

University of California, Merced
2019-2020 Annual Financial Report (Unaudited)



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I am pleased to present this Annual Financial Report for 2019-2020.

The past year has been a difficult one for many in our campus community. However, we have persevered through the pandemic and supported our colleagues in their times of need. Although many of us did not have the pleasure of being on campus, we will be returning soon and have much to look forward to in the coming year.



The completion of the [Merced 2020 Project](#) has nearly doubled the size of our campus and there will be renewed energy as we explore and use these spaces to meet the university's mission. Although we are the youngest campus in the University of California system, our commitment to the mission of a public land grant university is deeply rooted in everything we do. We are making strides toward our goals of educating our young scholars, advancing research that is relevant nationally and internationally, advancing health care in the San Joaquin Valley, and carrying out the public service mission of the University of California.

The commitment to our mission has been widely recognized. Our campus was 97th in [U.S. News & World Report's latest ranking](#) of all national universities and 40th among public universities. The university also ranks No. 1 for our ability to outperform expected graduation rates, No. 5 among all universities for social mobility and No. 8 among all universities in economic diversity. Furthermore, two of our graduate programs, Environmental Engineering and Material Science, were recently ranked in U.S. News' top 100.

Sustainability is a UC Merced hallmark, infused in our research, education and physical planning. In 2020, a third-party firm verified UC Merced as the nation's first public research university to [achieve carbon neutrality](#). All university buildings are certified by the Leadership in Energy and Environmental Design (LEED) program. The "triple zero" goal – zero net energy, zero landfill waste and zero net greenhouse gas emissions – was actually achieved in 2018, two years ahead of schedule.

In addition to these successes, the university is taking considerable steps toward modernizing our business and financial services to ensure they enable the campus to continue to meet its mission of teaching, research and public service. In January 2021, UC Merced launched [a transformative set of financial systems](#), led by installation of the Oracle Financial Cloud platform. The ambitious, two-year effort that led to the launch, called Alpha Financials, replaced our outdated legacy systems with reliable, high-value processes. Although this transition will require some patience to learn the new systems, once fully operational they will advance our campus and facilitate efficient financial stewardship of the Board of Regents' resources.

Moving forward, our financial resources will remain constrained by the impacts of the pandemic as well as the costs associated with our campus expansion. However, we will continue to make strategic investments needed to ensure we continue on our path to success. To help guide these resource allocations, the university is nearing completion of [Imagine 2030](#), our first campus-wide strategic plan. In the coming months the Division of Finance and Administration will have the opportunity to review our divisional strategic plan and ensure it is aligned with Imagine 2030.

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 success and growth that I share with you this year's financial report.

Sincerely,

Kurt Schnier
Interim Vice Chancellor 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, 2020 with selected comparative information for the fiscal year ended June 30, 2019. This discussion should be read in conjunction with the financial statements and accompanying notes.

UC Merced is the newest of 10 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 are, 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 \$40.3 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 University's Financial Position

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, was declared a pandemic by the World Health Organization. The outbreak of the disease has affected travel, commerce and financial markets globally in the United States and California, including cities and counties throughout the state. On March 4, 2020, the Gov. Gavin Newsom declared a state of emergency to help the state prepare and respond to COVID-19, and on March 19, 2020, the Gov. Newsom issued a statewide order, Executive Order N-33-20, directing all residents to heed state public health directives to stay home or at their place of residence except as needed to maintain continuity of operations of critical infrastructure sectors during the COVID-19 response. Such orders and restrictions resulted in business closures, work stoppages, slowdowns and delays, work-from-home policies, travel restrictions and cancellations of events. In response to the state orders, the University transitioned to online education for all classes in the spring and gave students living on campus the option to cancel housing contracts and move home. These changes impacted the University's operations in 2020, resulting in lost revenues and increased expenses as compared to budget.

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 8,184 acres in Merced and is devoted to undergraduate and graduate scholarship with fall 2019 enrollment totaling 8,847 students in the following schools and graduate programs:

Academic Schools and Divisions	Graduate Studies
School of Engineering School of Natural Sciences School of Social Sciences, Humanities & Arts	Applied Mathematics Bioengineering Chemistry and Chemical Biology Cognitive and Information Sciences Economics Electrical Engineering and Computer Science Environmental Systems Interdisciplinary Humanities Mechanical Engineering Management of Complex Systems Master of Management Professional Degree Program Materials and Biomaterials Science and Engineering Physics Political Science Psychological Sciences Public Health Quantitative and Systems Biology Sociology

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.

During the 2019-20 academic year, receiving just over 29,000 first-time freshman and transfer applications for fall 2019, UC Merced enrolled 2,279 freshman and transfer students. Enrollment decreased slightly compared to the prior fall 2018 term. Although more applicants were admitted for fall 2019, UC Merced's freshman SIR (Statement of Intent to Register) yield decreased from 17% to 15%. Undergraduate applicants who are admitted to one or more campuses of the University of California must indicate to which campus they want to matriculate. The mechanism for this is to sign a Statement of Intent to Register (SIR) when they submit their deposit. UC Merced's SIR yields are heavily influenced by the behavior of UC sister campuses. When those other campuses are in growth mode, UC Merced's yields decrease. During the year, the campus' graduating class awarded 1,671 degrees during the 2019-20 academic year compared to 1,533 in the prior year.

