)	131,603	107,108		-
<b>Total cash and cash equivalents</b>	<b>\$ 131,835</b>	<b>\$ 107,434</b>	<b>\$ 5</b>	<b>\$ 5</b>

The checking accounts at June 30, 2014 and 2013 were insured by federal depository insurance. UC Merced 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 2013–2014 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 \$0.9 billion and \$1.5 billion at June 30, 2014 and 2013, respectively. UC Merced's portion, as determined by the University, was \$13,658 and \$68,233 at June 30, 2014 and 2013, respectively related to capital projects.

### 4. Accounts Receivable

Accounts receivable and the allowances for uncollectible amounts at June 30, 2014 and 2013 are as follows:

*(in thousands of dollars)*

	UC Merced			UC Merced Foundation
	State and Federal Government	Other	Total	
<i>At June 30, 2014</i>				
Accounts receivable	\$ 10,590	\$ 3,246	\$ 13,836	\$ -
Allowance for uncollectible amounts		(142)	(142)	
<b>Accounts receivable, net</b>	<b>\$ 10,590</b>	<b>\$ 3,104</b>	<b>\$ 13,694</b>	<b>\$ -</b>
<i>At June 30, 2013</i>				
Accounts receivable	\$ 14,001	\$ 2,678	\$ 16,679	\$ -
Allowance for uncollectible amounts		(79)	(79)	
<b>Accounts receivable, net</b>	<b>\$ 14,001</b>	<b>\$ 2,599</b>	<b>\$ 16,600</b>	<b>\$ -</b>

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, 2014 and 2013 is summarized as follows:

*(in thousands of dollars)*

	UC Merced		UC Merced Foundation	
	2014	2013	2014	2013
Total pledges receivable outstanding	\$ 435	\$ 690	\$ 910	\$ 1,270
Less: Unamortized discount to present value	(4)	(8)	(47)	(66)
Allowance for uncollectible pledges	(315)	(315)	(143)	(150)
<b>Total pledges receivable, net</b>	<b>116</b>	<b>367</b>	<b>720</b>	<b>1,054</b>
Less: Current portion of pledges receivable	(100)	(255)	(191)	(394)
<b>Noncurrent portion of pledges receivable</b>	<b>\$ 16</b>	<b>\$ 112</b>	<b>\$ 529</b>	<b>\$ 660</b>

Payments of pledges receivable for the fiscal years subsequent to June 30, 2014 and thereafter are as follows:

*(in thousands of dollars)*

	UC Merced	UC Merced Foundation
<i>Year Ending June 30</i>		
2015	150	235
2016	70	165
2017	50	255
2018	50	111
2019	50	111
2020-2024	65	33
<b>Total payments on pledges receivable</b>	<b>\$ 435</b>	<b>\$ 910</b>

## 6. Capital Assets

The campus' capital asset activity for the years ended June 30, 2014 and 2013 is as follows:

*(in thousands of dollars)*

	2012	Additions	Disposals	2013	Additions	Disposals	2014
<b>Original Cost</b>							
Land	\$ 12,029			\$ 12,029			\$ 12,029
Infrastructure	32,802	\$ 175		32,977	\$ 3,472		36,449
Buildings and improvements	415,650	11,307		426,957	159,035		585,992
Equipment, software and intangibles	41,375	3,046	\$ (742)	43,679	3,581	\$ (422)	46,838
Libraries and collections	12,014	1,597		13,611	1,700		15,311
Special collections	132			132			132
Construction in progress	47,735	70,406		118,141	(110,245)		7,896
<b>Capital assets, at original cost</b>	<b>\$ 561,737</b>	<b>\$ 86,531</b>	<b>\$ (742)</b>	<b>\$ 647,526</b>	<b>\$ 57,543</b>	<b>\$ (422)</b>	<b>\$ 704,647</b>

	2012	Depreciation and Amortization	Disposals	2013	Depreciation and Amortization	Disposals	2014
<b>Accumulated depreciation and amortization</b>							
Infrastructure	\$ 8,436	\$ 1,376		\$ 9,812	\$ 1,446		\$ 11,258
Buildings and improvements	85,144	15,192		100,336	16,066		116,402
Equipment, software and intangibles	24,189	3,925	\$ (604)	27,510	3,967	\$ (313)	31,164
Libraries and collections	2,793	801		3,594	907		4,501
<b>Accumulated depreciation and amortization</b>	<b>\$ 120,562</b>	<b>\$ 21,294</b>	<b>\$ (604)</b>	<b>\$ 141,252</b>	<b>\$ 22,386</b>	<b>\$ (313)</b>	<b>\$ 163,325</b>
<b>Capital assets, net</b>	<b>\$ 441,175</b>			<b>\$ 506,274</b>			<b>\$ 541,322</b>

## 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, 2014 and 2013 is as follows:

(in thousands of dollars)

