

**University of California,
Merced**

2014 - 2015

**Annual Financial Report
(unaudited)**



University of California, Merced

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Message from Vice Chancellor Michael Reese

Dear Readers,

I am pleased to present this Annual Financial Report for Fiscal Year 2014-15.

The University of California, Merced, has entered its second decade. Though still only in its early adolescence, the University of California's tenth and youngest campus has already graduated nearly 4,000 students, expanded research opportunities into dozens of cutting-edge fields, and contributed about \$1.3 billion to the local San Joaquin Valley economy.

Now the campus is poised to enter its next stage of life – its coming of age as a major and significant teaching and research institution that lives up to its distinction as the first American research university of the 21st century.

The 2015 Strategic Academic Focusing Initiative is now being implemented to provide the intellectual and programmatic foundation for the next decade of UC Merced's growth. It is designed to provide a more strategic and targeted approach to recruitment of the best faculty through six signature themes that will be the focus of our expansion for the next decade.

Among the first beneficiaries of this new academic focus will be the incoming wave of undergraduate and graduate students. Demand remains high for admission to UC Merced, with 22,632 applicants competing for admission for 2,100 undergraduate seats in Fall 2016, an increase of 13.5 percent over last year's total – a rate of growth that is the highest among all UC campuses and more than double the systemwide growth rate of 6.4 percent.

To help meet this growing demand, the campus has adopted an innovative development strategy that designates a single private development team to design, build, finance, operate and maintain nearly one million square feet of new mixed-use space. With the request for proposal phase of the process underway as of this writing, the campus expects to select a developer by summer. With the selection, the campus will get the first glimpse of its future with the design and master plan for new housing, dining, classrooms, laboratories, recreation fields, open space and yes, even an aquatics center, and how the new construction will interact with the existing campus. Delivery of the first phase of buildings is scheduled for mid-2018.

Also this year, the campus will break ground on the new Downtown Campus Center, which will serve as the anchor of an expanding downtown campus presence and eventually house as many as 400 administrative staff. The facility is designed to establish and achieve cost savings as well as more efficient and flexible workspaces, putting UC Merced, as with so many other things, on the cutting edge of UC system practices.

It is an exciting moment for UC Merced that builds on its brief but distinctive history of innovation, energy, creativity and a commitment to the aspirations and needs of its unique 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

University of California, Merced

Management's Discussion and Analysis (unaudited)

June 30, 2015 and 2014

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, 2015 with selected comparative information for the fiscal year ended June 30, 2014. 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 \$28.7 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

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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*
Sociology
Interdisciplinary Humanities

* Emphasis within the Individual Graduate Program

During the 2014-2015 academic year, receiving more than 18,600 first-time freshman and transfer applications for Fall 2014, UC Merced was able to enroll nearly 6,300 students. Enrollment stayed relatively flat from the previous year due primarily to capacity issues with existing facilities even though number of applications received was up nearly 3% from Fall 2013. During the year, the campus' graduating class remained relatively the same as the prior awarding 1,120 degrees during the 2014-15 academic year compared to 1,106 in the prior year. Because the campus has reached capacity within its existing facilities, it has received approval from The Regents of the University of California for its proposal to double the physical capacity of the campus by 2020, a move that would allow the campus to join other UC campuses in expanding enrollment for up to 10,000 students. 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 \$37.8 million for fiscal year 2015 as compared to \$34.8 million for 2014. 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 3.7 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 October 2015 to date, the campus has contributed approximately \$1.27 billion to the valley economy in wages and benefits, construction contracts to local businesses and goods and services purchased from local businesses. Statewide, UC Merced's cumulative economic contribution has exceeded \$2.4 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.

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Management's Discussion and Analysis (unaudited)

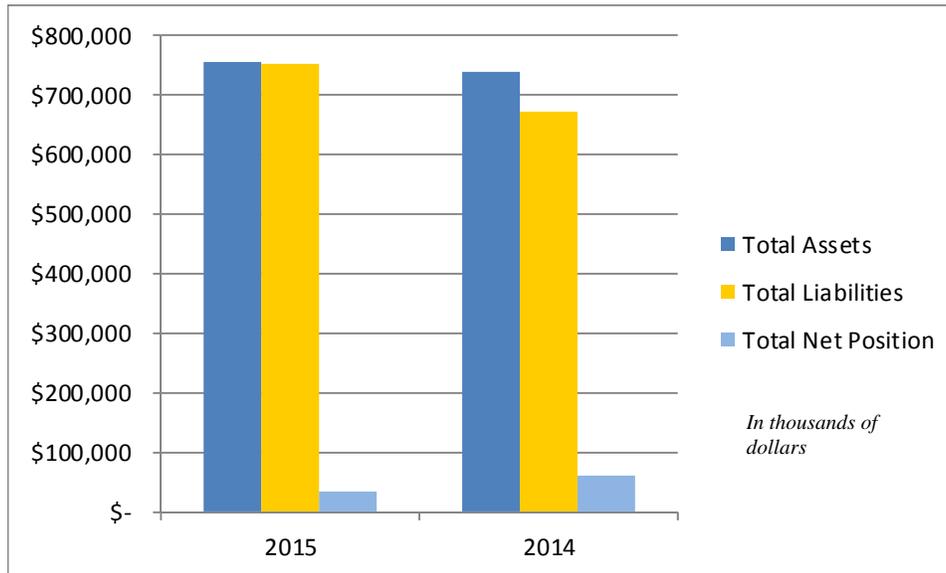
June 30, 2015 and 2014

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 2015, 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	1,278		136	\$ 10,933	\$ 7,722	\$ 18,655
School of Natural Sciences	1,800		254	16,597	13,013	29,610
School of Social Sciences, Humanities & Arts	2,115		192	16,147	9,241	25,388
Graduate Studies		384	11	870	585	1,455
Undeclared	715					
All others, including auxiliaries, student services, etc.			825	65,486	109,041	174,527
Subtotal	5,908	384	1,418	\$ 110,033	\$ 139,602	\$ 249,635
Depreciation Expense						25,843
Total						\$ 275,478

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 \$755.4 million in 2015, compared to \$737.5 million in 2014. Generally, over the past two years, capital assets and cash and cash equivalents have increased.