In June 2020, UC Merced completed the Merced 2020 Project, a \$1.2 billion extensive expansion of the campus' physical space and capacity. The project came about when the campus reached capacity within its existing facilities and upon approval from the University of California Board of Regents, entered into the largest public-private partnership infrastructure project in U.S. history and will allow the campus to join other UC campuses in expanding enrollment for up to 10,000 students. The new facilities include state-of-the-art buildings with labs, classrooms and additional study areas, student housing, dedicated space for student life and organizations, a conference center, new dining options, additional parking, a competition swimming pool and outdoor recreation courts.

The campus' mission also includes a strong dedication to research and public service, embodied in its proud claim of being the first American research university of the 21st century. The funds spent at UC Merced for research, including graduate student salaries and benefits, along with supplies and equipment necessary for research projects was \$77.2 million for fiscal year 2020 as compared to \$56.9 million for 2019. In keeping with the University's mission of teaching, research and service, the UC Merced Library is committed to meeting the diverse research, teaching and public service needs of UC Merced researchers (students, faculty and staff) by connecting them to a world of information and ideas. This goal is met in part through the Library's extensive collection of or access to online journals, databases, books and e-books as well as access to the University of California CDL (California Digital Library). Since 2005, UC libraries have digitized millions of books through participation in mass digitization projects with Google and Internet Archive resulting in over 4.5 million available digital volumes.

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. The campus has contributed significantly to the valley economy in wages and benefits, construction contracts to local businesses and goods and services purchased from local businesses.

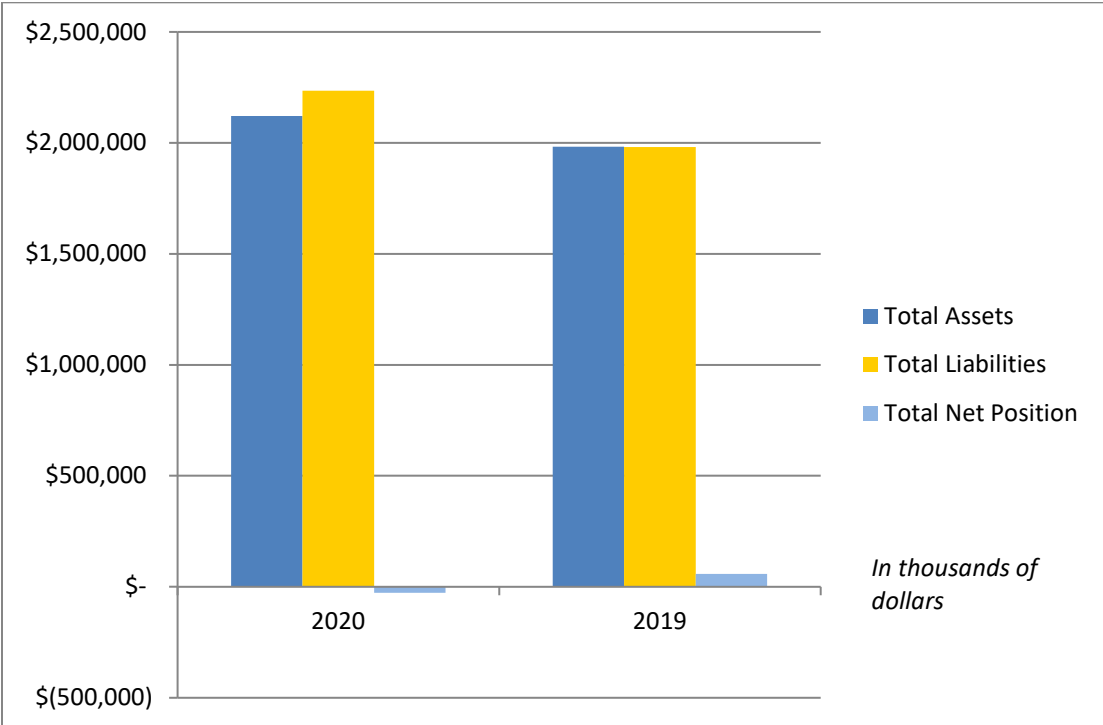
UC Merced is considered a leader in sustainability design and construction. Since 2005, UC Merced has demonstrated sustainability success in everything from green buildings, water conservation and efficiency as well as procurement. Further pushing the boundary, UC Merced has established the Triple Net Zero Goals: a set of goals for the campus to ultimately produce as much power as it uses, create zero landfill waste and achieve climate neutrality. For the first seven years, all newly constructed buildings on the UC Merced campus were required to achieve a minimum Leadership in Energy and Environmental Design (LEED) silver certification for building, design, and construction. Since 2009, however, the certification requirement is gold. As of the date of this writing, UC Merced has achieved carbon neutrality on its campus, well ahead of its goal. It is the first public university in the country to achieve net-zero carbon on campus. As the UC system works to make all campuses carbon-neutral by 2025, Merced leads the way, having undergone extensive third-party verification to audit its inventories of greenhouse gas emissions from on-site fossil fuel combustion and purchased electricity.