	Interest Rate Range	Maturity Years	2014	2013
<b>Interim Financing:</b>				
Commercial paper	0.1 - 0.2%	2014	\$ 1,164	\$ 8,763
<b>Long-term Financing:</b>				
University of California General Revenue Bonds	0.4 - 7.6%	2014 - 2044	465,007	175,903
Capital lease obligations	4.03%		-	262,780
Note payables to UCOP	1.5 - 1.8%	2014 - 2039	46,701	46,304
<b>Total outstanding debt</b>			<b>512,872</b>	<b>493,750</b>
Less: Commercial paper			(1,164)	(8,763)
Current portion of outstanding debt			(90,622)	(9,737)
<b>Noncurrent portion of outstanding debt</b>			<b>\$ 421,086</b>	<b>\$ 475,250</b>

The University of California's variable-rate demand bonds reset weekly, and, in the event of a failed remarketing, can be put back to The Regents for tender. Accordingly, UC Merced has recorded its portion, totaling \$81.4 million as current portion of long-term debt on the Statements of Net Position. More detail about the University of California's debt can be found in the 2013–2014 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, 2014 and 2013 is as follows:

(in thousands of dollars)

	UC Merced		UC Merced Foundation	
	2014	2013	2014	2013
<b>Restricted</b>				
Endowments and gifts	\$ 16,613	\$ 15,630	\$ 6,073	\$ 5,812
Nonexpendable	16,613	15,630	6,073	5,812
Expendable				
Endowments	12,307	8,779	2,200	1,108
Funds functioning as endowments	3,836	3,251		
Gifts	7,864	2,927	813	914
Expendable	24,007	14,957	3,013	2,022
<b>Unrestricted</b>				
	-	788	234	229
<b>University endowments and gifts</b>	<b>\$ 40,620</b>	<b>\$ 31,375</b>	<b>\$ 9,320</b>	<b>\$ 8,063</b>

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, interest income, and 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 \$1,343 and \$1,257 for the years ended June 30, 2014 and 2013, respectively.

## 9. Operating Expenses by Function

Operating expenses, by functional classification, for fiscal years ended June 30, 2014 and 2013, are as follows:

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
Instruction	\$ 43,522	\$ 42,423
Research	17,858	18,472
Public service	3,947	4,452
Academic support	19,265	17,738
Student services	20,440	18,739
Institutional support	45,085	42,263
Operation and maintenance of plant	15,423	15,433
Student financial aid	8,912	13,219
Auxiliary enterprises	18,085	15,275
Depreciation and amortization	22,386	22,695
Other	3,134	4,012
<b>Total</b>	<b>\$ 218,057</b>	<b>\$ 214,721</b>

## 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. Additional information on the retirement plans can be obtained from the 2013-2014 annual reports of the University of California Retirement System.

The UCRP provides lifetime retirement income, disability protection, death benefits, and post-retirement and pre-retirement survivor benefits to eligible employees of the University. Membership is required in UCRP for all employees appointed to work at least 50 percent time for one year or more, or for an indefinite period or for a definite period of a year or more. An employee may also become eligible by completing 1,000 hours within a 12-month period. Generally, five years of service are required for entitlement to plan benefits. The amount of pension benefit is determined under the basic formula of covered compensation times age factor times years of service credit. The maximum monthly benefit cannot exceed 100 percent of the employee's highest average plan compensation over a 36-month period, subject to certain limits imposed under the Internal Revenue Code. Annual cost-of-living adjustments (COLAs) are made to monthly benefits according to a specified formula based on the Consumer Price Index. Ad hoc COLAs may be granted subject to funding availability.

**Contributions.** 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. Effective July 1, 2013, employee member and employer contributions were 6.5 percent and 12 percent, respectively. Member contributions for the employees in the new benefit tier applicable to employees hired on or after July 1, 2013 are 7.0 percent, and the employer rate is uniform across all members. Effective July 1, 2014, employee member and employer contributions were 8.0 percent and 14.0 percent, respectively.

Employee contributions to UCRP are accounted for separately and currently accrue interest at 6.0 percent annually. Upon termination, members may elect a refund of their contributions, plus accumulated interest; vested terminated members who are eligible to retire, may also elect monthly retirement income or a lump sum equal to the present value of their accrued benefits.