Cash and cash equivalents increased by \$10.4 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

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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 \$49.5 million in 2015 compared to \$57.5 million in the prior year. In 2015, the majority of capital asset additions related to a new classroom and office building whereas in 2014, the majority of additions related to a new science and engineering building, 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 \$25.8 million in deferred outflows of resources in 2015 is primarily related to pension obligations.

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 increased by \$78.5 million when compared to the prior year due to a combination of an increase of \$47.9 million in pension and other postretirement benefits and a \$31.0 million increase in outstanding commercial paper, of which the proceeds were used to finance capital projects.

The Campus' Deferred Inflows of Resources

Deferred inflows of resources are related to changes in the net pension liability. Deferred inflows of resources in 2015 decreased by \$7.5 million due to an increase in precision between projected earnings on pension plan investments used in the actuarial valuation compared to actual earnings.

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 decreased from \$61.9 million to \$34.4 million due primarily to its continued investment in its physical facilities offset by increases in pension and other postretirement obligations.

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.

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A summarized comparison of the operating results from 2015 and 2014, 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)

	2015			2014		
	Operating	Nonoperating	Total	Operating	Nonoperating	Total
REVENUES						
Student tuition and fees, net	\$ 62,228		\$ 62,228	\$ 51,031		\$ 51,031
State educational appropriations		\$ 119,065	119,065		\$ 109,365	109,365
Pell grants		16,526	16,526		16,426	16,426
Grants and contracts, net	20,979		20,979	17,699		17,699
Auxiliary enterprises, net	23,736		23,736	21,782		21,782
Private gifts, net		2,422	2,422		2,256	2,256
Investment income, net		2,842	2,842		3,011	3,011
Other revenues	7,153	1,568	8,721	6,091	1,535	7,626
Revenues supporting core activities	114,096	142,423	256,519	96,603	132,593	229,196
EXPENSES						
Salaries and benefits	168,472		168,472	139,795		139,795
Scholarships and fellowships	13,454		13,454	8,908		8,908
Utilities	4,534		4,534	4,458		4,458
Supplies and materials	21,025		21,025	19,188		19,188
Depreciation and amortization	25,843		25,843	22,386		22,386
Interest expense		20,233	20,233		19,172	19,172
Other expenses	42,150	220	42,370	30,015	59	30,074
Expenses associated with core activities	275,478	20,453	295,931	224,750	19,231	243,981
Income (loss) from core activities	\$(161,382)	\$ 121,970	\$(39,412)	\$(128,147)	\$ 113,362	\$(14,785)
OTHER CHANGES IN NET POSITION						
Capital gifts and grants, net			1,432			2,066
State capital appropriations			2,323			296
Contributions from the University for building programs			25,488			12,010
Other transfers			(17,302)			6,954
Increase in net position			(27,471)			6,541
NET POSITION						
Beginning of year			61,874			55,333
End of year			\$ 34,403			\$ 61,874

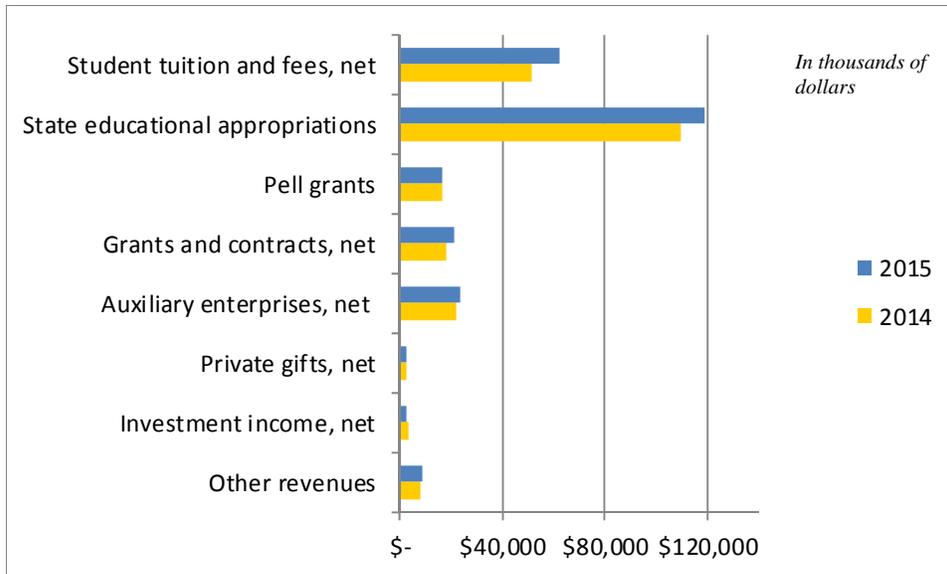
Revenues Supporting Core Activities

Revenues to support UC Merced's core activities, including those classified as nonoperating revenues, grew from \$229.2 million in 2014 to \$256.5 million in 2015, an increase of \$27.3 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.

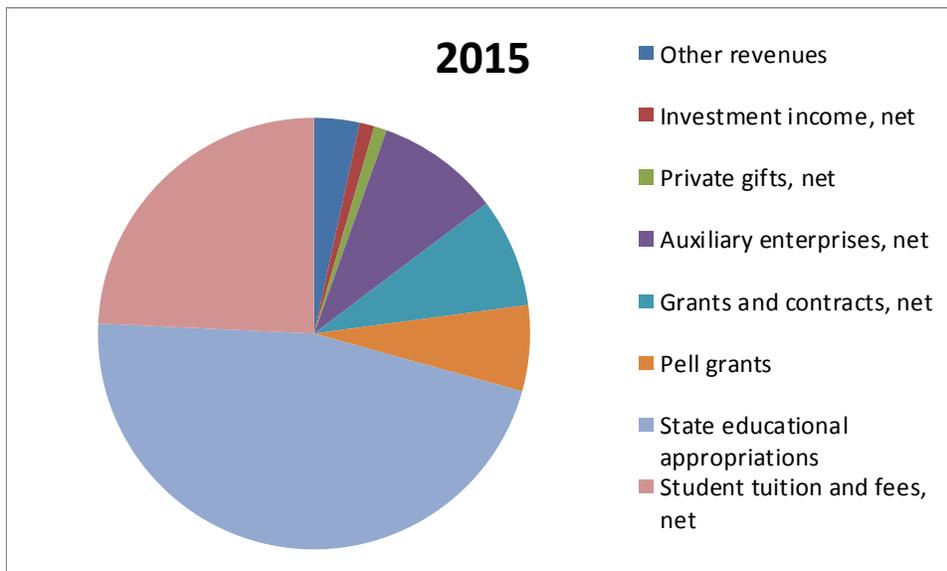
University of California, Merced Management's Discussion and Analysis (unaudited) June 30, 2015 and 2014

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 2015 are as follows:



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Student Tuition and Fees revenue, net of scholarship allowances, increased by \$11.2 million and account for 24% of UC Merced's revenue.