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 2020, 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	2,262		226	\$ 20,295	\$ 13,621	\$ 33,916
School of Natural Sciences	2,085		325	25,042	15,821	40,863
School of Social Sciences, Humanities & Arts	3,466		301	27,032	13,560	40,592
Graduate Studies		696	17	1,454	818	2,272
Undeclared	338					
All others, including auxiliaries, student services, etc.			1,124	97,049	197,515	294,564
Subtotal	8,151	696	1,993	\$ 170,872	\$ 241,335	\$ 412,207
Depreciation Expense						45,504
Total						\$ 457,711

The Campus’ Financial Position



The statement of net position presents UC Merced’s financial position as of 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 \$2.170 billion in 2020, compared to \$1.983 billion in 2019.

Cash and cash equivalents increased by \$26.4 million and decreased by \$29.3 million in 2020 and 2019 respectively. The increase in 2020 was the result of debt issuances associated with the expansion efforts of the 2020 Project offset by capital spending. The decrease in 2019 was primarily due to increases in capital spending.

Capital assets, net of accumulated depreciation, increased \$225.4 million and \$450.8 million in 2020 and 2019, respectively. In 2020, the increase is a result of \$271.6 million in capital additions offset by \$45.5 million in depreciation and \$.7 million in disposals compared to 2019 capital additions of \$488.7 million offset by \$36.0 million in depreciation and \$1.9 million in disposals. 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. In June 2020, the Project was completed, adding new state-of-the-art buildings with labs, classrooms and additional study areas, student housing, dedicated space for student life and organizations, a conference center, new dining options, additional parking, a competition swimming pool and outdoor recreation courts.

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 2020, deferred outflows increased primarily due to an increase in UC Merced's proportionate share of the University of California retiree health benefits liability. The health benefits liability increased primarily due to changes actuarial assumption and other inputs, specifically the change in the GASB prescribed discount rate. The discount rate decreased from 3.50% as of June 30, 2019 to 2.21% as of June 30, 2020. In 2019 deferred outflows increased due to an increase in UC Merced's proportionate share of the net pension liability. Net pension liability increased primarily due to the effect of changes in actuarial assumptions and the approximately 6% return on the Market Value of Assets during 2018/2019 (which was less than the assumed return of 7.25%).

The Campus' Liabilities

Total liabilities increased \$252.8 million in 2020 when compared to 2019 due to an increase in capital related commercial paper financing, borrowings related to the 2020 Project, and an increase in obligations to the University of California Pension and Retiree Health Benefits Programs. In 2019, total liabilities increased \$279.2 million when compared to 2018, primarily as the result of an increase in long-term debt related to borrowing for the 2020 project.

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 2020, UC Merced's share of the net pension liability is \$192.1 million of the total \$21.7 billion for the University as a whole. In 2019, the balance was \$159.1 million of the total \$18.1 billion liability. Net pension liability increased from \$18.1 billion as of June 30, 2019 to \$21.7 billion as of June 30, 2020, primarily due to the approximately 1.7% return on the market value of assets during 2019/2020 (which was less than the assumed return of 6.75%).

UC Merced's share of the net retiree health benefit liability in 2020 is \$212 million of the total \$23.9 billion for the University as a whole. In 2019, the balance was \$172.6 million of the total \$19.9 billion

liability. The University of California funds retiree health benefits through the UC Retiree Health Benefit Trust (UCRHBT). Currently, the University does not pre-fund retiree health benefits and instead provides for benefits on a pay-as-you-go basis. Since the University's retiree health benefits are effectively funded on a pay-as-you-go cash cost basis, plan assets at the beginning of the year will be insufficient to meet the next year's projected benefit payments. As prescribed by GASB No. 75, the discount rate will be based on the index rate for 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of the measurement date. The University of California elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index. Changes in the net retiree health benefits liability are primarily driven by changes in plan provisions or assumptions and changes in the discount rates used to estimate the retiree health benefit liability. UC Merced's fiscal year 2020 health benefits liability increased primarily due to the change in the discount rate which decreased from 3.50% as of June 30, 2019 to 2.21% as of June 30, 2020.

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 2019, deferred inflows increased slightly due to the actual experience of the benefits program over fiscal year 2020 being different than expected, caused primarily by lower-than-expected healthcare premium rates and removal of the health insurance provider fee.