Contributions for fiscal years ended June 30, 2014 and 2013 are as follows:

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
UC Merced	\$ 9,148	\$ 6,896
Employees	4,376	3,100
<b>Total</b>	<b>\$ 13,524</b>	<b>\$ 9,996</b>

**Net Pension Liability.** UC Merced's proportionate share of the net pension liability for UCRP as of June 30, 2014 is as follows:

<i>(in thousands of dollars)</i>	<b>2014</b>	<b>2013</b>
Proportion of the net pension liability	0.8%	0.8%
Proportionate share of net pension liability	\$ 55,302	\$ 89,675

UC Merced's net pension liability was measured as of June 30, 2014 and was based upon rolling forward the results of the actuarial valuations as of July 1, 2013. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future. UC Merced's net pension liability was calculated using the following methods and assumptions:

Inflation	3.5 percent
Investment rate of return	7.5 percent
Projected salary increases	4.0 - 6.8 percent
Cost-of-living-adjustments	2.0 percent

For active members, inactive members and healthy retirees, the RP-2000 Combined Healthy Mortality Table, projected with scale AA to 2025, with ages set back two years is used. For disabled members, rates are based on the RP-2000 Disabled Retiree Mortality Table, projected with Scale AA to 2025, with ages set back two years for males.

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the July 1, 2013 valuation were based upon the results of an experience study conducted for the period July 1, 2006 through June 30, 2010.

The long-term expected investment rate of return assumption for UCRP was determined based on a building-block method, in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation adopted by The Regents and by adding expected inflation. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption for each major asset class are as follows:

<i>Asset Class</i>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
U.S. Equity	23.0%	6.8%
Developed International Equity	24.0%	6.9%
Emerging Market Equity	5.0%	9.3%
Core Fixed Income	12.0%	1.5%
High Yield Bonds	2.5%	3.7%
Emerging Market Debt	2.5%	4.0%
TIPS	8.0%	1.3%
Real Estate	7.0%	5.4%
Private Equity	6.0%	10.4%
Absolute Return/Hedge Funds/Real Assets	10.0%	4.1%
<b>Total</b>	<b>100.0%</b>	

**Discount Rate.** The discount rate used to estimate the net pension liability as of June 30, 2014 was 7.5 percent. To calculate the discount rate, cash flows into and out of UCRP were projected in order to determine whether UCRP has sufficient cash in future periods for projected benefit payments for current members. For this purpose, University contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected University contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are not included. UCRP was projected to have assets sufficient to make projected benefit payments for current members for all future years as of June 30, 2014.

**Sensitivity of the Net Pension Liability to the Discount Rate Assumption.** The following presents the current-period net pension liability of the University calculated using the current-period discount rate assumption of 7.5 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

*(in thousands of dollars)*

	<b>1% Decrease (6.5%)</b>	<b>Current Discount (7.5%)</b>	<b>1% Increase (8.5%)</b>
UC Merced	\$ 106,218	\$ 55,302	\$ 12,552

**Deferred Outflows of Resources and Deferred Inflows of Resources.** Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources for the year ended June 30, 2014:

<i>(in thousands of dollars)</i>	<b>2014</b>
<b>Deferred Outflows of Resources</b>	
Changes in proportion and differences between location's contributions and proportionate share of contributions	\$ 187
Changes of assumptions or other inputs	16,245
Net difference between projected and actual earnings on pension plan investments	7,800
<b>Total</b>	<b>\$ 24,232</b>
<b>Deferred Inflows of Resources</b>	
Changes in proportion and differences between location's contributions and proportionate share of contributions	\$ 6,539
Changes of assumptions or other inputs	14,689
Net difference between projected and actual earnings on pension plan investments	31,249
Difference between expected and actual experience	3,193
<b>Total</b>	<b>\$ 55,670</b>

Deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the year ending June 30, 2014 as follows:

<i>(in thousands of dollars)</i>	
2015	\$ (5,163)
2016	(5,161)
2017	(9,224)
2018	(11,083)
2019	(807)
<b>Total</b>	<b>\$ (31,438)</b>

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.

## 11. Commitments and Contingencies

### Contractual Commitments

Amounts committed but unexpended for construction projects totaled \$43,218 and \$50,037 at June 30, 2014 and 2013, respectively.

UC Merced leases buildings and equipment under agreements recorded as operating leases. The terms of operating leases extend through June 2020. Operating lease expenses for the years ended June 30, 2014 and 2013 were \$1,330 and \$1,200, 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)*

	<b>Minimum Annual Lease Payments</b>	
<i>Year Ending June 30</i>		
2015	\$	1,371
2016		544
2017		429
2018		418
2019		94
2020		94
<b>Total</b>	<b>\$</b>	<b>2,950</b>

### 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.

## REQUIRED SUPPLEMENTARY INFORMATION

The schedule of UC Merced's proportionate share of UCRP's net pension liability is presented below:

*(in thousands of dollars)*

<b>As of June 30</b>	<b>Proportion of the net pension liability</b>	<b>Proportionate share of net pension liability</b>	<b>Covered- employee payroll</b>	<b>Proportionate share of the net pension liability as a percentage of its covered- employee payroll</b>	<b>Plan fiduciary net position as a percentage of the total pension liability</b>
2014	0.8%	\$ 55,302	\$ 71,228	77.6%	86.3%
2013	0.8%	89,675	73,155	122.6%	78.3%
2012	0.9%	119,172	70,783	168.4%	71.3%

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