

University of California, Merced  
2017-2018 Annual Financial Report (Unaudited)



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## Letter from Interim Vice Chancellor, Mike Riley | 2

I am pleased to present this Annual Financial Report for 2017-2018.

Since opening in 2005, UC Merced remains one of the best universities in the nation at supporting the success of its students. UC Merced students are largely Californian (99%) and more than 70 percent are first-generation, which is twice the national average. In 2019, U.S. News & World Report ranked [UC Merced No. 2 in the Nation](#) for outperforming graduation rate expectations – which factors in the percentage of low-income students and an institution's financial resources. UC Merced is also among the top five public schools nationally for the average financial aid package awarded to students.

This past October, California's Governor, Gavin Newsom, stopped at UC Merced while on the campaign trail to learn from our students, first hand, what makes UC Merced a success. Students discussed campus life and raised critical issues with the Governor including mental health, housing and food insecurity. The Governor, moved by the determination of our students, [described them and their success as "an inspiration"](#).

In 2018, Education Dive named UC Merced "[University of the Year](#)". The award honors Higher Education's top innovators, and winners are chosen based on resonance and industry impact. It has taken an innovative approach to fund the campus 2020 Expansion Project while ensuring that a top-notch UC education is accessible to Californians, here in the Central Valley.

Another telling accolade is the [Sierra Club's Cool Schools](#) (2017) rating, which moved UC Merced up from 84<sup>th</sup> the year prior to 50<sup>th</sup> in the Nation for Sustainability. This is no surprise given our ambitious goals to reach Triple Zero by 2020 – zero net energy, zero landfill waste, zero net greenhouse gas emissions. UC Merced is in fact the only university in the nation to have all of its buildings certified by the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) program.

The first phase of our campus [2020 Expansion Project](#) delivered student housing, additional parking and recreation facilities, and the stunning Pavilion Dining Center this past fall. We are ahead of schedule for the second delivery featuring two new state-of-the-art buildings with labs, classrooms and additional study areas scheduled to open fall 2019.

Expanding the campus is one of the ways that we are building the future in the heart of California. And this growth benefits not just our campus community, but also the City of Merced and the region as a whole. UC Merced was cited as a driver in the City of Merced's recent climb from No. 71 last year to No. 47 this year in the Milken Institute's ranking of [Best Performing Cities](#), surpassing all of its Central Valley neighbors.

On the home front, Merced has been engaged in a five-year effort to strategically align its future workforce needs with its financial capabilities. We are now at the mid-point of our [multi-year workforce staffing plan](#) and over the last 12 months the campus was able to finalize the plan by identifying any

remaining critical staffing needed for the 2020 Expansion Project deliveries as well as opportunities for organizational efficiency and/or workforce restructuring through FY20-21.

This past year, the campus moved forward with implementation of the first phase of the [Supply Chain initiative](#) and the planning for the centralization of procurement services. The goal is to achieve significant cost-savings through new business processes, the release of the new online e-procurement system, Bobcat Buy, in spring 2019 and the consolidation of the procurement function over the next year. In this way, UC Merced is expanding its workforce planning initiative into a comprehensive human capital management approach that will serve the campus ongoing.

The next year will continue to test our adaptability to change with the modernization of our systems and processes and the expansion of our campus. We are always looking for opportunities to gain efficiencies, attract investment and generate revenues while ensuring sufficient reserves to assure the success of our operations. It is with this commitment to both success and growth, that I share with you this year's financial report.

Michael Riley, CPA

Interim Vice Chancellor for Finance and Administration and Chief Financial Officer

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, 2018 with selected comparative information for the fiscal year ended June 30, 2017. 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 \$35.7 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 8,195 acres in Merced and is devoted to undergraduate and graduate scholarship serving over 7,900 students in the following schools and graduate programs:

### ***Academic Schools and Divisions***

School of Engineering

School of Natural Sciences

School of Social Sciences, Humanities & Arts

***Graduate Studies***

Applied Mathematics

Biological Engineering & Small-Scale Technologies\*

Chemistry and Chemical Biology

Cognitive and Information Sciences

Electrical Engineering and Computer Science\*

Environmental Systems

Interdisciplinary Humanities

Management of Innovation, Sustainability and Technology\*

Mechanical Engineering

Physics

Political Science

Psychological Sciences

Public Health

Quantitative and Systems Biology

Sociology

\* Emphasis within the Individual Graduate Program

During the 2017-18 academic year, receiving 26,000 first-time freshman and transfer applications for Fall 2017, UC Merced was able to enroll 2,449 freshman and transfer students. Enrollment grew by 11% compared to the prior Fall 2016 term while UC Merced is constructing additional facilities to accommodate additional growth of the student population. During the year, the campus' graduating class awarded 1,418 degrees during the 2017-18 academic year compared to 1,368 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 on the existing acreage of the campus by 2020. In June 2016, the Campus entered into an agreement with a developer to design, construct, finance, operate and maintain the next major phase of campus development, the 2020 Project, a move that would allow the campus to join other UC campuses in expanding enrollment for up to 10,000 students. The \$1.3 billion project, undertaken in cooperation with Merced County, the City of Merced, Merced Irrigation District, and other local stakeholders will add 1.2 million gross square feet, including three new teaching and research lab buildings, 1700 beds of new on-campus housing, dedicated space for student life and organizations, new dining options, 1,500 additional parking spaces and more. The project will be completed in three phases between Fall 2018 and Fall 2020 with first delivery occurring on schedule in Fall 2018 bringing with it two new residence halls, the Pavilion dining facility, and 1,570 additional parking spaces, a 60%

increase. While UC Merced consists of three schools, the School of Engineering, Natural Sciences, and Social Sciences, Humanities and Arts, there are plans to open a School of Management in the future.

The campus' mission also includes a strong dedication to research and public service, embodied in its proud claim of being the first American research university of the 21<sup>st</sup> century. The amount of money spent at UC Merced on research, including graduate student salaries and benefits, along with supplies and equipment for research projects was \$49.4 million for fiscal year 2018 as compared to \$45.5 million for 2017. The UC Merced library provides access to approximately 116,000 online journals, 626 databases, 123,000 books and almost 6.8 million e-books. The on-site collection is supplemented by access to the entire University of California collection which includes over 3.9 million books in digital full-text format and 118.8 terabytes

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 March 2018 to date, the campus has contributed approximately \$1.7 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 \$3.0 billion since the campus opened.

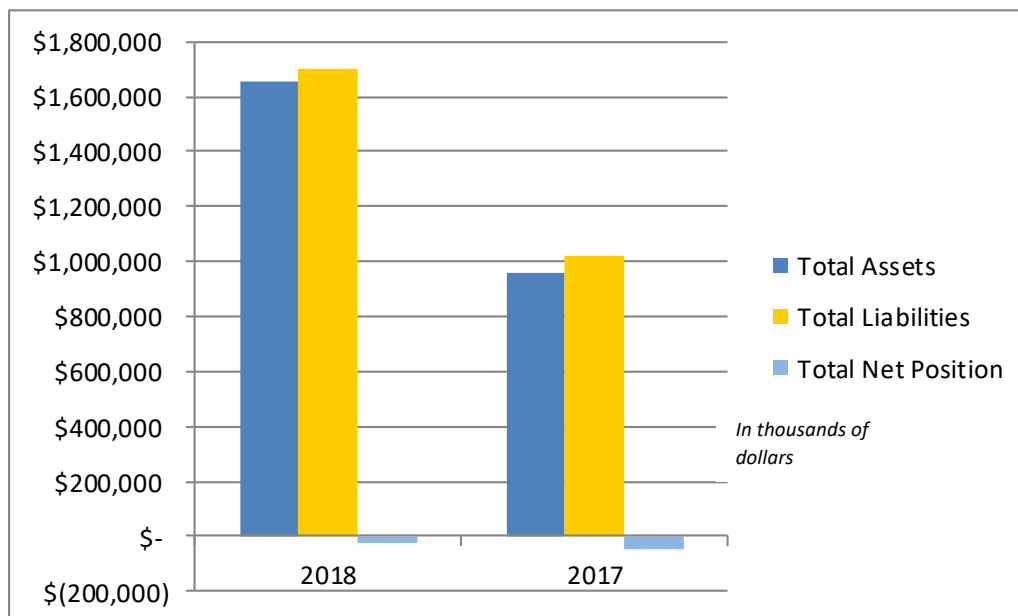
UC Merced is considered a leader in sustainability design and construction with a commitment to being zero waste, zero net emissions, and use only clean, renewable energy by 2020. All of UC Merced's buildings are certified by the 3<sup>rd</sup> party verification system, Leadership in Energy and Environmental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

While UC Merced's financial information concerning assets, liabilities, revenues and core activity expenditures is discussed in further detail in the subsequent sections of the MD&A, the following table reflects the composition of the campus for 2018, 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	1,990		166	\$ 15,841	\$ 11,313	\$ 27,154
School of Natural Sciences	2,142		285	21,127	15,416	36,543
School of Social Sciences, Humanities & Arts	2,857		263	21,992	12,330	34,322
Graduate Studies		592	13	1,114	674	1,788
Undeclared	386					
All others, including auxiliaries, student services, etc.			935	80,390	122,055	202,445
Subtotal	7,375	592	1,662	\$ 140,464	\$ 161,788	\$ 302,252
Depreciation Expense						30,676
Total						<u>\$ 332,928</u>

### The Campus' Financial Position



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



## **The Campus' Assets**

UC Merced's total assets have grown to \$1,657 million in 2018, compared to \$959.0 million in 2017.

Cash and cash equivalents decreased by \$9.2 million in 2018, compared to relatively no change in 2017 when compared to 2016. The decrease in 2018 is due to increases in capital spending, offset by debt issuances associated with the expansion efforts of the 2020 Project. Investments held by trustees primarily relates to unspent bond proceeds for capital projects. The increase of \$192.9 million from 2017 to 2018 is due to debt issuances for the 2020 Project. The University allocated \$261.5 million in unspent bond proceeds to UC Merced for the 2020 Project during 2018 which UC Merced expects to spend in 2019.