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 net position balance of \$22.2 million in 2020 compared to a balance of \$58.5 million in 2019 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 \$356.4 million and \$351.5 million for 2020 and 2019, 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 2020 and 2019, 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)

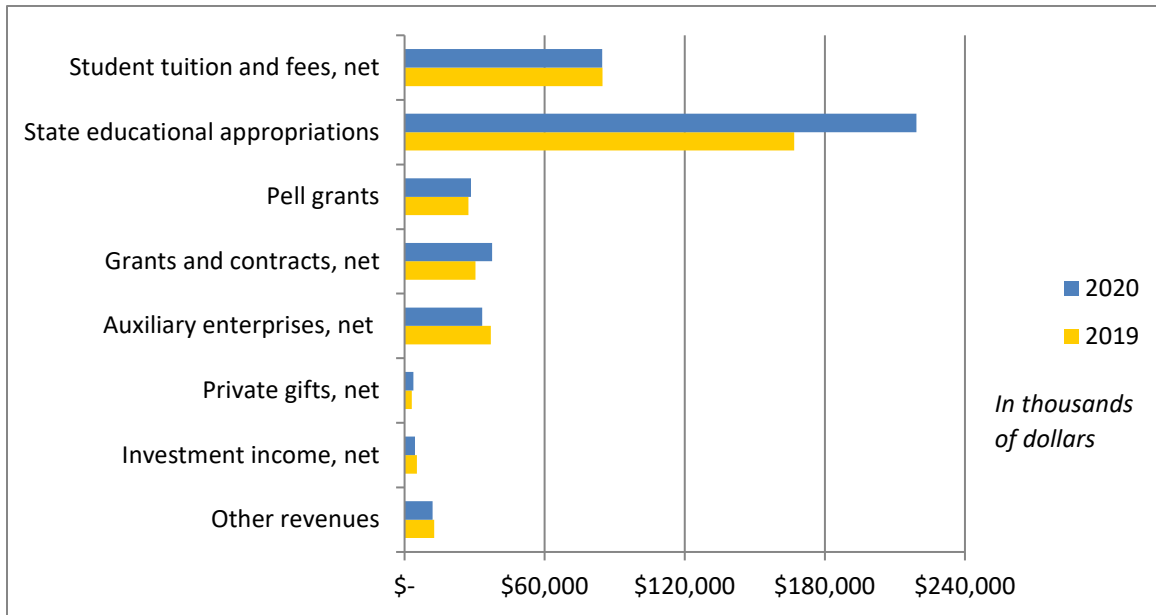
	2020			2019		
	Operating	Nonoperating	Total	Operating	Nonoperating	Total
REVENUES						
Student tuition and fees, net	\$ 84,639		\$ 84,639	\$ 84,783		\$ 84,783
State educational and financing appropriations		\$ 219,264	219,264		\$ 166,837	166,837
Pell grants		28,430	28,430		27,383	27,383
Grants and contracts, net	37,461		37,461	30,350		30,350
Auxiliary enterprises, net	33,236		33,236	36,973		36,973
Private gifts, net		3,816	3,816		3,039	3,039
Investment income, net		4,449	4,449		5,343	5,343
Other revenues	10,374	1,562	11,936	11,170	1,555	12,725
Revenues supporting core activities	165,710	257,521	423,231	163,276	204,157	367,433
EXPENSES						
Salaries and benefits	281,046		281,046	246,625		246,625
Scholarships and fellowships	26,197		26,197	15,967		15,967
Utilities	6,197		6,197	5,108		5,108
Supplies and materials	44,588		44,588	24,258		24,258
Depreciation and amortization	45,504		45,504	35,985		35,985
Interest expense		44,747	44,747		41,478	41,478
Other expenses	54,179	653	54,832	53,267	1,924	55,191
Expenses associated with core activities	457,711	45,400	503,111	381,210	43,402	424,612
Income (loss) from core activities	\$ (292,001)	\$ 212,121	\$ (79,880)	\$ (217,934)	\$ 160,755	\$ (57,179)
OTHER CHANGES IN NET POSITION						
State capital appropriations			-			-
Capital gifts and grants, net			308			(220)
Contributions from the University for building programs			18,692			99,713
Other transfers			24,575			43,130
Increase in net position			(36,305)			85,444
NET POSITION						
Beginning of year, as previously reported			58,534			(26,910)
Cumulative effect of accounting change			-			-
Beginning of year, as restated			58,534			(26,910)
End of year			\$ 22,229			\$ 58,534

Revenues Supporting Core Activities

Revenues to support UC Merced's core activities, including those classified as nonoperating revenues, grew from \$367.4 million in 2019 to \$423.2 million in 2020, an increase of \$55.8 million as compared to an increase of \$32 million in 2019 compared to 2018.

