UNIVERSITY OF CALIFORNIA

BERKELEY • DAVIS • IRVINE • LOS ANGELES • MERCED • RIVERSIDE • SAN DIEGO • SAN FRANCISCO

SANTA BARBARA • SANTA CRUZ

VICE CHANCELLOR FOR ADMINISTRATION
UNIVERSITY OF CALIFORNIA, MERCED
MARY E. MILLER

UNIVERSITY OF CALIFORNIA, MERCED
5200 NORTH LAKE RD.
MERCED, CALIFORNIA 95343
(209) 228-4430

September 21, 2009

PricewaterhouseCoopers LLP
400 Capitol Mall, Suite 600
Sacramento, CA 95814

~~Attn: Michael Riley~~

We are providing this letter in connection with your audits of the special-purpose standard University of California statements of the University of California, Merced (the "Campus") as of June 30 2009 and 2008 and for the years then ended for the purpose of expressing an opinion as to whether the consolidated financial statements of the University of California (the "University") present fairly, in all material respects, the financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. We confirm that Campus management is responsible for the fair presentation of the University of California, Merced information in the Statement of Net Assets; Statement Revenues, Expenses and Changes in Net Assets; the footnote disclosure schedules and Appendices A – K (collectively, the "Statements") in conformity with generally accepted accounting principles.

Certain representations in this letter are described as being limited to those matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement. Except where otherwise stated below, matters less than $1,000,000 collectively, are not considered to be exceptions that require disclosure for the purposes of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the financial statements.

We confirm, to the best of our knowledge and belief, as of September 21, 2009, the date of your report, the following representations made to you during your audits:

1. The statements provided by the campus have been prepared in accordance with University policies and procedures and accounting principles generally accepted in the United States of America, and

include all information necessary for such fair presentation and disclosures otherwise required to be included therein by the laws and regulations to which the University is subject.

2. We have made available to you:

   a. All financial records and related data.
   b. Unconditional access to persons within the entity from whom you have requested audit evidence.

3. We have appropriately reconciled our books and records (e.g., general ledger accounts) underlying the campus statements to their related supporting information (e.g., sub ledger or third-party data). All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the campus statements, as necessary. There were no material unreconciled differences or material general ledger suspense account items that should have been adjusted or reclassified to another account balance. There were no material general ledger suspense account items written off to a balance sheet account, which should have been written off to an income statement account and vice versa. All intra-campus accounts have been eliminated or appropriately measured and considered for disclosure in the Statements.

4. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.

5. There are no material transactions, agreements or accounts that have not been properly recorded in the accounting records underlying the Statements.

6. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware.

7. We acknowledge our responsibility for the design and implementation of programs and controls to provide reasonable assurance that fraud is prevented and detected.

8. We have no knowledge of any fraud or suspected fraud affecting the Company involving:

   a. Management,
   b. Employees who have significant roles in internal control over financial reporting, or
   c. Others where the fraud could have a material effect on the Campus financial statements.

9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company received in communications from employees, former employees, analysts, regulators, short sellers, or others, except as disclosed to you.

(As to items 7, 8 and 9, we understand the term "fraud" to mean those matters described in Statement on Auditing Standards No. 99.)

10. There have been no violations or possible violations of laws or regulations whose effects should be considered for disclosure in Statements or as a basis for recording a loss contingency.

11. The Campus has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

12. The following, if material, have been properly recorded or disclosed in the Statements:

a. Relationships and transactions with related-parties, as described in FAS 57, *Related Party Disclosure*, including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
b. Guarantees, whether written or oral, under which the Company is contingently liable.
c. Significant estimates and material concentrations know to management that are required to be disclosed in accordance with SOP 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. (Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.)

13. The Campus has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the statements.

14. The Campus has complied with all aspects of contractual agreements that would have a material effect on the Statements in the event of noncompliance.

15. Receivables recorded in the Statements represent bona fide claims against debtors for sales or other charges arising on or before the balance sheet dates and are not subject to discount except for normal cash discounts. Receivables classified as current do not include any material amounts which are collectible after one year. All receivables have been appropriately reduced to their estimated net realizable value.

16. Inventories recorded in the Statements are stated at the lower of cost or market, cost being determined on the basis of a weighted average basis, and due provision was made to reduce all slow-moving, obsolete, or unusable inventories to their estimated useful or scrap values. Inventory quantities at the balance sheet date were determined from physical counts or from the Campus' perpetual inventory records, which have been adjusted on the basis of physical inventories taken by competent employees at various times during the year. Liabilities for amounts unpaid are recorded for all material items included in inventories at June 30, 2009.