(in thousands of dollars)

	2015	2014	Change
Student tuition and fees	\$ 87,672	\$ 85,475	\$ 2,197
Summer sessions	10,130	-	10,130
Scholarship allowances	(35,574)	(34,444)	(1,130)
Total student tuition and fees	\$ 62,228	\$ 51,031	\$ 11,197

Student tuition and fees increased from the prior year primarily as a result of a \$1.5 million increase in out-of-state tuition. Resident enrollment rates remained relatively flat, and in connection with the passage of certain tax initiatives by the voters of California in November 2012 related to state educational appropriations, the University did not raise resident tuition in either 2014 or 2015. As a result, student tuition for resident students remained relatively flat from the prior year. Consistent with past practices, approximately one-third of the revenue generated from tuition and fees was used for financial aid.

Summer session increased as a result of a change in accounting policy in the prior year from cash-basis to accrual basis accounting. The revenue related to 2014 summer session courses was recognized when it was received in fiscal year 2013.

State educational appropriations from the state of California was \$119.1 million and \$109.4 million in 2015 and 2014, respectively, accounting for 46% of UC Merced's revenue. While the University of California received a 6% 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 9% 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 \$3.9 million and \$3.2 million in 2015 and 2014, respectively are as follows:

(in thousands of dollars)

	2015	2014	Change
Federal government	\$ 16,556	\$ 14,274	\$ 2,282
State agencies	696	638	58
Private industries	3,727	2,787	940
Total grants and contracts, net	\$ 20,979	\$ 17,699	\$ 3,280

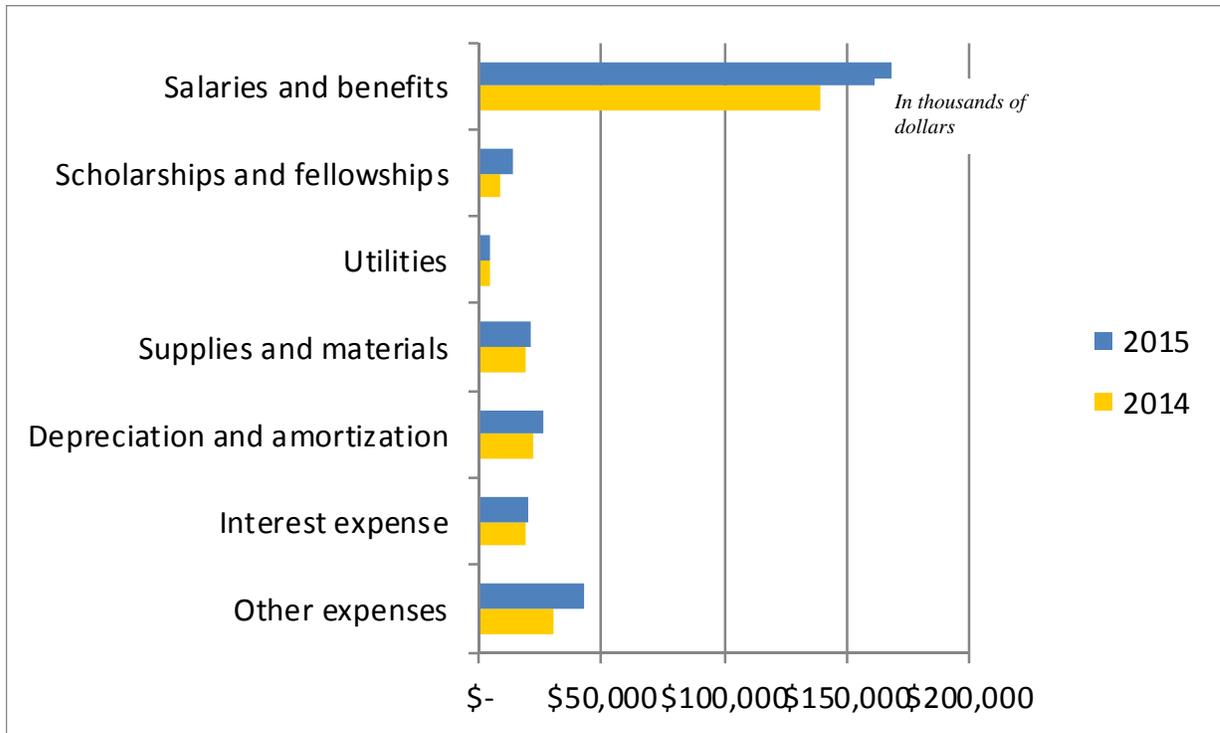
Revenues from the federal government increased by 16% from the prior year, primarily as a result of projects with the National Institute of Allergy and Infection Diseases and National Science Foundation.

Expenses Associated with Core Activities

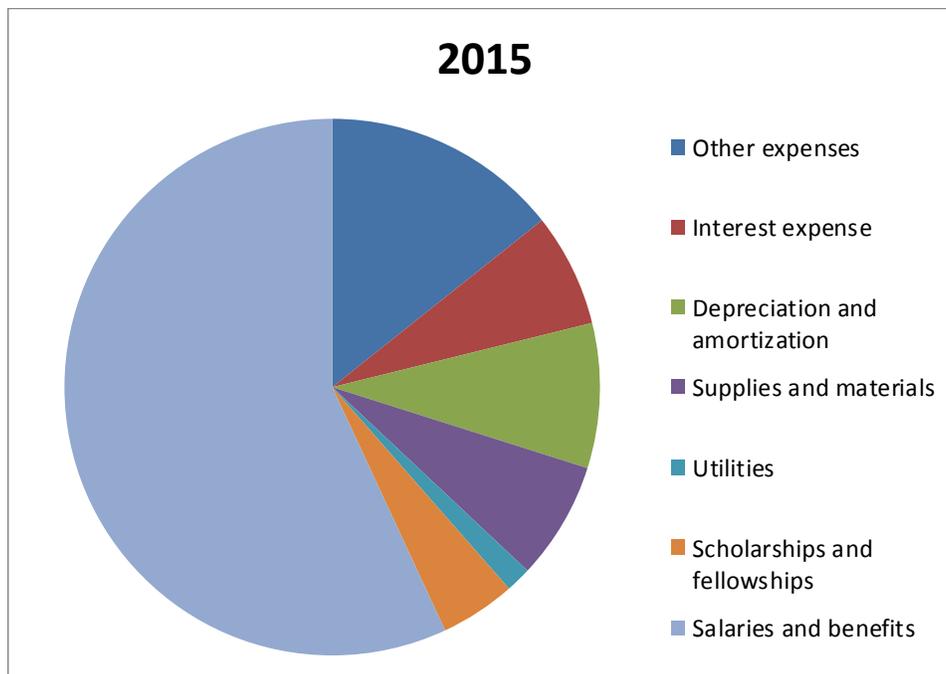
Expenses associated with UC Merced's core activities, including those classified as nonoperating expenses, were \$295.9 million and \$244.0 million in 2015 and 2014, respectively.