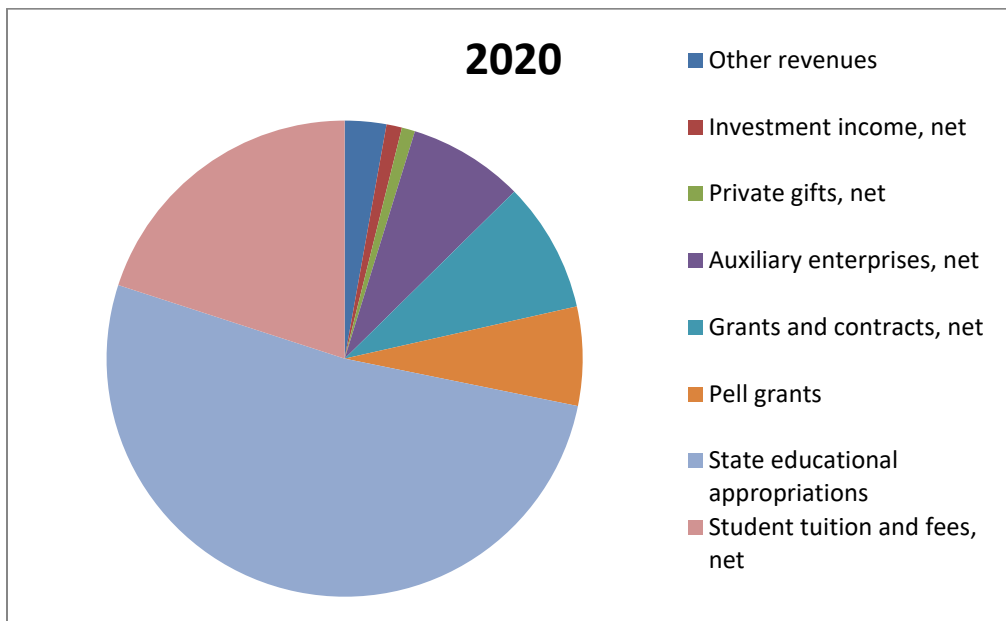
State of California educational and financing appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of the University. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research 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 2020 are as follows:



Student Tuition and Fees revenue, net of scholarship allowances, remains relatively unchanged from the prior year and accounts for 20% and 23% of UC Merced’s revenue for 2020 and 2019, respectively.

(in thousands of dollars)

	2020	2019	Change
Student tuition and fees	\$ 120,789	\$ 116,941	\$ 3,848
Summer sessions	6,886	5,686	1,200
Scholarship allowances	(43,036)	(37,844)	(5,192)
Total student tuition and fees	\$ 84,639	\$ 84,783	\$ (144)

In 2020, student tuition and fees increased by \$3.8 million due to 3.5% growth in student population combined with a per student (graduate and undergraduate) increase in tuition and fees of \$231 (resident) and \$993 (non-resident). Scholarship allowances increased in 2020, comprising 36% of total student tuition and fees. In 2019, student tuition and fees increased by \$7.7 million due to 7.2% growth in student population combined with a per student (graduate and undergraduate) increase in tuition and fees of \$190 (resident) and \$1,168 (non-resident). Scholarship allowances decreased slightly in 2019, comprising 32% of total student tuition and fees.

State educational 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, retirement or other specific operating purposes are reported as operating expenses. Appropriations from the state of California were \$219.3 million and \$166.8 million in 2020 and 2019, respectively, accounting for 52% and 45% of UC Merced’s revenue for 2020 and 2019, respectively. State educational appropriations increased in 2020 by \$52.4 million.

Grants and Contracts, including an overall facilities and administration cost recovery of \$6.9 million and \$5.6 million in 2020 and 2019, respectively are as follows:

(in thousands of dollars)

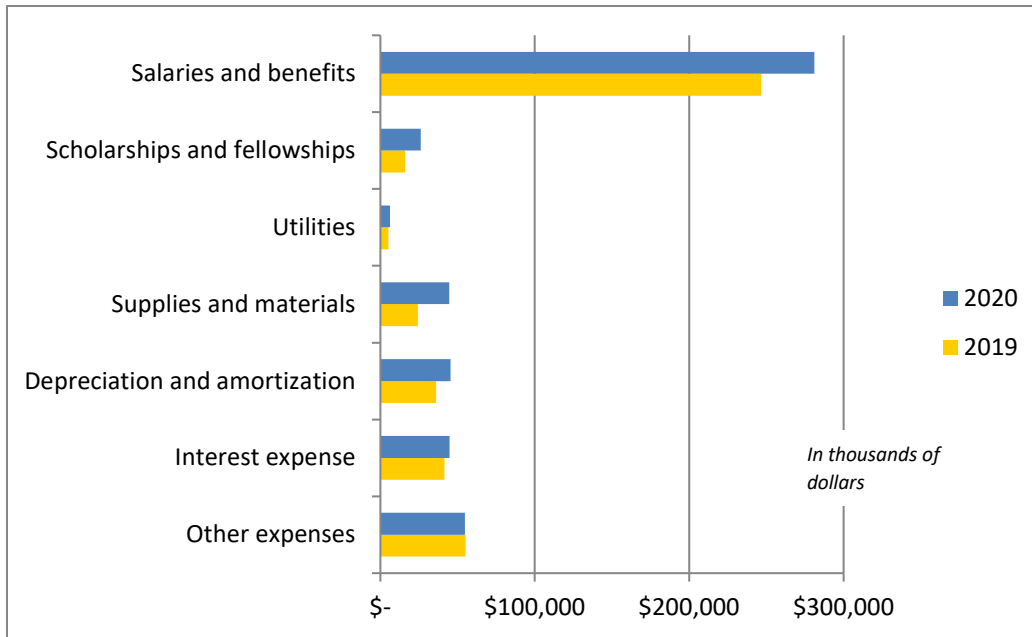
	2020	2019	Change
Federal government	\$ 26,663	\$ 22,100	\$ 4,563
State agencies	5,999	3,785	2,214
Private industries	4,799	4,465	334
Total grants and contracts, net	\$ 37,461	\$ 30,350	\$ 7,111