17. All liabilities of the Campus of which we are aware are included in the Statements at the balance sheet dates. There are no other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FAS 5, *Accounting for Contingencies*, and no unasserted claims or assessments that our legal counsel has advised us are probable of assertion and required to be disclosed in accordance with that Statement.

18. We reviewed the current or potential detrimental effects of existing pollution remediation activities, such as site assessments and cleanups, and we recognized all related obligations in accordance with Statement No. 49 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASBS 49). The current value of the pollution remediation obligations was determined in accordance with GASBS 49.

19. We are responsible for all significant estimates and judgments affecting the Statements. Significant estimates and judgments and their underlying assumptions, methods, procedures and the source and reliability of supporting data are reasonable and based on applicable guidance, and are appropriately disclosed in the University financial statements. The procedures and methods utilized in developing assumptions, estimates and judgments are appropriate and have been consistently applied in the periods presented

20. All cash and bank accounts and all other properties and assets of the Campus of which we are aware are included in the Statements at June 30, 2009 and 2008.

21. The Regents have satisfactory title to all owned assets of the Campus, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed in the Statements.

22. The Campus has properly recorded, classified and disclosed the existence or absence of donor imposed restrictions on contributions received that would affect restricted net assets unrestricted net assets in the consolidated financial statements pursuant to GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.*

23. The Campus has appropriately recorded all pledges meeting the recognition criteria in GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.*

24. Gifts-in-Kind, including gifts of land, property or art, have been valued at a basis that is reasonable based on supporting documentation obtained from either the donor or a third-party, who is qualified to assess and assign a value to such items.

25. The Campus has not conducted any activities or transactions that would threaten the tax-exempt status of tax-exempt bonds issued by the University.

26. Substantial amounts are received and expended by the Campus under Federal grants and contracts, and can be subject to audit by cognizant governmental agencies. This funding relates to research, student aid, and other programs administered by the Campus. Campus management believes that any liabilities arising from such audits will not have a material effect on the Campus' Statements.

27. We are responsible for complying, and have complied in all material respects, with the requirements of OMB Circular A-133.

28. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have complied, in all material respects, with those requirements except as disclosed to you.

29. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over financial reporting and also over compliance for federal programs that provides reasonable assurance that the Campus is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on its federal programs.

30. We have a process to track the status of audit findings and recommendations.

31. We have identified and disclosed to you the requirements of laws, regulations and the provisions of contracts and grant agreements that are considered to have a direct and material effect on a) each federal program and b) the determination of financial statements amounts or other financial data significant to the audit objectives.

32. We have made available to you all contracts and grant agreements (including amendments, if any) and any other significant correspondences that have taken place with federal agencies or pass-through entities and are related to federal programs.

33. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards resulting from other audits or program reviews.

34. We have provided to you our interpretations of any compliance requirements that have varying interpretations.

35. We have charged costs to federal awards in accordance with applicable cost principles.

36. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

37. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared, and are prepared on a basis consistent with that presented in the schedule of expenditures of federal awards, for the University.

38. The copies of federal program financial reports provided to you are true copies of reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.

39. We have disclosed any known noncompliance occurring subsequent to the period for which compliance is audited.

40. We have disclosed whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to reportable conditions (including material weaknesses), have occurred subsequent to the date as of which compliance is audited.

41. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.

42. We have issued management decisions on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements, and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.

43. We have identified and disclosed to you violations (and possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the financial statements, as a basis for recording as loss contingency, or for auditor reporting on non-compliance.

44. We have identified for you previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective actions taken to address significant findings and recommendations

45. We have considered the results of subrecipient audits and have made any necessary adjustments to our own books and records, if applicable.

46. We have made available to you all material contracts or other agreements with service organizations.

47. There are no material communications from a service organization relating to non-compliance at the service organization.

48. We confirm that no consulting services, as defined by the GAO, have been provided by PricewaterhouseCoopers at the Campus.

49. We confirm that in accordance with University policies, we have obtained the required sub-certification letters from individuals responsible for research, student financial aid and pledges.

50. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us.

49. We are responsible for establishing and maintaining effective internal control over financial reporting.

50. We have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

51. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you report.

52. We have provided views on your reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.

To the best of our knowledge and belief, no events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the Statements.

Steve Kang
Chancellor
9/22/09

Mary E. Miller
Vice Chancellor - Administration

Steven J. Dolmseth
Controller