Capital assets, net of accumulated depreciation increased \$509.8 million and \$99.3 million in 2018 and 2017, respectively. In 2018, the increase is a result of \$542.5 million in capital additions offset by \$30.7 million in depreciation compared to 2017 capital additions of \$129.3 million offset by 29.9 million in depreciation. Capital additions over the past two years reflects the significant expansion effort which began in 2017 related to the 2020 Project in order to provide the facilities necessary to support UC Merced's teaching, research and public mission and grow the student population to 10,000 by 2020. The first phase of Project 2020 was delivered in Fall 2018 resulting in two housing and classroom buildings, a new dining facility, parking lots delivering 1,570 net new parking spaces and a recreation field. In addition to these new campus facilities, a downtown center was constructed and delivered in downtown Merced. In 2019, we anticipate, if the project continues as scheduled with Phase 2 and Phase 3 delivery, to incur capital expenditures totaling \$275.4 million with an additional \$165.9 million between fiscal years 2020 and 2021.

## **The Campus' Deferred Outflows of Resources**

Losses on debt refundings and certain changes in the net pension and net retiree health benefits liabilities are reported as deferred outflows of resources. In 2018, deferred outflows increased due to an increase in UC Merced's proportionate share of the retiree health benefit liability due to campus growth. In 2017, deferred outflows decreased due to higher than expected investment returns in the University of California Retirement Plan (UCRP) portfolio.

## **The Campus' Liabilities**

Total liabilities increased \$679.6 million in 2018 when compared to 2017, primarily as the result of the campus issuing \$702.0 million in debt related to the construction of new facilities associated with the significant expansion efforts of the 2020 Project. Increases were offset by a \$14.4 million decrease in employee salaries and benefit liabilities due to differences in timing of payment. In 2017, while total liabilities remained relatively unchanged when compared to 2016, the campus saw an increase of \$34.8 million in long-term debt and \$19.4 million in accounts payable related to the capital expenditures associated with the 2020 Project. The increases were offset by a \$52.6 million decrease in pension and retiree health benefit liabilities. Because the Campus expects to spend approximately \$441 million in construction related costs over the next 3 years, the Campus expects the University will issue approximately \$100.0 million in additional debt in 2019 through general revenue bonds.

The University has a financial responsibility for pension benefits associated with its defined benefit plans and for retiree health benefits which for UC Merced, is guaranteed by the University. In 2018, UC Merced's share of the net pension liability is \$84.5 million of the total \$9.8 billion for the University as a whole. In 2017, the balance was \$90.9 million of the total \$10.7 billion liability. The change in net pension liability for 2018 and 2017 was primarily driven by higher than expected investment returns on the UCRP investment portfolio. UCRP's total investment rate of return was positive 7.8% in 2018, positive 14.5% in 2017 and negative 2.0 percent in 2016. The discount rate used to estimate the net pension liability was 7.25% in 2018, 2017 and 2016.

UC Merced's share of the net retiree health benefit liability in 2018 is \$176.5 million of the total \$18.9 billion for the University as a whole. In 2017, the balance was \$167.4 million of the total \$19.3 billion liability. The University funds the retiree health benefits through UC Retiree Health Benefit Trust (UCRHBT) based on a project of benefits on a pay-as-you-go basis and the assets in the trust are not sufficient to fund retiree health benefits. Therefore, the Bond Buyer 20-year tax-exempt general obligations municipal bond index is used to discount the retiree health benefit liabilities. The changes in net retiree health benefits liability have been primarily driven by the changes in discount rates used to estimate the retiree health benefit liability; however, UC Merced's share has increased due to the proportional increase in our share as UC Merced's growth rates are higher than the rest of the University. The discount rates as of June 30, 2018, 2017 and 2016 were 3.87%, 3.58% and 2.85%, respectively.

### **The Campus' Deferred Inflows of Resources**

Deferred inflows of resources are related to certain changes in the net pension and net retiree health benefits liabilities. In 2018, deferred outflows increased due to an increase in UC Merced's proportionate share of the retiree health benefit liability due to campus growth. In 2017, deferred inflows of resources increased due to the increase in the discount rate for estimating the net retiree health benefit liability.

### **The Campus' Net Position**

Net position represents the residual interest in UC Merced's assets and deferred outflows after all liabilities and deferred inflows are deducted. UC Merced has a negative or net deficit balance of \$26.9 million in 2018 compared to a negative \$45.6 million in 2017 due to the University guaranteed pension and retiree health benefit liabilities. If the pension and retiree health benefit liabilities were removed, including the related deferred inflows and outflows from UC Merced's obligations, the net position balance as a result of operations would be a positive \$237.2 million and 216.1 million for 2018 and 2017, respectively.

### **The Campus' Results of Operations**

The statement of revenues, expenses and changes in net position is a presentation of the campus' operating results for the year. It indicates whether the financial condition has improved or deteriorated. In accordance with Governmental Accounting Standards Board (GASB) requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the campus are required to be recorded as nonoperating revenues, including state educational appropriations, private gifts, and investment income.

A summarized comparison of the operating results from 2018 and 2017, 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)*

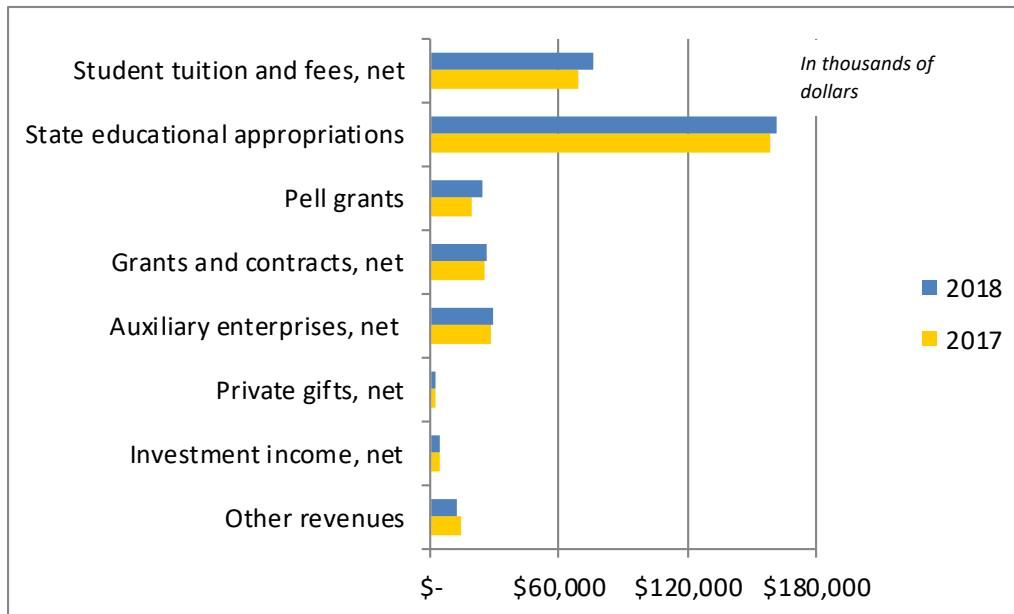
	2018			2017		
	Operating	Nonoperating	Total	Operating	Nonoperating	Total
<b>REVENUES</b>						
Student tuition and fees, net	\$ 75,615		\$ 75,615	\$ 69,115		\$ 69,115
State educational appropriations		\$ 161,386	161,386		\$ 159,149	159,149
Pell grants		24,327	24,327		19,522	19,522
Grants and contracts, net	25,974		25,974	25,451		25,451
Auxiliary enterprises, net	29,357		29,357	27,720		27,720
Private gifts, net		2,585	2,585		1,861	1,861
Investment income, net		4,404	4,404		3,838	3,838
Other revenues	10,278	1,550	11,828	9,192	5,245	14,437
<b>Revenues supporting core activities</b>	<b>141,224</b>	<b>194,252</b>	<b>335,476</b>	<b>131,478</b>	<b>189,615</b>	<b>321,093</b>
<b>EXPENSES</b>						
Salaries and benefits	205,127		205,127	192,149		192,149
Scholarships and fellowships	17,781		17,781	16,612		16,612
Utilities	5,835		5,835	5,781		5,781
Supplies and materials	25,016		25,016	19,896		19,896
Depreciation and amortization	30,676		30,676	29,906		29,906
Interest expense		20,615	20,615		28,111	28,111
Other expenses	48,493	2,175	50,668	48,692	(234)	48,458
<b>Expenses associated with core activities</b>	<b>332,928</b>	<b>22,790</b>	<b>355,718</b>	<b>313,036</b>	<b>27,877</b>	<b>340,913</b>
<b>Income (loss) from core activities</b>	<b>\$ (191,704)</b>	<b>\$ 171,462</b>	<b>\$ (20,242)</b>	<b>\$ (181,558)</b>	<b>\$ 161,738</b>	<b>\$ (19,820)</b>
<b>OTHER CHANGES IN NET POSITION</b>						
State capital appropriations			-			55
Capital gifts and grants, net			156			(388)
Contributions from the University for building programs			15,912			15,015
Other transfers			22,888			11,540
<b>Increase in net position</b>			<b>18,714</b>			<b>6,402</b>
<b>NET POSITION</b>						
Beginning of year, as previously reported			(45,624)			(52,026)
Cumulative effect of accounting change						-
Beginning of year, as restated			(45,624)			(52,026)
<b>End of year</b>			<b>\$ (26,910)</b>			<b>\$ (45,624)</b>

### Revenues Supporting Core Activities

Revenues to support UC Merced's core activities, including those classified as nonoperating revenues, grew from \$321.1 million in 2017 to \$335.5 million in 2018, an increase of \$14.4 million as compared to an increase of \$50.3 million in 2017 compared to 2016.