In 2020, grants and contract revenue increased \$7.1 million primarily due to an increase of \$4.6 million in United States Government grants. In 2019, grants and contract revenue increased \$4.4 million primarily due to an increase of \$2.9 million in United States Government grants.

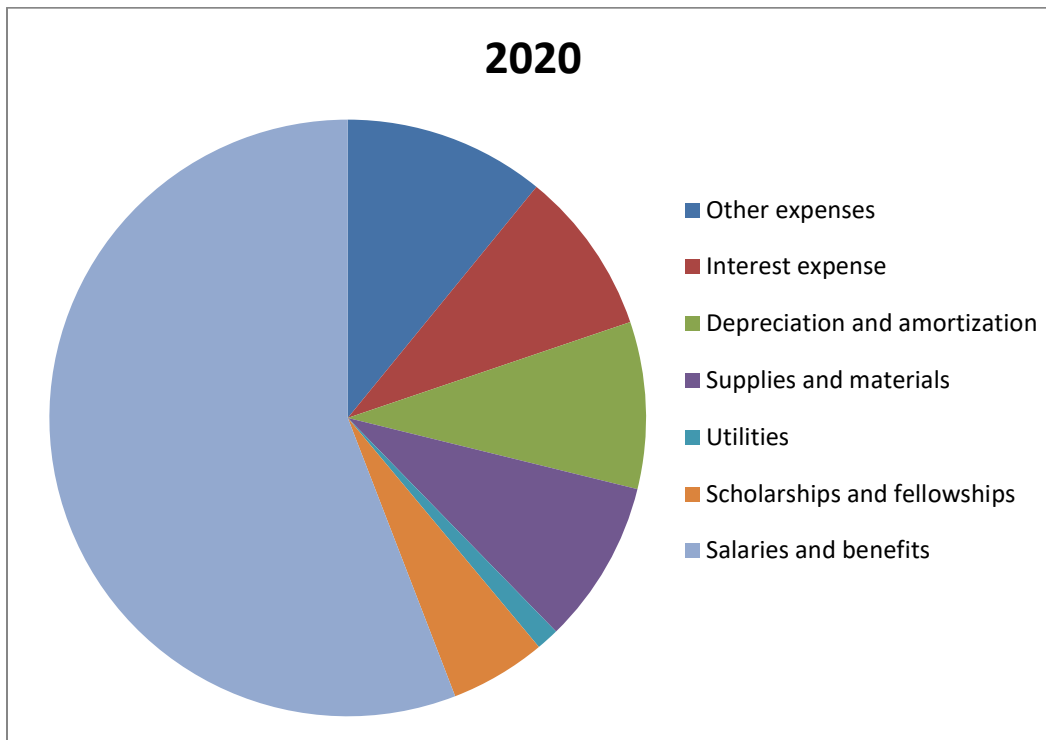
Expenses Associated with Core Activities

Expenses associated with UC Merced’s core activities, including those classified as nonoperating expenses, were \$503.1 million and \$424.6 million in 2020 and 2019, 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, 2020 are as follows:



Salaries and benefits cover approximately 1,993 and 2,010 full-time equivalents (FTE) for fiscal year ended 2020 and 2019, respectively. The number of FTE employees decreased slightly from 2019 to 2020 as compared to the prior fiscal year, where FTE employees increased in number by 19.5% in 2019 when

compared to 2018. 61% and 65% of UC Merced's operating expenses are related to salaries and benefits for 2020 and 2019, respectively.

In 2020, UC Merced's salaries and benefits increased by \$34.4 million when compared to 2019 due to a combination of a \$14.2 million increase in salaries, \$10 million increase in UCRP benefits, \$4.5 million increase in retiree health benefits and a \$5.7 increase in other employee benefits. In 2019, UC Merced's salaries and benefits increased by \$41.5 million when compared to 2018 due to a combination of a \$16.2 million increase in salaries and \$28.4 million increase in UCRP benefits offset by a \$3.1 million decrease in retiree health and other employee benefits.