University of California, Merced Management's Discussion and Analysis (unaudited) June 30, 2015 and 2014

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, 2015 are as follows:



University of California, Merced

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Salaries and benefits cover approximately 1,418 full-time-equivalent (FTE) employees, an increase of 3.7% over the prior year from 1368 FTE positions in 2014. Over 61% of UC Merced's expenses are related to salaries and benefits, which increased by \$26.8 million from the prior year due to a combination of a \$15.2 million increase in salaries and wages, \$9.7 million increase in retiree health benefits expense, and \$3.8 million increase in other employee benefits.

In 2015, salaries increased by 16%, \$3.5 million due to an increase in the number of FTEs and \$11.7 million due to an increase in the average salary per FTE. In the current year, the campus initiated a compensation strategy designed to bring the campus closer to market wages, address salary inequities across the campus, invest in job functions critical to achieving the campus' growth initiatives, and implement the across the board increases initiated by The Regents of the University of California. 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 2015, employee benefits increased by \$13.5 million due to a combination of \$9.7 million increase in retiree health benefits and \$3.8 million in other employee benefits. Retiree health benefits expense increased as a result of an increase in UC Merced's proportional share of the University of California's obligations and because of a decrease in the actuarially required contribution, which increases the obligation over the long-term. The increase in other employee benefits is a result of increases in employer related social security contributions and workers' compensation costs. 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 an increase of \$4.5 million.

Scholarship allowances, representing financial aid and fee waivers awarded by UC Merced, were \$42.8 million and \$44.0 million in 2015 and 2014, 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 \$5.8 million totaling \$57.5 million and \$51.7 million in 2015 and 2014, respectively. Consistent with past practices, approximately one-third of the revenue generated from tuition and fees was used for financial aid.

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. Other expenses increased over the prior year due primarily to an increase in outside purchased services such as environmental and planning studies and outside legal consulting related to projects associated with increasing the size of the campus in terms of both physical infrastructure and campus operations in order to serve a larger student population.

Operating Losses

In accordance with the GASB's reporting standards, operating losses were \$161.4 million and \$128.1 million in 2015 and 2014, respectively. The operating loss in 2015 and 2014 was partially offset by \$122.0 million and \$113.4 million, respectively of net nonoperating revenue that clearly supports core operating activities of UC Merced. Expenses associated with core activities in 2015 and 2014 exceeded revenue available to support core activities by \$39.4 million and \$14.8 million, respectively.

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

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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, 2015 and 2014, gifts of \$1.7 million and \$1.5 million, respectively were transferred to UC Merced from the UC Merced Foundation. In 2015 and 2014, the Foundation's net position was \$10.5 million and \$9.3 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 2015 and 2014 are as follows:

(in thousands of dollars)

	2015	2014
ASSETS		
Investments	\$ 9,250	\$ 8,197
Pledges receivable, net	695	720
Other assets	569	403
Total assets	10,514	9,320
LIABILITIES		
Accounts payable and other liabilities	-	-
Total liabilities	-	-
NET POSITION		
Restricted:		
Nonexpendable	7,120	6,073
Expendable	3,169	3,013
Unrestricted	225	234
Total net position	\$ 10,514	\$ 9,320

Investments increased in 2015 due to a combination of new endowment contributions and 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.

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Pledge receivables remained relatively unchanged from the prior year.

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 2015 and 2014 is as follows:

(in thousands of dollars)

	2015	2014
Operating revenues		
Private gifts and other revenues	\$ 1,370	\$ 1,280
Total operating revenues	1,370	1,280
Operating expenses		
Grants to campuses and other expenses	1,710	1,564
Total operating expenses	1,710	1,564
Operating income (loss)	(340)	(284)
NONOPERATING REVENUES (EXPENSES)		
Investment income	83	72
Net appreciation (depreciation) in fair value of investments	404	1,233
Income (loss) before other changes in net position	147	1,021
OTHER CHANGES IN NET POSITION		
Permanent endowments	1,047	236
Increase (decrease) in net position	1,194	1,257
NET POSITION		
Beginning of year	9,320	8,063
End of year	\$10,514	\$ 9,320

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; however, this year they remained relatively flat compared to the prior 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

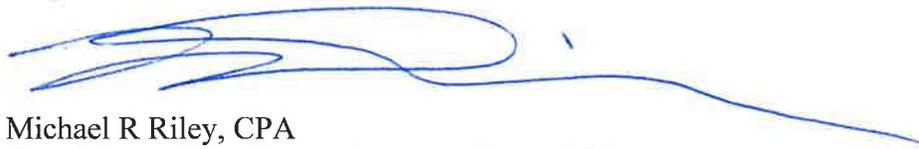
The accompanying Financial Statements reflect the financial position and the results of operations of the University of California, Merced for the fiscal year ended June 30, 2015 and 2014.