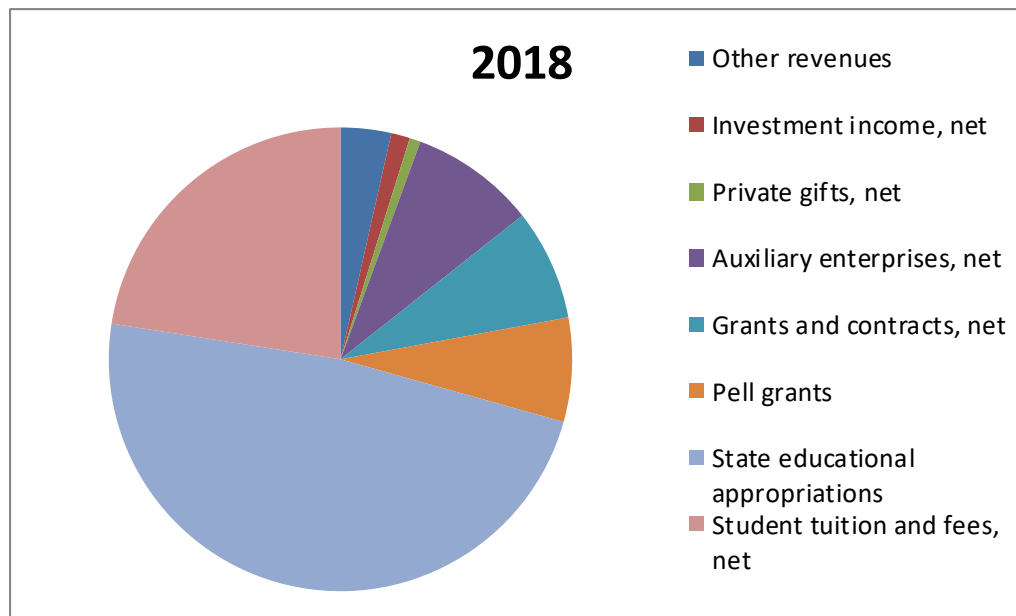
State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of the University. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside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

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



A major financial strength of UC Merced includes a diverse source of revenues, including those from student fees, federally sponsored grants and contracts, the state of California, private donors, 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 2018 are as follows:



**Student Tuition and Fees** revenue, net of scholarship allowances, increased by \$6.5 million from the prior year and accounts for 22.5% and 21.5% of UC Merced's revenue for 2018 and 2017, respectively.

*(in thousands of dollars)*

	2018	2017	Change
Student tuition and fees	\$ 109,227	\$ 97,092	\$ 12,135
Summer sessions	4,922	4,995	(73)
Scholarship allowances	(38,534)	(32,972)	(5,562)
<b>Total student tuition and fees</b>	<b>\$ 75,615</b>	<b>\$ 69,115</b>	<b>\$ 6,500</b>

For 2018, student tuition and fees increased by \$12.1 million due primarily to the 8.6% growth in student population; however, there was a slight increase of \$167 per semester in average tuition and fees paid across the undergraduate and graduate student population from the prior year which contributed to the increase in revenue. Scholarship allowances increased in line with the increase in student tuition and fees at 35% and 34% of total student tuition and fees for 2018 and 2017, respectively.

For 2017, student tuition and fees has remained relatively flat; however, the student population grew by 10% offset by lower average tuition bills due to a shift in student populations, admitting more in-state residents compared to prior years where out-of-state students, which generate higher tuition bills has declined from past years. Scholarship allowances has declined from prior years as UC Merced comes into alignment with the rest of the University in which one-third of the revenue generated from tuition and fees was used for financial aid compared to previous years where 40% was set aside.



**State educational appropriations** from the state of California was \$161.4 million and \$159.1 million in 2018 and 2017, respectively, accounting for 48% and 50% of UC Merced's revenue for 2018 and 2017, respectively. The budget framework agreed to with the governor in 2016 provided the University with base budget adjustments of four percent annually for 2016 through 2019. The final budget approved for 2019 included a base budget adjustment of three percent and \$248.8 million in one-time funds of which, \$8.5 million will be allocated to UC Merced.

**Grants and Contracts, net** from federal, state, and private sources recognized as expenditures incur, including an overall facilities and administration cost recovery of \$4.9 million and \$4.5 million in 2018 and 2017, respectively are as follows:

*(in thousands of dollars)*

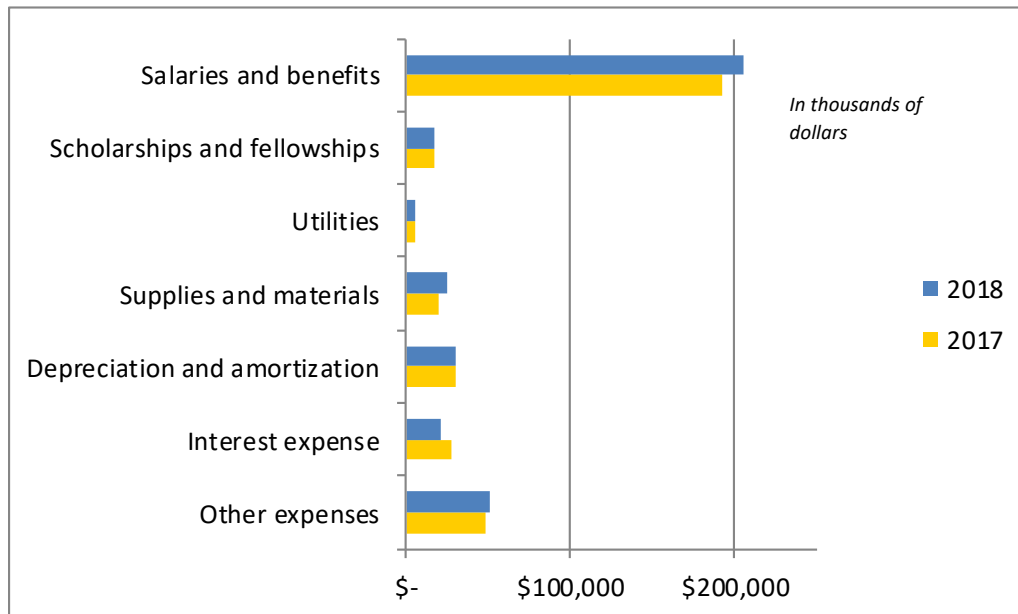
	2018	2017	Change
Federal government	\$ 19,183	\$ 19,117	\$ 66
State agencies	3,207	1,286	1,921
Private industries	3,584	5,048	(1,464)
<b>Total grants and contracts, net</b>	<b>\$ 25,974</b>	<b>\$ 25,451</b>	<b>\$ 523</b>

In 2018, revenues from federal grants remained relatively flat compared to the prior year; however, there was increases in activity and grants from the California Energy Commission and several other State agencies offset by decreases in activity with grants from private sponsors. In 2017, revenues from federal grants increased as a result of projects with the National Science Foundation and the Department of Education.

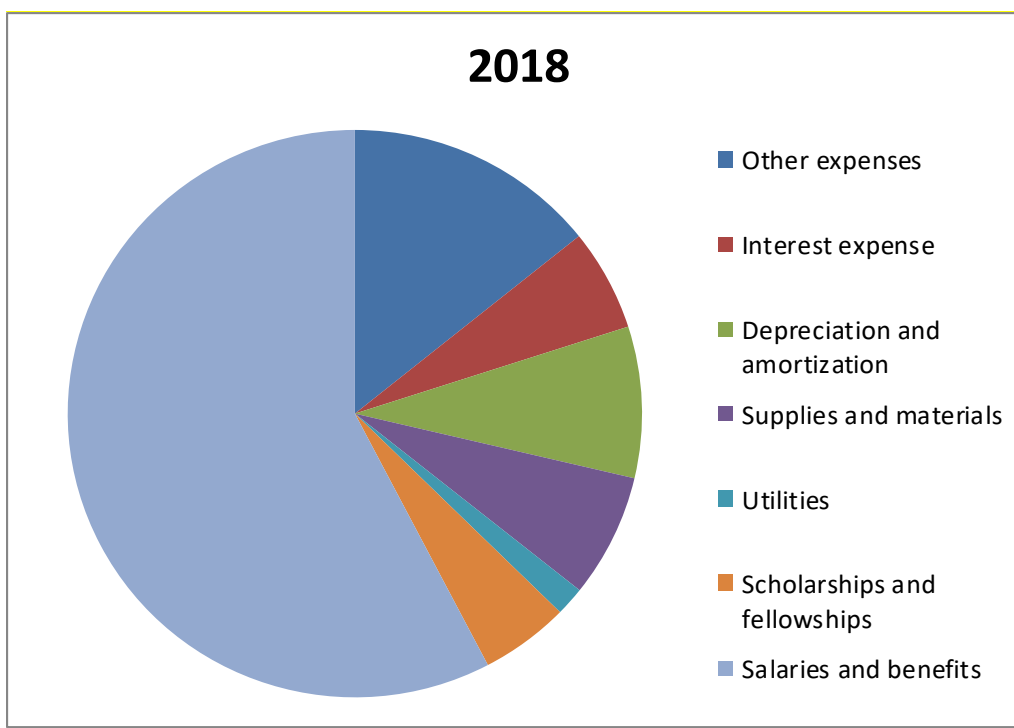
### Expenses Associated with Core Activities

Expenses associated with UC Merced's core activities, including those classified as nonoperating expenses, were \$355.5 million and \$340.9 million in 2018 and 2017, respectively.

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, 2018 are as follows:



**Salaries and benefits** cover approximately 1,662 and 1,658 full-time equivalents (FTE) for fiscal year ended 2018 and 2017, respectively. While 2017 saw an increase of 6.3% compared to 2016, 2018 was relatively flat when compared to 2017. Over 62% and 61% of UC Merced's expenses are related to salaries and benefits for 2018 and 2017, respectively. In 2018, UC Merced's salaries and benefits increased by \$13.0 million when compared to 2017 due to a combination of a \$14.4 million increase in salaries offset by a \$1.4 million decrease in employee benefits. In 2017, UC Merced's salaries and benefits remained relatively flat when compared to 2016 due to a combination of a \$7.5 million increase in salaries offset by a \$7.3 million decrease in employee benefits.

In 2018, salaries increased by 11.4% as a result of increases in average salary while the overall employee population remained flat when compared to 2017. In 2017, salaries increased by 6.4% primarily as a result of increases in the employee population. While the campus had moderate salary increases in 2017, when compared to 2016, for existing full-time employees, the campus experienced a 40% increase in student employees in the current year.