In 2020, salaries increased by 9.1% as a result of increases in average salary while the overall employee population remained relatively flat when compared to 2019. In 2019, salaries increased 11.5% due to an increase in average salary and an increase in the number of FTE employees.

In 2020, employee benefit expenses increased by \$20.2 million due to a \$10 million increase in pension benefits, \$4.5 million increase in retiree health benefits and a \$5.7 million increase in other employee benefits. The increase in pension benefits was primarily due to an increase in the interest on the total pension liability, an increase in the recognition of beginning of year deferred outflows of resources as pension expense, an increase in the expensed portion of current-period differences between actual and projected earnings on plan investments and an increase in service costs compared to prior year. Retiree health benefits increased due to a change in the GASB prescribed discount rate. The discount rate decreased from 3.50% as of June 30, 2019 to 2.21% as of June 30, 2020. Other employee benefit expense increased due to a higher Composite Benefit Rate assessment in 2020. In 2019, employee benefit expense increased by \$25.3 million primarily due to a \$28.4 million increase in pension benefits offset by a \$2.8 million decrease in retiree health benefits and a slight decrease in other employee benefits such as Social Security, Medicare, and other employer costs. Increase in pension benefits was due to an increase in the expensed portion of current-period changes of assumptions and other inputs compared to prior year as well as recognition of beginning of year deferred inflow and outflow or resources as pension expense. Retiree health benefits decreased due to a lower discount rate in 2019 compared to 2018.

Scholarship and fellowships, represented as payments of financial aid made directly to students, are part of UCM's commitment to affordability. Reported as operating expenses, UC Merced experienced an increase of \$10.2 million and \$1.8 million in 2020 and 2019, respectively.

Scholarship allowances, representing financial aid and fee waivers awarded by UC Merced, were \$58.1 million and \$54.3 million in 2020 and 2019, respectively. On a combined basis, as UC Merced continues its commitment to provide financial support for needy students, financial aid in all forms totaled \$84.3 million in 2020. Scholarship allowances increased in 2019 compared to 2018 while direct financial aid payments to students decreased resulting in no change in total aid from 2018 to 2019. 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 increased \$31.9 million in 2020, primarily due to the increase in supplies and materials expense and an

increase in depreciation. Supplies and materials expense increased due to the capital expansion and new structures related to the 2020 Project. Similarly, the increase in depreciation is primarily on campus buildings and structures related to the Project 2020 campus expansion.

In 2019, other operating expenses increased by \$8.6 million, primarily due an increase in depreciation expense on campus buildings and structures related to the Project 2020 campus expansion and an increase in outside purchased services related to Project 2020 building maintenance and financial software implementation services.

Operating Losses

In accordance with the GASB's reporting standards, operating losses were \$292 million and \$217.9 million in 2020 and 2019, respectively. The operating losses in 2020 and 2019 were partially offset by \$212.1 million and \$160.8 million, respectively of nonoperating income that supports the core operating activities of UC Merced. Expenses associated with core activities in 2020 and 2019 exceeded revenue available to support core activities by \$79.9 million and \$57.2 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 specified capital assets. Income earned from gifts of permanent endowments is only available in future years to support the program specified by the endowment. 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, UC Merced is a newer campus meeting safety regulations and most modern needs and as a result 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 \$23.7 million toward meeting UC Merced's mission over the last thirteen years through grants made to UC Merced. More recently, during the years ended June 30, 2020 and 2019, gifts of \$2.9 million and \$2.1 million, respectively were transferred to UC Merced from the UC Merced Foundation. In 2020 and 2019, the Foundation's net position was \$19.0 million and \$15.4 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 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 2019 and 2018 are as follows:

(in thousands of dollars)

	2020	2019
ASSETS		
Investments	\$ 14,288	\$ 13,694
Beneficial interest in split interest agreements	582	565
Pledges receivable, net	144	341
Other assets	4,568	1,335
Total assets	19,582	15,935
LIABILITIES		
Accounts payable and other liabilities	7	13
Total liabilities	7	13
DEFERRED INFLOWS OF RESOURCES		
Third party split interest agreements	582	565
NET POSITION		
Restricted:		
Nonexpendable	13,453	9,703
Expendable	5,297	5,575
Unrestricted	243	79
Total net position	\$ 18,993	\$ 15,357

In 2020, the increase in assets from prior year is attributable to the combination of strong investment performance in the equity markets and new endowments gifts. 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 2020 and 2019 is as follows:

(in thousands of dollars)

	2020	2019
Operating revenues		
Private gifts and other revenues	\$ 2,051	\$ 2,202
Total operating revenues	2,051	2,202
Operating expenses		
Grants to campuses and other expenses	2,909	2,140
Total operating expenses	2,909	2,140
Operating income (loss)	(858)	62
NONOPERATING REVENUES (EXPENSES)		
Investment income	59	70
Net appreciation (depreciation) in fair value of investments	609	931
Income (loss) before other changes in net position	(190)	1,063
OTHER CHANGES IN NET POSITION		
Permanent endowments	3,826	1,309
Increase (decrease) in net position	3,636	2,372
NET POSITION		
Beginning of year	15,357	12,985
End of year	\$18,993	\$ 15,357

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 2020, the Foundation saw a slight decrease in current gift giving as compared to the prior year where the Foundation saw a significant increase in gift giving, both in the number of gifts received and the average dollar amount of gifts.