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, 2015 and 2014 (in thousands of dollars)

	Campus		Foundation	
	2015	2014	2015	2014
Assets				
Cash and cash equivalents	\$ 142,170	\$ 131,835	\$ 5	\$ 5
Accounts receivable, net	9,015	13,694		
Pledges receivable, net	-	100	283	191
Inventories	1,005	856		
Other current assets	-	2,840	564	398
Current assets	<u>152,190</u>	<u>149,325</u>	<u>852</u>	<u>594</u>
Investments	29,342	27,582	9,250	8,197
Investments held by trustees	1,734	13,658		
Pledges receivable, net	-	16	412	529
Capital assets, net	564,838	541,322		
Other noncurrent assets	7,256	5,646		
Noncurrent assets	<u>603,170</u>	<u>588,224</u>	<u>9,662</u>	<u>8,726</u>
Total assets	<u>755,360</u>	<u>737,549</u>	<u>10,514</u>	<u>9,320</u>
Deferred outflows of resources	76,803	51,044		
Liabilities				
Accounts payable	14,156	11,867		
Accrued salaries	9,857	7,341		
Employee benefits	3,325	2,747		
Unearned revenue	2,214	6,480		
Commercial paper	32,180	1,164		
Current portion of long-term debt	86,922	90,622		
Funds held for others	1,133	922		
Other current liabilities	5,363	2,998		
Current liabilities	<u>155,150</u>	<u>124,141</u>	<u>-</u>	<u>-</u>
Long-term debt	420,868	421,086		
Pension and other postretirement benefits	168,510	120,632		
Other noncurrent liabilities	4,808	4,942		
Total Noncurrent Liabilities	<u>594,186</u>	<u>546,660</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>749,336</u>	<u>670,801</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources	48,424	55,918		
Net position				
Invested in capital assets net of related debt	54,255	60,327		
Restricted:				
Nonexpendable:				
Endowments and gifts	16,180	16,613	7,120	6,073
Expendable:				
Endowments and gifts	26,358	24,007	3,169	3,013
Other	2,559	14,677		
Unrestricted	(64,949)	(53,750)	225	234
Total net position	<u>\$ 34,403</u>	<u>\$ 61,874</u>	<u>\$ 10,514</u>	<u>\$ 9,320</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, 2015 and 2014 *(in thousands of dollars)*

	Campus		Foundation	
	2015	2014	2015	2014
OPERATING REVENUES				
Student tuition and fees, net	\$ 62,228	\$ 51,031		
Grants and contracts, net				
Federal	16,556	14,274		
State	696	638		
Private	3,727	2,787		
Auxiliary enterprises, net	23,736	21,782		
Campus foundation private gifts			\$ 1,319	\$ 1,240
Other operating revenues, net	7,153	6,091	51	40
Total operating revenues	114,096	96,603	1,370	1,280
OPERATING EXPENSES				
Salaries and wages	110,033	94,866		
UCRP benefits	9,981	9,954		
Retiree health benefits	18,824	9,166		
Other employee benefits	29,634	25,809		
Supplies and materials	21,025	19,188		
Depreciation and amortization	25,843	22,386		
Scholarships and fellowships	13,454	8,908		
Utilities	4,534	4,458		
Campus foundation grants			1,710	1,546
Other operating expenses	42,150	30,015	-	18
Total operating expenses	275,478	224,750	1,710	1,564
Total operating loss	(161,382)	(128,147)	(340)	(284)
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	119,065	109,365		
State financing appropriations	30	10		
Federal financing appropriations	1,538	1,525		
Federal pell grants	16,526	16,426		
Private gifts, net	2,422	2,256		
Investment income:				
Short Term Investment Pool and other, net	2,272	2,407		
Endowment, net	570	604		
Campus foundations			83	72
Net appreciation (depreciation) in fair value of investments			404	1,233
Interest expense	(20,233)	(19,172)		
Loss on disposal of capital assets	(119)	(109)		
Other nonoperating (expenses) revenues, net	(101)	50		
Net nonoperating revenues	121,970	113,362	487	1,305
Income (loss) before other changes in net position	(39,412)	(14,785)	147	1,021
OTHER CHANGES IN NET POSITION				
Capital gifts and grants, net	1,432	2,066		
State capital appropriations	2,323	296		
Permanent endowments			1,047	236
Contributions from the University for the building program	25,488	12,010		
Other transfers	(17,302)	6,954		
Increase (decrease) in net position	(27,471)	6,541	1,194	1,257
NET POSITION				
Beginning of year, as previously reported	61,874	55,333	9,320	8,063
End of Year	\$ 34,403	\$ 61,874	\$ 10,514	\$ 9,320

See Accompanying Notes to Financial Statements

University of California, Merced
STATEMENTS OF CASH FLOWS

As of for the year then ended June 30, 2015 and 2014 (in thousands of dollars)

	Campus		Foundation	
	2015	2014	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	\$ 62,306	\$ 50,918		
Grants and contracts	19,779	17,732		
Auxiliary enterprises	23,632	21,797		
Campus foundation private gifts			\$ 1,343	\$ 1,549
Payments to employees	(107,173)	(91,949)		
Payments to suppliers and utilities	(64,100)	(58,650)		
Payments to UCRP	(12,563)	(8,880)		
Payments for retiree health benefits	(2,330)	(2,263)		
Payments for other employee benefits	(29,433)	(25,570)		
Payments for scholarships and fellowships	(13,454)	(8,908)		
Payments to campuses and beneficiaries			(1,710)	(1,546)
Other receipts (payments), net	7,217	13,206	52	10
Net cash (used) provided by operating activities	<u>(116,119)</u>	<u>(92,567)</u>	<u>(315)</u>	<u>13</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	115,525	106,168		
Federal pell grants	16,502	16,431		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes			1,047	236
Other private gifts	2,538	2,507		
Student direct lending receipts	25,560	25,287		
Student direct lending payments	(25,560)	(25,287)		
Scheduled principal paid on debt	(1,799)	(844)		
Interest paid on debt	(334)	(448)		
Other receipts (payments), net	558	4,344		
Net cash provided by noncapital financing activities	<u>132,990</u>	<u>128,158</u>	<u>1,047</u>	<u>236</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
State capital appropriations	2,422	2,746		
State financing appropriations	30	1,524		
Federal financing appropriations	1,538	1,540		
Proceeds from debt issuance	695	302,342		
Purchases of capital assets	(49,618)	(57,518)		
Refinancing/Prepayment Outstanding Debt		(269,900)		
Scheduled principal paid on debt & capital leases	(6,339)	(5,759)		
Interest paid on debt and capital leases	(17,577)	(18,656)		
Commercial paper financing:				
Proceeds from Issuance	31,425	1,164		
Payments of Principal	(409)	(8,763)		
Interest Paid	(23)	(19)		
Other receipts (payments), net	28,478	37,098		
Net cash used by capital and related financing activities	<u>(9,378)</u>	<u>(14,201)</u>	<u>-</u>	<u>-</u>
Cash Flows from Investing Activities				
Proceeds from sale & maturities of investments			1,368	1,601
Purchase of investments			(2,183)	(1,921)
Investment income, net of investment expenses	2,842	3,011	83	71
Net cash provided (used) by investing activities	<u>2,842</u>	<u>3,011</u>	<u>(732)</u>	<u>(249)</u>
Net increase in cash and cash equivalents	10,335	24,401	-	-
Cash and cash equivalents, beginning of year	131,835	107,434	5	5
Cash and cash equivalents, end of year	<u>\$ 142,170</u>	<u>\$ 131,835</u>	<u>\$ 5</u>	<u>\$ 5</u>