In 2018, employee benefits decreased by \$1.4 million due to a combination of a \$4.3 million decrease in pension benefits, offset by a \$2.9 million increase in other benefits such as health insurance, Social Security, Medicare, and other employer costs, primarily due to increases in salaries. For the past two years, 2018 and 2017, pension expense, and the related net pension liability decreased as a result of higher than expected investment returns on

the pension investment portfolio. While retiree health benefits expense remained flat from 2017 to 2018, it declined in 2017 when compared to 2016 due to the higher discount rate in 2017.

In 2017, employee benefits decreased by \$7.3 million due to a combination of a \$7.4 million decrease in pension benefits, \$2.6 million decrease in retiree health benefits expense, offset by a \$2.7 million increase in other benefits such as health insurance, Social Security, Medicare, and other employer costs. Pension expense, and the related net pension liability decreased as a result of higher than expected investment returns on the pension investment portfolio, which is in contrast to 2016 when compared to 2015 where the portfolio experienced lower than expected investment returns. Retiree health benefits expense declined from the prior year due to the higher discount rate in 2017.

Other employer benefits increased over the past two years, primarily as a result of employer related payroll cost increases from the increased workforce such as health insurance, Social Security, Medicare, and other employer costs.

***Scholarship and fellowships***, represented as payments of financial aid made directly to students, UC Merced places a high priority on student financial aid as part of its commitment to affordability. Reported as operating expenses, UC Merced experienced an increase of \$1.2 million and \$1.9 million in 2018 and 2017, respectively.

Scholarship allowances, representing financial aid and fee waivers awarded by UC Merced, were \$52.6 million and \$44.6 million in 2018 and 2017, respectively. On a combined basis, as UC Merced continues its commitment to provide financial support for needy students, financial aid in all forms totaled \$70.3 million and \$61.2 million in 2018 and 2017. While total aid provided remained relatively flat in 2017 when compared to 2018, aid increased by \$9.1 million when compared to 2017, primarily due to increases in aid for student tuition and fees. Consistent with past practices however, 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 operating expenses remained relatively flat in 2017 when compared to 2016 but in 2018, other operating expenses increased by \$5.7 million, primarily due to increases in supplies and materials expenses due to the significant capital expansion of the, adding two new residence halls, a new dining facility, and a new administrative building in downtown Merced.

### **Operating Losses**

In accordance with the GASB's reporting standards, operating losses were \$191.7 million and \$181.6 million in 2018 and 2017, respectively. The operating loss in 2018 and 2017 was partially offset by \$171.7 million and \$161.7 million, respectively of net nonoperating revenue that clearly supports core operating activities of UC Merced. Expenses associated with core activities in 2018 and 2017 exceeded revenue available to support core activities by \$20.0 million and \$19.8 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 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.

The Foundation is a vital component to meeting the funding needs of the Campus and has directly contributed \$18.7 million toward meeting UC Merced's mission over the last eleven years through grants made to UC Merced. More recently, during the years ended June 30, 2018 and 2017, gifts of \$1.6 million and \$1.3 million, respectively were transferred to UC Merced from the UC Merced Foundation. In 2018 and 2017, the Foundation's net position was \$13.0 million and \$12.4 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 2018 and 2017 are as follows:

*(in thousands of dollars)*

	2018	2017
<b>ASSETS</b>		
Investments	\$ 11,822	\$ 10,462
Beneficial interest in split interest agreements	1,756	1,603
Pledges receivable, net	295	592
Other assets	868	1,348
<b>Total assets</b>	<b>14,741</b>	<b>14,005</b>
<b>LIABILITIES</b>		
Accounts payable and other liabilities	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Third party split interest agreements	1,756	1,603
<b>NET POSITION</b>		
Restricted:		
Nonexpendable	8,412	8,327
Expendable	4,513	3,785
Unrestricted	60	290
<b>Total net position</b>	<b>\$ 12,985</b>	<b>\$ 12,402</b>

In 2018, the increase in assets is attributable to the combination of another year of strong investment performance in the equity markets and new endowments. In 2017, the Foundation experienced strong investment returns due to the performance of the equity markets compared to poor investment returns experienced in 2016. 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.

## 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 2018 and 2017 is as follows:

*(in thousands of dollars)*

	2018	2017
<b>Operating revenues</b>		
Private gifts and other revenues	\$ 1,165	\$ 1,207
<b>Total operating revenues</b>	<b>1,165</b>	<b>1,207</b>
<b>Operating expenses</b>		
Grants to campuses and other expenses	1,620	1,378
<b>Total operating expenses</b>	<b>1,620</b>	<b>1,378</b>
<b>Operating income (loss)</b>	<b>(455)</b>	<b>(171)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	88	82
Net appreciation (depreciation) in fair value of investments	864	1,255
<b>Income (loss) before other changes in net position</b>	<b>497</b>	<b>1,166</b>
<b>OTHER CHANGES IN NET POSITION</b>		
Permanent endowments	86	779
<b>Increase (decrease) in net position</b>	<b>583</b>	<b>1,945</b>
<b>NET POSITION</b>		
Beginning of year	12,402	10,457
<b>End of year</b>	<b>\$12,985</b>	<b>\$ 12,402</b>

Operating revenues generally consist of current-use gifts, including pledges and income from other fundraising activities, although they do not include additions to permanent endowments and endowment income. Operating revenues fluctuate based upon fundraising campaigns conducted by the Foundation during the year. In 2018, the Foundation saw a slight increase in average gift giving; however this was offset by a slight deterioration in the collectability of pledges. The slight increase in average gift giving this year is in contrast to the 27% decline in average gifts experienced in 2017 which was offset by an overall increase in the volume of small gifts received.

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.

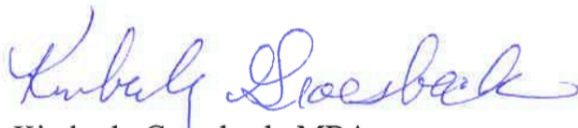
The accompanying Financial Statements reflect the financial position and the results of operations of the University of California, Merced for the fiscal year ended June 30, 2018 and 2017.

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 PricewaterhouseCoopers, whose report is transmitted to The Regents.

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

In compliance with GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, the financial activity of the legally separate, tax exempt UC Merced Foundation can be found discretely recorded in the campus financial statements under a separate column titled "UC Merced Foundation."

Respectfully submitted,



Kimberly Groesbeck, MBA  
Interim Controller & AVC – Business and Financial Services

University of California, Merced  
**STATEMENTS OF NET POSITION**  
*At June 30, 2018 and 2017 in thousands of dollars*

	<b>Campus</b>		<b>Foundation</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Assets</b>				
Cash and cash equivalents	62,889	72,052	5	5
Accounts receivable, net	12,039	12,234		
Pledges receivable	250	150	258	380
Inventories	1,002	1,056		
Other current assets	-	2	863	1,343
<b>Current assets</b>	<b>76,180</b>	<b>85,494</b>	<b>1,126</b>	<b>1,728</b>
Investments	108,380	103,777	11,822	10,462
Investments held by trustees	262,292	69,380		
Beneficial interest in split interest agreements			1,756	1,603
Pledges receivable	197	296	37	212
Notes Receivable	840	415		
Capital assets, net	1,209,106	699,261		
Other noncurrent assets	356	403		
<b>Noncurrent assets</b>	<b>1,581,171</b>	<b>873,532</b>	<b>13,615</b>	<b>12,277</b>
<b>Total assets</b>	<b>1,657,351</b>	<b>959,026</b>	<b>14,741</b>	<b>14,005</b>
<b>Deferred outflows of resources</b>	<b>75,978</b>	<b>71,378</b>		
<b>Liabilities</b>				
Accounts payable	30,658	26,798		
Accrued salaries	102	11,974		
Employee benefits	15	2,503		
Unearned revenue	3,801	4,022		
Commercial paper	2,680	11,009		
Current portion of long-term debt	95,971	92,967		
Funds held for others	1,076	1,603		
Other current liabilities	5,550	3,526		
<b>Current liabilities</b>	<b>139,853</b>	<b>154,402</b>	<b>-</b>	<b>-</b>
Long-term debt	1,299,205	606,981		
Pension and other postretirement benefits	261,069	258,295		
Other noncurrent liabilities	2,356	3,206		
<b>Total Noncurrent Liabilities</b>	<b>1,562,630</b>	<b>868,482</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>1,702,483</b>	<b>1,022,884</b>	<b>-</b>	<b>-</b>
<b>Deferred inflows of resources</b>	<b>57,756</b>	<b>53,144</b>	<b>1,756</b>	<b>1,603</b>
<b>Net position</b>				
Invested in capital assets net of related debt	95,317	79,976		
Restricted:				
Nonexpendable:				
Endowments and gifts	16,840	16,414	8,412	8,327
Expendable:				
Endowments and gifts	34,725	32,861	4,513	3,785
Other, including debt service, capital projects and appropriations	6,116	835		
Unrestricted	(179,908)	(175,710)	60	290
<b>Total net position</b>	<b>(26,910)</b>	<b>(45,624)</b>	<b>12,985</b>	<b>12,402</b>



University of California, Merced

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

*As of for the year then ended June 30, 2018 and 2017 in thousands of dollars*

	Campus		Foundation	
	2018	2017	2018	2017
<b>OPERATING REVENUES</b>				
Student tuition and fees, net	75,615	69,115		
Grants and contracts, net				
Federal	19,183	19,117		
State	3,207	1,286		
Private	3,584	5,048		
Auxiliary enterprises, net	29,357	27,720		
Campus foundation private gifts			1,056	1,084
Other operating revenues, net	10,278	9,192	109	123
<b>Total operating revenues</b>	<b>141,224</b>	<b>131,478</b>	<b>1,165</b>	<b>1,207</b>
<b>OPERATING EXPENSES</b>				
Salaries and wages	140,464	126,099		
UCRP benefits	12,774	17,114		
Retiree health benefits	14,215	14,127		
Other employee benefits	37,674	34,809		
Supplies and materials	25,016	19,896		
Depreciation and amortization	30,676	29,906		
Scholarships and fellowships	17,781	16,612		
Utilities	5,835	5,781		
Campus foundation grants			1,569	1,259
Other operating expenses	48,493	48,692	51	119
<b>Total operating expenses</b>	<b>332,928</b>	<b>313,036</b>	<b>1,620</b>	<b>1,378</b>
<b>Total operating loss</b>	<b>(191,704)</b>	<b>(181,558)</b>	<b>(455)</b>	<b>(171)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State educational appropriations	161,386	159,149		
State financing appropriations	-	-		
Federal financing appropriations	1,550	1,546		
Federal pell grants	24,327	19,522		
Private gifts, net	2,585	1,861		
Investment income:				
Short Term Investment Pool and other, net	2,540	2,257		
Endowment, net	1,864	1,581		
Campus foundations			88	82
Net appreciation in fair value of investments	-	3,699	864	1,255
Interest expense	(20,615)	(28,111)		
Loss on disposal of capital assets	(1,989)	(64)		
Other nonoperating revenues (expenses), net	9	298		
<b>Net nonoperating revenues</b>	<b>171,657</b>	<b>161,738</b>	<b>952</b>	<b>1,337</b>
<b>Income (loss) before other changes in net position</b>	<b>(20,047)</b>	<b>(19,820)</b>	<b>497</b>	<b>1,166</b>
<b>OTHER CHANGES IN NET POSITION</b>				
Capital gifts and grants, net	-	55		
State capital appropriations	156	(388)		
Permanent endowments			86	779
Contributions to building program	15,912	15,015		
Contributions from UCOP to UC Merced's Pension obligation	3,297	5,581		
Other changes, net	19,396	5,959		
<b>Increase in net position</b>	<b>18,714</b>	<b>6,402</b>	<b>583</b>	<b>1,945</b>
<b>NET POSITION</b>				
Beginning of year, as previously reported	(45,624)	(52,026)	12,402	10,457
Cumulative effect of accounting change		-		
Beginning of year, as restated	(45,624)	(52,026)	12,402	10,457
<b>End of Year</b>	<b>(26,910)</b>	<b>(45,624)</b>	<b>12,985</b>	<b>12,402</b>

The accompanying notes are an integral part of these financial statements

University of California, Merced  
**STATEMENTS OF CASH FLOWS**  
*As of for the year then ended June 30, 2018 and 2017 in thousands of dollars*

	<b>Campus</b>		<b>Foundation</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Student tuition and fees	75,900	68,763		
Grants and contracts	26,035	21,798		
Auxiliary enterprises	29,087	27,520		
Campus foundation private gifts			1353	1,203
Payments to employees	(151,634)	(126,267)		
Payments to suppliers and utilities	(56,210)	(72,795)		
Payments to UCRP	(8,258)	(15,140)		
Payments for retiree health benefits	(1,539)	(2,919)		
Payments for other employee benefits	(51,332)	(34,254)		
Payments for scholarships and fellowships	(17,781)	(16,612)		
Loans issued to students	(424)	(375)		
Payments to campuses and beneficiaries			(1,569)	(1,259)
Other receipts, net	19,001	16,272	59	4
<b>Net cash (used) provided by operating activities</b>	<b>(137,155)</b>	<b>(134,009)</b>	<b>(157)</b>	<b>(52)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
State educational appropriations	150,702	148,327		
Federal pell grants	24,330	19,524		
<i>Gifts received for other than capital purposes:</i>				
Private gifts for endowment purposes			85	779
Other private gifts	2,584	2,009		
Student direct lending receipts	26,261	27,085		
Student direct lending payments	(26,261)	(27,085)		
Scheduled principal paid on debt	(1,943)	(1,454)		
Interest paid on debt	(229)	(251)		
Other receipts (payments), net	41	773		
<b>Net cash provided by noncapital financing activities</b>	<b>175,485</b>	<b>168,928</b>	<b>85</b>	<b>779</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
State capital appropriations	19	66		
State financing appropriations	-	-		
Federal financing appropriations	1,550	1,546		
Proceeds from debt issuance	448,920	45,028		
Purchases of capital assets	(533,647)	(111,295)		
Scheduled principal paid on debt & capital leases	(8,375)	(7,537)		
Interest paid on debt and capital leases	(19,274)	(18,081)		
<i>Commercial paper financing:</i>				
Proceeds from Issuance	178,180	10,509		
Payments of Principal	(186,509)	(5,327)		
Interest Paid	(7)	(16)		
Other receipts, net	67,246	46,564		
<b>Net cash used by capital and related financing activities</b>	<b>(51,897)</b>	<b>(38,543)</b>	<b>-</b>	<b>-</b>
<b>Cash Flows from Investing Activities</b>				
Proceeds from sale & maturities of investments			899	218
Purchase of investments		-	(915)	(1,027)
Investment income, net of investment expenses	4,404	3,838	88	82
<b>Net cash provided (used) by investing activities</b>	<b>4,404</b>	<b>3,838</b>	<b>72</b>	<b>(727)</b>
<b>Net increase in cash and cash equivalents</b>	<b>(9,163)</b>	<b>214</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>72,052</b>	<b>71,838</b>	<b>5</b>	<b>5</b>
<b>Cash and cash equivalents, end of year</b>	<b>62,889</b>	<b>72,052</b>	<b>5</b>	<b>5</b>

The accompanying notes are an integral part of these financial statements

**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.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, was implemented by the University as of July 1, 2017. The Statement establishes standards for accounting and financial reporting for irrevocable split-interest agreements. The Statement requires that the University recognize assets, liabilities and deferred inflows for split-

interest agreements administered by the University at the inception of the agreement. The Statement also requires the University to recognize assets and deferred inflows representing its beneficial interests in irrevocable split-interest agreements that are administered by third parties. The Statement requires the University to recognize revenue when the resources become available to spend.

The adoption of Statement No. 81 did not result in any adjustments to the financial statements of UC Merced. The effects of reporting Statement No. 81 in the Foundation's financial statements for the year ended June 30, 2017, were as follows;

(in thousands of dollars)

UC Merced Foundation			
As of and for the Year Ended June 30, 2017			
	As Previously Reported	Effect of Adoption of Statement No. 81	As Restated
<b>Statement of Net Position</b>			
Beneficial interest in split interest agreements	\$ -	\$ 1,603	\$ 1,603
Total noncurrent assets	10,674	1,603	12,277
Total assets	12,403	1,602	14,005
Deferred inflows of resources	-	1,603	1,603

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*, effective for the University's fiscal year beginning July 1, 2017. The Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application and post-employment benefits. Implementation of Statement No. 85 had no impact on the financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, effective for the University's fiscal year beginning July 1, 2017. This Statement establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with resources other than the proceeds of the refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. In addition, this Statement revises existing standards for prepaid insurance associated with extinguished debt. Implementation of Statement No. 86 had no impact on the financial statements.

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 measured and recorded at fair value. Investments consist of investments in the UC Regents Total Return Investment Pool (TRIP) and General Endowment Pool (GEP), University-managed investment pools which the Campus considers to be external investment pools. UC Merced's investment in external investment pools are reported at net asset value and excluded from the fair value level hierarchy. 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.

The net change in the fair value of investments represents both realized and unrealized gains and losses on investments. Realized gains or losses are computed based on specific identification of investments sold or units held in pooled funds. Any gains or losses recognized on the sale of investments are included with investment income.

Endowment funds are invested in accordance with the Endowment Investment Spending Policies and Guidelines, adopted by the Board of Trustees (the Board) and the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Investment decisions are based on a long-term investment strategy, with an objective of maximizing the endowment portfolio's long-term total return (yield plus appreciation). The Campus and Foundation currently invests with the UC Regents and follows the UC Regents' asset allocation policy. The current allowable range for the portfolio is 20.0% to 52.5% equity securities, 28% to 82% alternatives, and 0% to 17.5% in liquidity (income) investments. It is the goal of the Foundation that the total return from endowment investments should be adequate to meet the following objectives:

- Preserve investment capital and its purchasing power.
- Generate sufficient resources to meet spending needs (payout).
- Attain reasonable capital appreciation through prudent acceptance of risk to enhance the future purchasing power of the investment capital.

**Investments held by trustees.** Investments held by trustees includes unspent debt proceeds held by the University on behalf of the Campus. Amounts held are primarily for capital related projects. As the Campus incurs related expenses for approved projects, the University reimburses the Campus.

**Beneficial interests in irrevocable split-interest agreements.** The beneficial interests in irrevocable split-interest agreements represent the Foundation's right to the portion of the benefits from the irrevocable split-interest agreements that are administered by third parties and are recognized as an asset and deferred inflows of resources. These are measured at fair value and are reported as other noncurrent assets in the statements of net position. Changes in the fair value of the beneficial interest asset are recognized as an increase or decrease in the related deferred inflows of resources. At the termination of the agreement, net assets received from the beneficial interests are recognized as revenues.

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



**Pledges receivable, net.** Unconditional pledges of private gifts to UC Merced or to the Foundation, net of allowance for uncollectible amounts, are recorded as pledges receivable and revenue in the year promised at the net present value of expected cash flows. Conditional pledges, including pledges of endowments to be received in future periods and intentions to pledge, are recognized as receivables and revenues when the specified conditions are met. Receivables and contribution revenue associated with externally-held investment trusts are not reflected in the accompanying financial statements. UC Merced recognizes contribution revenue and the related pledges receivable 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.

**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.

**Bond premium.** The premium received in the issuance of long-term debt is amortized as a reduction of interest expense over the terms of the related long-term debt.

**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.** Deferred outflows of resources and deferred inflows of resources represent a consumption and acquisition of net position that apply to a future period, respectively. 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 shorter of the remaining life of the old or new debt.

The Foundation classifies changes in irrevocable split-interest agreements as deferred inflows of resources.

Changes in net pension liability and net retiree health benefit liability not included in pension expenses and retiree health benefits expense, respectively, are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension and retiree health liabilities 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.