See Accompanying Notes to Financial Statements

University of California, Merced

Notes to Financial Statements (unaudited)

June 30, 2015 and 2014

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.

The significant accounting policies of 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

University of California, Merced

Notes to Financial Statements (unaudited)

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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 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.

University of California, Merced

Notes to Financial Statements (unaudited)

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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. UC Merced classifies gains on retirement of debt as deferred inflows of resources and losses as deferred outflows of resources and amortizes such amounts as a component of interest expense over the remaining life of the old debt, or the new debt, whichever is shorter.

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.

University of California, Merced

Notes to Financial Statements (unaudited)

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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, 2015 and 2014 as follows:

(in thousands of dollars)

	2015	2014
Student tuition and fees	\$ 35,574	\$ 34,444
Auxiliary enterprises	8,370	8,246
Other operating revenues	100	97
Scholarship allowances	\$ 44,044	\$ 42,787

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

University of California, Merced

Notes to Financial Statements (unaudited)

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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 breast cancer imaging 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, 2015 the facilities and administrative cost recovery totaled \$3,929, which consisted of \$3,215 from federally sponsored programs, \$89 from state sponsored programs and \$625 from other sponsors. For the year ended June 30, 2014 the facilities and administrative cost recovery totaled \$3,203, which consisted of \$2,663 from federally sponsored programs, \$97 from state sponsored programs and \$442 from other sponsors.

Retiree health benefits. The University established the University of California Retiree Health Benefit Trust ("UCRHBT") to allow certain University locations and affiliates, including UC Merced, to share the risks, rewards and costs of providing for retiree health benefits and to accumulate funds on a tax-exempt basis under an arrangement segregated from University assets.

The UCRHBT provides retiree health benefits to retired employees of UC Merced. Contributions from the UC Merced to the UCRHBT are effectively made to a single-employer health plan administered by the University as a cost-sharing plan. Campus contributions toward retiree health benefits, at rates determined by the University, are made to the UCRHBT and reduce the obligation for retiree health benefits in the statement of net position.

UC Merced's contributions toward retiree health costs made to UCRHBT are shown as operating activities in the statement of cash flows. Cash flows resulting from retiree health contributions from retirees are shown as noncapital financing activities in the statement of cash flows.

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.

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.

University of California, Merced

Notes to Financial Statements (unaudited)

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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.

New Accounting Pronouncements. In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for the University's fiscal year beginning July 15, 2015. This Statement establishes standards for accounting and financial reporting for fair value measurements. The Statement requires investments to be measured at fair value and permits the use of net asset value as the fair value when an investment does not have a readily determinable fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Statement No. 72 also requires certain disclosures related to all fair value measurements. The University is evaluating the effect that Statement No. 72 will have on its financial statements.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for the University's fiscal year beginning July 1, 2015. This Statement establishes requirements for those pensions and pension plans that were not covered by Statements 67 and 68, specifically those not administered through a trust meeting specified criteria. The University is evaluating the effect that Statement 73 will have on its financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the University's fiscal year beginning July 1, 2017. This Statement revises existing standards for measuring and reporting retiree health benefits provided by the University to its employees. This Statement requires recognition of a liability equal to the net retiree health benefit liability, which is measured as the total retiree health benefit liability, less the amount of the UCRHBT's fiduciary net position. The total retiree health benefit liability is determined based upon discounting projected benefit payments based on claims costs, the benefit terms and legal agreements existing at the UCRHBT'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. The Statement requires that most changes in the net retiree health benefit liability be included in retiree health benefit expense in the period of change. As of June 30, 2015, the University reported a retiree health benefit obligation of \$9.4 billion, of which, UC Merced's proportionate share is \$82,091. Under Statement No. 75, the University's OPEB obligation is expected to increase. The University is evaluating the effect that Statement 75 will have on its financial statements.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the University's fiscal year beginning July 1, 2015. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP from the four

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categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. The University is evaluating the effect that Statement 76 will have on its financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*, effective for the University's fiscal year beginning July 1, 2016. This Statement requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments that reduce the reporting government's tax revenues. The purpose of this Statement is to increase transparency in regards to tax abatements governments enter into and make the impact of these agreements more apparent to users of the financial statements. The University is evaluating the effect that Statement 77 will have on its financial statements.

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, 2015, and 2014, consist of the following:

(in thousands of dollars)

	UC Merced		UC Merced Foundation	
	2015	2014	2015	2014
Checking accounts	\$ 259	\$ 232	\$ 5	\$ 5
University of California Managed Short Term Investment Pool (STIP)	141,911	131,603		-
Total cash and cash equivalents	\$ 142,170	\$ 131,835	\$ 5	\$ 5

The checking accounts at June 30, 2015 and 2014 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

University of California, Merced

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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 2014–2015 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 at both June 30, 2015 and 2014. UC Merced's portion, as determined by the University, was \$1,734 and \$13,658 at June 30, 2015 and 2014, respectively, related to capital projects.