Restricted or unrestricted resources are spent based upon a variety of factors, including funding restrictions, 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. Unrestricted net position is negative due to UC Merced's proportionate share of University liabilities for pension and retiree health benefits exceeding UC Merced's assets available to pay such obligations.

**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 UC Merced, 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, 2018 and 2017 as follows:

(in thousands of dollars)

	2018	2017
Student tuition and fees	\$ 38,534	\$ 32,973
Auxiliary enterprises	13,867	11,514
Other operating revenues	153	145
<b>Scholarship allowances</b>	<b>\$ 52,554</b>	<b>\$ 44,632</b>

**State appropriations.** The state of California provides appropriations to the University on an annual basis. State educational appropriations are recognized as nonoperating revenue; however, the related expenses for educational operations or other specific operating purposes are reported as operating expenses. State financing appropriations provide for principal and interest payments associated with lease-purchase agreements with the State Public Works Board and are also reported as nonoperating revenue. State appropriations for capital projects are recorded as revenue under other changes in net position when the related expenditures are incurred. A special state appropriation for 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, 2018 the facilities and administrative cost recovery totaled \$4,873, which consisted of \$3,970 from federally sponsored programs, \$288 from state sponsored programs and \$615 from private sponsors. For the year ended June 30, 2017 the facilities and administrative cost recovery totaled \$4,461, which consisted of \$3,511 from federally sponsored programs, \$135 from state sponsored programs and \$815 from private sponsors.

**Retiree health benefits and liability.** The University provides retiree health benefits to UC Merced's retired employees. The University established the University of California Retiree Health Benefit Trust ("UCRHBT") to allow certain University locations and affiliates, including the Medical Centers, 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. Contributions from UC Merced to the UCRHBT are effectively made to a single-employer health plan administered by the University as a cost-sharing plan. UC Merced is required to contribute at a rate assessed each year by the University.

Net retiree health benefits liability includes UC Merced's share of the University's net retiree health benefits liability for UCRHBT. UC Merced's share of net retiree health benefits liability, deferred inflows of resources, deferred outflows of resources and retiree health benefits expense have been determined based upon their proportionate share of the University of California Retirement Plan's ("UCRP") covered compensation for the fiscal year. The fiduciary net position and changes in net position of UCRHBT have been measured consistent with the accounting policies used by the trust. For purposes of measuring UCRHBT'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.

**Net pension liability.** UCRP provides retirement benefits to UC Merced retired employees. UC Merced is required to contribute to UCRP at a rate set by The Regents. Net pension liability includes 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 the 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.

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

**Tax exemption.** The University, which includes UC Merced and 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. Because the University is a state institution, related income received by the Campus is also exempt from federal tax under IRC Section 115(a). In addition, the University is exempt from state income taxes imposed under the California Revenue and Taxation Code.

**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 December 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for UC Merced's fiscal year beginning July 1, 2018. This Statement establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to asset retirement obligations. The Statement requires the measurement of an asset

retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred. The deferred outflow of resources associated with an asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. Disclosure requirements include a general description of the asset retirement obligation and associated tangible capital assets, the source of the obligation to retire the assets, the methods and assumptions used to measure the liability, and other relevant information. UC Merced is evaluating the effect that Statement No. 83 will have on its financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, effective for UC Merced's fiscal year beginning July 1, 2019. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. UC Merced is evaluating the effect that Statement No. 84 will have on its financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*, effective for UC Merced's fiscal year beginning July 1, 2020. This Statement establishes a single approach to accounting for and reporting leases based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Limited exceptions to the single-approach guidance are provided for short-term leases, defined as lasting a maximum of twelve months at inception, including any options to extend, financed purchases, leases of assets that are investments and certain regulated leases. UC Merced is evaluating the effect Statement No. 87 will have on its financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for UC Merced's fiscal year beginning July 1, 2018. This Statement defines debt for purposes of disclosures in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires additional disclosures related to debt including providing additional information for direct borrowings and direct placements of debt separately from other debt. UC Merced is evaluating the effect that Statement No. 88 will have on its financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective prospectively for UC Merced's fiscal year beginning July 1, 2020. The Statement requires that interest cost incurred before the end of a construction period to be recognized as an expense in the period in which the cost is incurred. As a result, interest costs would not be capitalized as part of the asset's historical cost. For construction in progress, interest cost incurred after applying this Statement No. 89 will not be capitalized. UC Merced is evaluating the effect that Statement No. 89 will have on its financial statements.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests — An Amendment of GASB Statements No. 14 and No. 61*, effective for UC Merced's fiscal year beginning July 1, 2019. The Statement defines

a majority equity interest in a legally separate organization and clarifies the accounting and financial reporting for majority equity interests, classified as either investments or component units, in the financial statements. UC Merced is evaluating the effect that Statement No. 90 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 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, 2018, and 2017, consist of the following:

*(in thousands of dollars)*

	UC Merced		UC Merced Foundation	
	2018	2017	2018	2017
Checking accounts	\$ 378	\$ 183	\$ 5	\$ 5
University of California Managed Short Term Investment Pool (STIP)	62,511	71,869		-
<b>Total cash and cash equivalents</b>	<b>\$ 62,889</b>	<b>\$ 72,052</b>	<b>\$ 5</b>	<b>\$ 5</b>

The checking accounts at June 30, 2018 and 2017 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), Total Return Investment Pool (TRIP), and General Endowment Pool (GEP) managed by the Chief Investment Officer or is separately invested. Pursuant to The Regents' policies on campus foundations, the UC Merced Board of Trustees has determined that all of its investments will be managed by the Chief Investment Officer. The composition of investments at June 30, is as follows:

*(in thousands of dollars)*

	UC Merced		UC Merced Foundation	
	2018	2017	2018	2017
Under management of The Regents of University of California (not subject to categorization)				
General endowment pool (GEP)	\$ 39,353	\$ 36,235	\$ 11,822	\$ 10,462
Total Return Investment Pool (TRIP)	69,027	67,542		
<b>Total investments</b>	<b>\$ 108,380</b>	<b>\$ 103,777</b>	<b>\$ 11,822</b>	<b>\$ 10,462</b>

The University-managed commingled funds (UC pooled funds) serve as the core investment vehicle for the Campus. A description of the funds used is as follows:

**TRIP.** The Total Return Investment Pool (TRIP) allows participants the opportunity to maximize the return on their long-term working capital by taking advantage of the economies of scale of investing in a large pool across a broad range of asset classes. TRIP supplements STIP by investing in an intermediate-term, higher-risk portfolio allocated across equities, fixed-income and liquid alternative strategies, and allows participants to maximize the return on their long-term capital. The objective of TRIP is to generate a rate of return above the policy benchmark, after all costs and fees, consistent with liquidity, cash flow requirements and the risk. TRIP is considered to be an external investment pool from UC Merced's perspective.

**GEP.** The General Endowment Pool (GEP) is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scales. GEP is a balanced portfolio of equities, fixed-income securities and alternative investments. The primary goal is to maximize long-term total return, growth of principal and a growing payout stream to ensure that future funding for endowment-supported activities can be maintained. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements. GEP is considered to be an external investment pool from UC Merced and the Foundation's perspective.

### Investment risk factors

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk and foreign currency risk, may affect both equity and fixed-income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed-income securities are particularly sensitive to credit risks and changes in interest rates. Alternative

investment strategies and their underlying assets and rights are subject to an array of economic and market vagaries that can limit or erode value. The University and the Foundation have established investment policies to provide the basis for the management of a prudent investment program appropriate to the particular fund type.

### **Credit risk**

Fixed-income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond and, ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond rating agencies, for example Moody's Investors Service (Moody's) or Standard and Poor's (S&P). The lower the rating, the greater the chance, in the rating agency's opinion, that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

Certain fixed-income securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are considered to have minimal credit risk.

Asset-backed securities are debt obligations that represent claims to the cash flows from pools of commercial, mortgage, credit card or student loans. Mortgage-backed securities issued by Ginnie Mae are backed by the full faith and credit of the U.S. government.

The University recognizes that credit risk is appropriate in balanced investment pools such as TRIP and GEP by virtue of the benchmarks chosen for the fixed-income portion of those pools.

The core fixed-income benchmark for GEP and TRIP is the Barclays Capital US Aggregate Bond Index, comprised of 25.0 percent corporate bonds and 30.6 percent mortgage/asset-backed bonds, all of which carry some degree of credit risk. The remaining 44.4 percent is government issued bonds.

Credit risk in TRIP and GEP is managed primarily by diversifying across issuers. In addition, portfolio guidelines for UCRS and GEP mandate that no more than 15 percent of the market value of fixed-income securities may be invested in issues with credit ratings below investment grade. Further, the weighted average credit rating must be A or higher.

In addition, the investment policy for GEP allows for dedicated allocations to non-investment grade and emerging market bonds, an investment which entails credit, default and/or sovereign risk.

The Campus and Foundation's commingled funds (including GEP and TRIP) are not rated.

### **Custodial credit risk**

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned. Securities issued or explicitly guaranteed by the U.S. government, mutual funds, external investment pools and other pooled investments are excluded from this review. Investments in the various investment pools managed by the Office of the Chief Investment Officer of the Regents are external investment pools and are not subject to concentration of credit risk.

### **Interest rate risk**

Interest rate risk is the risk that the fair value of fixed-income securities will decline because of changing interest rates. The prices of fixed-income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100-basis-point (1-percentage-point) change in the level of interest rates. It is not a measure of time.

The University's portfolio guidelines for the fixed-income portion of TRIP and GEP limit weighted average effective duration to the effective duration of the benchmarks (Barclays Capital US Aggregate Index), plus or minus 20 percent. These portfolio guidelines constrain the potential price movement due to interest rate changes of the portfolio being similar to that of the benchmark.

The Campus and Foundation considers the effective duration to be zero for money market funds because they are designed to have a constant \$1 share value due to the short-term, liquid nature of the underlying securities.

### **Foreign currency risk**

The University's strategic asset allocation policy for TRIP and GEP includes allocations to non-U.S. equities and non-dollar-denominated bonds. Exposure from foreign currency risk results from investments in foreign currency-denominated equity, fixed-income and private equity securities. Foreign currency risk is managed by the Chief Investment Officer of the Regents for the University; however, the Foundation's endowment asset allocation policy includes an allocation to non-U.S. equities.

More detail about the University of California's investments can be found in the 2017–2018 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. For both June 30, 2018 and 2017, the investments and deposits held by trustees were held by the University on behalf of UC Merced for capital related projects.

### 4. Accounts Receivable

Accounts receivable and the allowances for uncollectible amounts at June 30, 2018 and 2017 are as follows:

*(in thousands of dollars)*

	UC Merced			UC Merced Foundation
	State and Federal Government	Other	Total	
<i>At June 30, 2018</i>				
Accounts receivable	\$ 8,032	\$ 4,595	\$ 12,627	\$ -
Allowance for uncollectible amounts	(191)	(397)	(588)	
<b>Accounts receivable, net</b>	<b>\$ 7,841</b>	<b>\$ 4,198</b>	<b>\$ 12,039</b>	<b>\$ -</b>
<i>At June 30, 2017</i>				
Accounts receivable	\$ 9,039	\$ 3,834	\$ 12,873	\$ -
Allowance for uncollectible amounts	(248)	(391)	(639)	
<b>Accounts receivable, net</b>	<b>\$ 8,791</b>	<b>\$ 3,443</b>	<b>\$ 12,234</b>	<b>\$ -</b>

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

## 5. Pledges Receivable

The composition of pledges receivable at June 30, 2018 and 2017 is summarized as follows:

*(in thousands of dollars)*

	UC Merced		UC Merced Foundation	
	2018	2017	2018	2017
Total pledges receivable outstanding	\$ 765	\$ 765	\$ 532	\$ 599
Less: Unamortized discount to present value	(3)	(4)	(1)	(7)
Allowance for uncollectible pledges	(315)	(315)	(236)	
<b>Total pledges receivable, net</b>	<b>447</b>	<b>446</b>	<b>295</b>	<b>592</b>
Less: Current portion of pledges receivable	(250)	(150)	(258)	(380)
<b>Noncurrent portion of pledges receivable</b>	<b>\$ 197</b>	<b>\$ 296</b>	<b>\$ 37</b>	<b>\$ 212</b>

Payments of pledges receivable for the fiscal years subsequent to June 30, 2018 and thereafter are as follows:

*(in thousands of dollars)*

	UC Merced	UC Merced Foundation
<i>Year Ending June 30</i>		
2019	550	494
2020	165	13
2021	50	14
2022		11
2023		
2024-2027		
<b>Total payments on pledges receivable</b>	<b>\$ 765</b>	<b>\$ 532</b>

## 6. Capital Assets

The campus' capital asset activity for the years ended June 30, 2018 and 2017 is as follows:

(in thousands of dollars)

	2016	Additions	Disposals	2017	Additions	Disposals	2018
<b>Original Cost</b>							
Land	\$ 34,692	\$ 5,384		\$ 40,076			\$ 40,076
Infrastructure	36,679	2,654		39,333	1,623	(3,542)	37,414
Buildings and improvements	657,096	4,266		661,362	38,897		700,259
Equipment, software and intangibles	58,380	10,280	\$ (1,766)	66,894	10,319	\$ (1,352)	75,861
Libraries and collections	18,636	1,778		20,414	1,823		22,237
Special collections	132			132			132
Construction in progress	7,142	104,901		112,043	489,848		601,891
<b>Capital assets, at original cost</b>	<b>\$812,757</b>	<b>\$ 129,263</b>	<b>\$ (1,766)</b>	<b>\$940,254</b>	<b>\$ 542,510</b>	<b>\$(4,894)</b>	<b>\$1,477,870</b>
	2016	Depreciation and Amortization	Disposals	2017	Depreciation and Amortization	Disposals	2018
<b>Accumulated depreciation and amortization</b>							
Infrastructure	\$ 14,131	\$ 2,318		\$ 16,449	\$ 859	\$ (1,562)	\$ 15,746
Buildings and improvements	155,619	21,028		176,647	22,207		198,854
Equipment, software and intangibles	36,388	5,318	\$ (1,702)	40,004	6,249	\$ (1,343)	44,910
Libraries and collections	6,651	1,242		7,893	1,361		9,254
<b>Accumulated depreciation and amortization</b>	<b>\$ 212,789</b>	<b>\$ 29,906</b>	<b>\$ (1,702)</b>	<b>\$ 240,993</b>	<b>\$ 30,676</b>	<b>\$(2,905)</b>	<b>\$ 268,764</b>
<b>Capital assets, net</b>	<b>\$ 599,968</b>			<b>\$ 699,261</b>			<b>\$ 1,209,106</b>

## 7. Long-term Debt

The Regents of the University of California may finance the construction, renovation, and acquisition of certain facilities and equipment for UC Merced and other UC campuses through the issuance of debt obligations. Long-term financing includes revenue bonds, mortgages, capital lease obligations, and other borrowings that have been issued on behalf of UC Merced in the name of The Regents. UC Merced's outstanding debt at June 30, 2018 and 2017 is as follows:

(in thousands of dollars)

	2018	2017
<b>Interim Financing:</b>		
Commercial paper	\$ 2,680	\$ 11,009
<b>Long-term Financing:</b>		
University of California General Revenue Bonds	1,061,273	621,612
Note payables to UCOP	30,671	34,686
Other borrowings	303,232	43,650
<b>Total outstanding debt</b>	<b>1,397,856</b>	<b>710,957</b>
Less: Commercial paper	(2,680)	(11,009)
Current portion of outstanding debt	(95,971)	(92,967)
<b>Noncurrent portion of outstanding debt</b>	<b>\$ 1,299,205</b>	<b>\$ 606,981</b>

General Revenue Bonds of \$81.4 million are variable-rate demand bonds which reset weekly, and, in the event of a failed remarketing, can be put back to The Regents for tender. UC Merced has classified \$81.4 million of these bonds as current liabilities as of June 30, 2018.

Other UC Merced borrowings consist of contractual obligations resulting from the construction of buildings, infrastructure and other certain facilities.

More detail about the University of California's debt can be found in the 2017–2018 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, 2018 and 2017 is as follows:

*(in thousands of dollars)*

	UC Merced		UC Merced Foundation	
	2018	2017	2018	2017
Restricted				
Endowments and gifts	\$ 16,840	\$ 16,414	\$ 8,412	\$ 8,327
Nonexpendable	16,840	16,414	8,412	8,327
Endowments	18,860	17,452	3,491	2,937
Funds functioning as endowments	8,752	8,305		
Gifts	7,113	7,104	1,022	848
Expendable	34,725	32,861	4,513	3,785
Unrestricted	2,195	1,575	60	290
<b>University endowments and gifts</b>	<b>\$ 53,760</b>	<b>\$ 50,850</b>	<b>\$ 12,985</b>	<b>\$ 12,402</b>

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 (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 \$1,563 and \$1,517 for the years ended June 30, 2018 and 2017, respectively.



## 9. Operating Expenses by Function

Operating expenses, by functional classification, for fiscal years ended June 30, 2018 and 2017, are as follows:

<i>(in thousands of dollars)</i>	2018	2017
Instruction	\$ 71,043	\$ 65,107
Research	29,576	25,893
Public service	6,486	6,261
Academic support	26,211	26,144
Student services	29,711	27,067
Institutional support	63,096	63,982
Operation and maintenance of plant	19,048	19,527
Student financial aid	17,753	16,583
Auxiliary enterprises	32,708	30,134
Depreciation and amortization	30,676	29,906
Other	6,620	2,432
<b>Total</b>	<b>\$ 332,928</b>	<b>\$ 313,036</b>

## 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>	Net Pension Liability	Net Retiree Health Benefits Liability	Debt Refunding	Total
<i>At June 30, 2018</i>				
Deferred outflows of resources	\$ 9,355	\$ 45,351	\$ 21,272	\$ 75,978
Deferred inflows of resources	4,458	53,298		57,756
<i>At June 30, 2017</i>				
Deferred outflows of resources	\$ 13,880	\$ 35,874	\$ 21,624	\$ 71,378
Deferred inflows of resources	10,175	42,969		53,144

## **11. Retiree Health Plans**

The University administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision, to eligible retirees (and their eligible family members) of the University of California and its affiliates through UCRHBT. The Regents has the authority to establish and amend the plan. Additional information on the retiree health plans can be obtained from the 2017-2018 annual reports of the University of California.

The contribution requirements of the eligible retirees and the participating University locations, such as UC Merced, are established and may be amended by the University. Membership in 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 who are employed by the University after July 1, 2013, and retire at the age of 56 or older, become eligible for a percentage of the University's contribution based on age and years of service. Retirees are eligible for the maximum University contribution at age 65 with 20 or more years of service. Retirees employed by the University prior to 1990 and not rehired after that date are eligible for the University's maximum 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 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum University contribution, increasing to 100 percent after 20 years of service.

### ***Contributions***

UC Merced contributions toward retiree health benefits, at rates determined by the University, are made to UCRHBT. The University receives retiree health contributions from retirees that are deducted from their UCRP benefit payments. The University also remits these retiree contributions to UCRHBT. The University acts as a third-party administrator on behalf of UCRHBT and pays health care insurers and administrators amounts currently due under the University's retiree health benefit plans for retirees who previously worked at a campus or Medical Center. UCRHBT reimburses the University for these amounts.

Participating University locations, such as UC Merced, 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. The assessment rates were \$2.80 and \$2.93 per \$100 of UCRP covered payroll effective July 1, 2018 and 2017, respectively.

UC Merced's contributions for the years ended June 30, 2018 and 2017 were \$1,539 and \$2,919, respectively.