University of California, Merced

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4. Accounts Receivable

Accounts receivable and the allowances for uncollectible amounts at June 30, 2015 and 2014 are as follows:

(in thousands of dollars)

	UC Merced			UC Merced Foundation
	State and Federal Government	Other	Total	
<i>At June 30, 2015</i>				
Accounts receivable	\$ 7,320	\$ 2,052	\$ 9,372	\$ -
Allowance for uncollectible amounts	(162)	(195)	(357)	
Accounts receivable, net	\$ 7,158	\$ 1,857	\$ 9,015	\$ -
<i>At June 30, 2014</i>				
Accounts receivable	\$ 10,728	\$ 3,246	\$ 13,974	\$ -
Allowance for uncollectible amounts	(138)	(142)	(280)	
Accounts receivable, net	\$ 10,590	\$ 3,104	\$ 13,694	\$ -

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

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5. Pledges Receivable

The composition of pledges receivable at June 30, 2015 and 2014 is summarized as follows:

(in thousands of dollars)

	UC Merced		UC Merced Foundation	
	2015	2014	2015	2014
Total pledges receivable outstanding	\$ 315	\$ 435	\$ 917	\$ 910
Less: Unamortized discount to present value	(2)	(4)	(26)	(47)
Allowance for uncollectible pledges	(313)	(315)	(196)	(143)
Total pledges receivable, net	-	116	695	720
Less: Current portion of pledges receivable	-	(100)	(283)	(191)
Noncurrent portion of pledges receivable	\$ -	\$ 16	\$ 412	\$ 529

Payments of pledges receivable for the fiscal years subsequent to June 30, 2015 and thereafter are as follows:

(in thousands of dollars)

	UC Merced	UC Merced Foundation
<i>Year Ending June 30</i>		
2016	150	407
2017	50	255
2018	50	111
2019	50	111
2020	15	11
2021-2025		22
Total payments on pledges receivable	\$ 315	\$ 917

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6. Capital Assets

The campus' capital asset activity for the years ended June 30, 2015 and 2014 is as follows:

(in thousands of dollars)

	2013	Additions	Disposals	2014	Additions	Disposals	2015
Original Cost							
Land	\$ 12,029			\$ 12,029	\$ 1,331		\$ 13,360
Infrastructure	32,977	\$ 3,472		36,449	128		36,577
Buildings and improvements	426,957	159,035		585,992	6,971		592,963
Equipment, software and intangibles	43,679	3,581	\$ (422)	46,838	8,002	\$ (414)	54,426
Libraries and collections	13,611	1,700		15,311	1,612		16,923
Special collections	132			132			132
Construction in progress	118,141	(110,245)		7,896	31,481		39,377
Capital assets, at original cost	\$ 647,526	\$ 57,543	\$ (422)	\$ 704,647	\$ 49,525	\$ (414)	\$ 753,758
Accumulated depreciation and amortization							
	2013	Depreciation and Amortization	Disposals	2014	Depreciation and Amortization	Disposals	2015
Infrastructure	\$ 9,812	\$ 1,446		\$ 11,258	\$ 1,422		\$ 12,680
Buildings and improvements	100,336	16,066		116,402	19,547		135,949
Equipment, software and intangibles	27,510	3,967	\$ (313)	31,164	3,853	\$ (248)	34,769
Libraries and collections	3,594	907		4,501	1,021		5,522
Accumulated depreciation and amortization	\$ 141,252	\$ 22,386	\$ (313)	\$ 163,325	\$ 25,843	\$ (248)	\$ 188,920
Capital assets, net	\$ 506,274			\$ 541,322			\$ 564,838

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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, 2015 and 2014 is as follows:

(in thousands of dollars)

	2015	2014
Interim Financing:		
Commercial paper	\$ 32,180	\$ 1,164
Long-term Financing:		
University of California General Revenue Bonds	465,702	465,007
Capital lease obligations		-
Note payables to UCOP	42,088	46,701
Total outstanding debt	539,970	512,872
Less: Commercial paper	(32,180)	(1,164)
Current portion of outstanding debt	(86,922)	(90,622)
Noncurrent portion of outstanding debt	\$ 420,868	\$ 421,086

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 for both fiscal years ending June 30, 2015 and 2014. More detail about the University of California's debt can be found in the 2014–2015 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, 2015 and 2014 is as follows:

(in thousands of dollars)

	UC Merced		UC Merced Foundation	
	2015	2014	2015	2014
Restricted				
Endowments and gifts	\$ 16,180	\$ 16,613	\$ 7,120	\$ 6,073
Nonexpendable	16,180	16,613	7,120	6,073
Endowments	14,749	12,307	2,453	2,200
Funds functioning as endowments	4,053	3,836		
Gifts	7,556	7,864	716	813
Expendable	26,358	24,007	3,169	3,013
Unrestricted				
			225	234
University endowments and gifts	\$ 42,538	\$ 40,620	\$ 10,514	\$ 9,320

The endowments held by the University are administered on a system-wide basis. The University's endowment income distribution policies are designed to preserve the value of the endowment in real terms

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(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 \$1,357 and \$1,281 for the years ended June 30, 2015 and 2014, respectively.

9. Operating Expenses by Function

Operating expenses, by functional classification, for fiscal years ended June 30, 2015 and 2014, are as follows:

<i>(in thousands of dollars)</i>	2015	2014
Instruction	\$ 55,596	\$ 45,081
Research	23,103	18,497
Public service	4,268	4,088
Academic support	23,062	19,955
Student services	24,097	21,172
Institutional support	63,004	46,699
Operation and maintenance of plant	17,187	15,975
Student financial aid	14,247	9,231
Auxiliary enterprises	20,546	18,733
Depreciation and amortization	25,843	22,386
Other	4,525	2,933
Total	\$ 275,478	\$ 224,750

10. Deferred Outflows and Inflows of Resources

The composition of deferred outflows of resources at June 30 is summarized as follows:

<i>(in thousands of dollars)</i>	2015	2014
Pension obligations	\$ 50,916	\$ 24,232
Loss on debt refunding	25,887	26,812
Total	\$ 76,803	\$ 51,044

Deferred inflows of resources for June 30, 2015 and 2014 are related to pension obligations.

11. Retiree Health Plans

The University administers single-employer health plans to provide health and welfare benefits, primarily medical, dental and vision benefits, to eligible retirees of the University of California and its affiliates. The Regents have the authority to establish and amend the benefit plans.

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The contribution requirements of the eligible retirees and the participating University locations, such as the Medical Centers, are established and may be amended by the University. Membership in the UCRP is required to become eligible for retiree health benefits. Contributions toward benefits are shared with the retiree. The University determines the employer's contribution. Retirees are required to pay the difference between the employer's contribution and the full cost of the health insurance. Retirees employed by the University prior to 1990 are eligible for the maximum employer contribution if they retire before age 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least 5 years of service. Retirees employed by the University after 1989 and not rehired after that date are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum employer contribution, increasing to 100 percent after 20 years of service.