### ***Net Retiree Health Benefits Liability***

UC Merced's proportionate share of the net retiree benefits liability as of June 30 is as follows:

<i>(in thousands of dollars)</i>	<b>2018</b>	<b>2017</b>
Proportion of the net obligation	1.0%	0.9%
Proportionate share of the net obligation	\$ 176,521	\$ 167,368

UC Merced's net retiree health benefits liability was measured as of June 30, 2018 and 2017 and calculated using the plan net position valued as of the measurement date and total retiree health benefits liability based upon rolling forward the results of the actuarial valuations as of July 1, 2017 and 2016, respectively. 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. Significant actuarial methods and assumptions used to calculate UC Merced's net retiree health benefits liability were:

	<b>2018</b>	<b>2017</b>
Discount Rate	3.9%	3.6%
Inflation	3.0%	3.0%
Investment rate of return	3.0%	3.0%
Health care cost trend rates	Initially ranges from 5.0 to 9.3 decreasing to an ultimate rate of 5.0 for 2033 and later years	Initially ranges from 5.0 to 9.5 decreasing to an ultimate rate of 5.0 for 2032 and later years

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 are based upon the results of an experience study conducted for the period of July 1, 2010 through June 30, 2014. For pre-retirement mortality rates, the RP-2014 White Collar Employee Mortality Tables (separate table for males and females) projected with the two-dimensional MP-2014 projection scale to 2029 were used. For post-retirement, healthy mortality rates are based on the RP-2014 White Collar Healthy Annuitant Mortality Table projected with the two-dimensional MP-2014 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 MP-2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP-2014 projection scale to 2029 and with ages then set back one year for males and set forward five years for females.

#### ***Sensitivity of Net Retiree Health Benefits Liability to the Health Care Cost Trend Rate***

The following presents the June 30, 2018 net retiree health benefits liability of UC Merced calculated using the June 30, 2018 health care cost trend rate assumption with initial trend ranging from 5.0 percent to 9.3 percent grading down to an ultimate trend of 5.0 percent over 15 years, as well as what the net retiree health benefits liability would be if it were calculated using a health care cost trend rate different than the current assumption:

<i>(in thousands of dollars)</i>	<b>1% Decrease</b> (4.0% to 8.3% Decreasing to 4.0%)	<b>Current Discount</b> (5.0% to 9.3% Decreasing to 5.0%)	<b>1% Increase</b> (6.0% - 10.3% Decreasing to 6.0%)
UC Merced	\$ 151,130	\$ 176,521	\$ 212,159

***Discount Rate***

The discount rate used to estimate the net retiree health benefits liability as of June 30, 2018 and 2017 was 3.87 percent and 3.58 percent, respectively. The discount rate was based on the Bond Buyer 20-Bond General Obligation index since UCHRBT plan assets are not sufficient to make benefit payments.

***Sensitivity of Net Retiree Health Benefits Liability to the Discount Rate Assumption***

The following presents the June 30, 2018 net retiree health benefits liability of UC Merced calculated using the June 30, 2018 discount rate assumption of 3.87 percent, as well as what the net retiree health benefits liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)

	1% Decrease (2.87%)	Current Discount (3.87%)	1% Increase (4.87%)
UC Merced	\$ 210,733	\$ 176,521	\$ 151,623

### ***Deferred Outflows of Resources and Deferred Inflows of Resources***

Deferred outflows of resources and deferred inflows of resources for retiree health benefits were related to the following sources as of the years ended June 30:

(in thousands of dollars)	2018	2017
<b>Deferred Outflows of Resources</b>		
Changes between expected and actual experience	\$ 723	\$ 762
Changes of assumptions or other inputs	32,307	34,917
Net difference between projected and actual earnings on plan investments	37	30
Change in proportion and differences between employer contributions and proportionate share	12,284	165
<b>Total</b>	<b>\$ 45,351</b>	<b>\$ 35,874</b>
<b>Deferred Inflows of Resources</b>		
Difference between expected and actual experience	\$ 22,039	\$ 13,187
Changes of assumptions or other inputs	31,146	29,651
Net difference between projected and actual earnings on pension plan investments	113	131
<b>Total</b>	<b>\$ 53,298</b>	<b>\$ 42,969</b>

The net amount of deferred outflows of resources and deferred inflows of resources related to retiree health benefits that will be recognized in retiree health benefit expense during the years ending June 30 is as follows:

<i>(in thousands of dollars)</i>		
2019	\$	(398)
2020		(401)
2021		(405)
2022		(409)
2023		(413)
Thereafter		(5,921)
<b>Total</b>	<b>\$</b>	<b>(7,947)</b>

## 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 2016-2017 annual reports of the University of California Retirement System.

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

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

are subject to collective bargaining agreements. Effective July 1, 2015, employee member contributions range from 7.0 percent to 9.0 percent. The University pays a uniform contribution rate of 14.0 percent of covered payroll on behalf of all UCRP 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, 2018 and 2017 are as follows:

<i>(in thousands of dollars)</i>	<b>2018</b>	<b>2017</b>
UC Merced	\$ 14,740	\$ 13,808
Employees	7,768	6,683
<b>Total</b>	<b>\$ 22,508</b>	<b>\$ 20,491</b>

**Net Pension Liability.** UC Merced's proportionate share of the net pension liability for UCRP as of June 30, 2018 and 2017 is as follows:

<i>(in thousands of dollars)</i>	<b>2018</b>	<b>2017</b>
Proportion of the net pension liability	0.9%	0.9%
Proportionate share of net pension liability	\$ 84,548	\$ 90,927

UC Merced's net pension liability was measured as of June 30, 2018 and 2017 and calculated using the plan net position valued as of the measurement date and total pension liability determined based upon rolling forward the total pension liability from the results of the actuarial valuations as of July 1, 2017 and 2016, respectively. 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:

	<b>2018</b>	<b>2017</b>
Inflation	3.0%	3.0%
Investment rate of return	7.25%	7.25%
Projected salary increases	3.8 - 6.2%	3.8 - 6.2%
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 used in 2018 and 2017 were based upon the results of an experience study conducted for the period July 1, 2010 through June 30, 2014. For pre-retirement mortality rates, the RP-2014 White Collar Employee Mortality Tables (separate table for males and females) projected with the two-dimensional MP-2014 projection scale to 2029 were used. For post-retirement, healthy

mortality rates are based on the RP-2014 White Collar Healthy Annuitant Mortality Table projected with the two-dimensional MP-2014 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 MP-2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females.

The long-term expected investment rate of return assumption for UCRP was determined in 2015 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:

	Target Allocation	Long-Term Expected Real Rate of Return
<i>Asset Class</i>		
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%	3.9%
Treasury Inflation Protected Securities	4.5%	0.4%
Real Estate	5.5%	4.8%
Private Equity	8.0%	11.2%
Absolute Return/Real Assets	6.5%	4.2%
Real Assets	3.0%	4.4%
<b>Total</b>	<b>100.0%</b>	<b>5.6%</b>

**Discount Rate.** The discount rate used to estimate the net pension liability as of June 30, 2018 and 2017 was 7.25 percent. To calculate the discount rate, cash flows into and out of UCRP were projected in order to determine whether UCRP has sufficient cash in future periods for projected benefit payments for current members. For this purpose, UC Merced's contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected 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.



**Sensitivity of the Net Pension Liability to the Discount Rate Assumption.** The following presents the June 30, 2018 net pension liability of UC Merced calculated using the June 30, 2018 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	\$ 161,966	\$ 84,548	\$ 19,944

**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)*

	2018	2017
<b>Deferred Outflows of Resources</b>		
Changes in proportion and differences between location's contributions and proportionate share of contributions	\$ 3,071	\$ 5,230
Changes of assumptions or other inputs	4,100	7,042
Net difference between projected and actual earnings on pension plan investments		
Difference between expected and actual experience	2,184	1,608
<b>Total</b>	<b>\$ 9,355</b>	<b>\$ 13,880</b>

**Deferred Inflows of Resources**

Changes in proportion and differences between location's contributions and proportionate share of contributions	\$ 2,027	\$ 3,669
Changes of assumptions or other inputs	-	3,395
Net difference between projected and actual earnings on pension plan investments	1,935	1,757
Difference between expected and actual experience	496	1,354
<b>Total</b>	<b>\$ 4,458</b>	<b>\$ 10,175</b>

Deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the year ending June 30, 2018 as follows:

*(in thousands of dollars)*

2019	\$	8,164
2020		3,332
2021		(6,274)
2022		(390)
2023		65
<b>Total</b>	<b>\$</b>	<b>4,897</b>

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

### 13. Commitments and Contingencies

#### Contractual Commitments

Amounts committed but unexpended for construction projects totaled \$17,041 and \$37,715 at June 30, 2018 and 2017, respectively.

UC Merced leases buildings and equipment under agreements recorded as operating leases. The terms of operating leases extend through June 2021. Operating lease expenses for the years ended June 30, 2018 and 2017 were \$83 and \$2,748, respectively.

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

*(in thousands of dollars)*

	<b>Minimum Annual Lease Payments</b>	
<i>Year Ending June 30</i>		
2019	\$	6,688
2020		5,854
2021		39
<b>Total</b>	<b>\$</b>	<b>12,581</b>

#### Contingencies

Substantial amounts are received and expended by UC Merced under federal and states programs and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, and other programs. UC Merced management believes that any liabilities arising from such audits will not have a material effect on UC Merced's financial position.

UC Merced is contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, UC Merced management and general counsel are of the opinion that the outcome of such matters will not have a material effect on UC Merced's financial position.

## REQUIRED SUPPLEMENTARY INFORMATION

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

*(in thousands of dollars)*

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
2018	0.9%	\$ 84,548	\$ 104,029	81.3%	85.9%
2017	0.9%	\$ 90,927	\$ 98,627	92.2%	84.0%
2016	0.9%	122,101	93,049	131.2%	77.2%

The schedule of the Medical Centers' proportionate share of UCRHBT's net retiree health benefits liability is presented below:

*(in thousands of dollars)*

As of June 30	Proportion of the retiree healthcare liability	Proportionate share of retiree healthcare liability	Covered- employee payroll	Proportionate share of the retiree healthcare liability as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total retiree healthcare liability
2018	1.0%	\$ 176,521	\$ 116,821	151.1%	0.7%
2017	0.9%	\$ 167,368	\$ 100,375	166.7%	0.6%
2016	0.9%	188,812	93,049	202.9%	0.3%