Participating University locations, such as the Medical Centers, are required to contribute at a rate assessed each year by the University. The contribution requirements are based upon projected pay-as-you-go financing requirements. Contributions for fiscal years ended June 30, 2015 and 2014 were \$2,311 and \$2,473, respectively.

UC Merced's proportionate share of the net obligation for Retiree Health Benefits as of June 30, 2015 and 2014 is as follows:

<i>(in thousands of dollars)</i>	2015	2014
Proportion of the net pension liability	0.9%	0.8%
Proportionate share of net pension liability	\$ 82,091	\$ 65,578

The actuarial value of UCRHBT 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, 2014, the date of the latest actuarial valuation, were \$65.2 million and \$14.1 billion, respectively. The net position held in trust for retiree health benefits on the UCRHBT's statement of plan fiduciary net position were \$50.6 million and \$65.2 million at June 30, 2015 and 2014, respectively. For the years ended June 30, 2015 and 2014, combined contributions from the University's campuses and Medical Centers were \$259.2 million and \$344.5 million, respectively, including an implicit subsidy of \$91.6 million and \$85.2 million, respectively. The University's annual retiree health benefit expense for its campuses and Medical Centers was \$1.3 billion and \$1.2 billion for the years ended June 30, 2015 and 2014, respectively. As a result of contributions that were less than the retiree health benefit expense, the University's obligation for retiree health benefits attributable to its campuses and Medical Centers totaling \$9.1 billion and \$8.2 billion at June 30, 2015 and 2014, respectively, increased by \$907.7 million and \$872.9 million for the years ended June 30, 2015 and 2014, respectively.

Information related to plan assets and liabilities as they relate to individual campuses and Medical Centers is not readily available. Additional information on the retiree health plans can be obtained from the 2014–2015 annual reports of the University of California.

12. 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 have the authority to establish and amend the benefit plans. Additional information on the retirement plans can be obtained from the 2014-2015 annual reports of the University of California Retirement System.

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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. Effective July 1, 2014, employee member and employer contributions were 8.0 percent and 14.0 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.

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, 2015 and 2014 are as follows:

<i>(in thousands of dollars)</i>	2015	2014
UC Merced	\$ 12,183	\$ 9,148
Employees	6,653	4,376
Total	\$ 18,836	\$ 13,524

Net Pension Liability. UC Merced's proportionate share of the net pension liability for UCRP as of June 30, 2015 and 2014 is as follows:

<i>(in thousands of dollars)</i>	2015	2014
Proportion of the net pension liability	0.9%	0.8%
Proportionate share of net pension liability	\$ 86,419	\$ 55,302

UC Merced's net pension liability was measured as of June 30, 2015 and 2014 and was based upon rolling forward the results of the actuarial valuations as of July 1, 2014 and 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:

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	2015	2014
Inflation	3.0%	3.5%
Investment rate of return	7.25%	7.5%
Projected salary increases	3.8 - 6.2%	4.3 - 6.8%
Cost-of-living-adjustments	2.0%	2.0%

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 were changed in 2015 based upon the results of an experience study conducted for the period July 1, 2010 through June 30, 2014. For active members, inactive members and healthy retirees, the RP-2014 White Collar Mortality Tables (separate table for males and females), projected with the two-dimensional MP2014 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females.

The actuarial assumptions used in 2014 were based upon the results of an experience study conducted for the period of July 1, 2006 through June 30, 2010. 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.

The long-term expected investment rate of return assumption for UCRP was determined based on a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns 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 percentage, adding expected inflation and subtracting expected expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

<i>Asset Class</i>	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	28.5%	6.1%
Developed International Equity	18.5%	7.0%
Emerging Market Equity	8.0%	8.6%
Core Fixed Income	12.5%	0.8%
High Yield Bonds	2.5%	3.0%
Emerging Market Debt	2.5%	3.8%
TIPS	4.5%	0.4%
Real Estate	5.5%	4.8%
Private Equity	8.0%	11.2%
Absolute Return/Hedge Funds/Real Assets	9.5%	4.4%
Total	100.0%	

Discount Rate. The discount rate used to estimate the net pension liability as of June 30, 2015 and 2014 was 7.25 percent and 7.5 percent, respectively. 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, UC Merced's contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected

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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, 2015 and 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 7.25 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)

	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
UC Merced	\$ 145,721	\$ 86,419	\$ 38,012

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:

(in thousands of dollars)

	2015	2014
Deferred Outflows of Resources		
Changes in proportion and differences between location's contributions and proportionate share of contributions	\$ 9,524	\$ 187
Changes of assumptions or other inputs	25,231	16,245
Net difference between projected and actual earnings on pension plan investments	16,161	7,800
Total	\$ 50,916	\$ 24,232
Deferred Inflows of Resources		
Changes in proportion and differences between location's contributions and proportionate share of contributions	\$ 6,459	\$ 6,539
Changes of assumptions or other inputs	12,329	14,689
Net difference between projected and actual earnings on pension plan investments	26,137	31,249
Difference between expected and actual experience	3,499	3,193
Total	\$ 48,424	\$ 55,670

Deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the year ending June 30, 2015 as follows:

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(in thousands of dollars)

2016	\$	1,804
2017		(2,843)
2018		(4,962)
2019		6,666
2020		1,827
Total	\$	2,492

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.

13. Commitments and Contingencies

Contractual Commitments

Amounts committed but unexpended for construction projects totaled \$29,650 and \$43,218 at June 30, 2015 and 2014, 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, 2015 and 2014 were \$1,323 and \$1,330, 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>		
2016	\$	1,419
2017		911
2018		897
2019		565
2020		142
2021		
Total	\$	3,934

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

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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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REQUIRED SUPPLEMENTARY INFORMATION

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

(in thousands of dollars)

As of June 30	Proportion of the net pension liability	Proportionate share of net pension liability	Covered- employee payroll	Proportionate share of the net pension liability as a percentage of its covered- employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2015	0.9%	\$ 86,419	\$ 87,460	98.8%	82.9%
2014	0.8%	55,302	71,228	77.6%	86.3%
2013	0.8%	89,675	73,155	122.6%	78.3%

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