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 to current gifts, include endowment investment income, which is 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, 2020 and 2019.

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
Interim AVC/Controller – Business and Financial Services

University of California, Merced
STATEMENTS OF NET POSITION
At June 30, 2020 and 2019 (in thousands of dollars)

	UC Merced		Foundation	
	2020	2019	2020	2019
Assets				
Cash and cash equivalents	\$ 59,988	\$ 33,545	\$ -	\$ 5
Accounts receivable, net	17,142	15,510		
Pledges receivable, net	-	150	127	254
Inventories	219	849		
Other current assets	(35)	63	4,568	1,330
Current assets	77,314	50,117	4,695	1,589
Investments	119,219	113,394	14,288	13,694
Investments held by trustees	85,763	157,460		
Beneficial interest in split interest agreements			582	565
Pledges receivable, net	-	49	17	87
Notes receivable	2,152	1,506		
Capital assets, net	1,885,283	1,659,910		
Other noncurrent assets	307	116		
Noncurrent assets	2,092,724	1,932,435	14,887	14,346
Total assets	2,170,038	1,982,552	19,582	15,935
Deferred outflows of resources	157,092	124,374		
Liabilities				
Accounts payable	14,621	28,433	-	1
Accrued salaries	172	173		
Employee benefits	3	3		
Unearned revenue	7,022	4,276	7	12
Commercial paper	86,876	958		
Current portion of long-term debt	134,855	101,191		
Funds held for others	4,650	1,546		
Other current liabilities	11,132	7,989		
Current liabilities	259,331	144,569	7	13
Long-term debt	1,565,314	1,501,041		
Pension and other postretirement benefits	404,089	331,695		
Other noncurrent liabilities	5,774	4,419		
Total Noncurrent Liabilities	1,975,177	1,837,155	-	-
Total Liabilities	2,234,508	1,981,724	7	13
Deferred inflows of resources	70,393	66,668	582	565
Net position				
Invested in capital assets net of related debt	200,779	233,026		
Restricted:				
Nonexpendable:				
Endowments and gifts	16,881	16,869	13,453	9,703
Expendable:				
Endowments and gifts	37,960	36,278	5,297	5,575
Other	4,697	7,225		
Unrestricted	(238,088)	(234,864)	243	79
Total net position	\$ 22,229	\$ 58,534	\$ 18,993	\$ 15,357

See Accompanying Notes to Financial Statements

University of California, Merced

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

As of for the year then ended June 30, 2020 and 2019 *(in thousands of dollars)*

	UC Merced		Foundation	
	2020	2019	2020	2019
OPERATING REVENUES				
Student tuition and fees, net	\$ 84,639	\$ 84,783		
Grants and contracts, net				
Federal	26,663	22,100		
State	5,999	3,785		
Private and local	4,799	4,465		
Auxiliary enterprises, net	33,236	36,973		
Campus foundation private gifts			\$ 2,043	\$ 2,078
Other operating revenues, net	10,374	11,170	8	124
Total operating revenues	<u>165,710</u>	<u>163,276</u>	<u>2,051</u>	<u>2,202</u>
OPERATING EXPENSES				
Salaries and wages	170,872	156,619		
UCRP benefits	51,139	41,180		
Retiree health benefits	15,914	11,390		
Other employee benefits	43,121	37,436		
Supplies and materials	44,588	24,258		
Depreciation and amortization	45,504	35,985		
Scholarships and fellowships	26,197	15,967		
Utilities	6,197	5,108		
Campus foundation grants			2,883	2,111
Other operating expenses	54,179	53,267	26	29
Total operating expenses	<u>457,711</u>	<u>381,210</u>	<u>2,909</u>	<u>2,140</u>
Total operating loss	<u>(292,001)</u>	<u>(217,934)</u>	<u>(858)</u>	<u>62</u>
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	206,801	166,837		
State financing appropriations	12,463	-		
Federal financing appropriations	1,562	1,555		
Federal pell grants	28,430	27,383		
Private gifts, net	3,816	3,039		
Investment income:				
Short Term Investment Pool and other, net	2,293	3,354		
Endowment, net	2,156	1,989		
Campus foundations			59	70
Net appreciation (depreciation) in fair value of investments			609	931
Interest expense	(44,747)	(41,478)		
Loss on disposal of capital assets	(556)	(1,867)		
Other nonoperating (expenses) revenues, net	(97)	(57)		
Net nonoperating revenues	<u>212,121</u>	<u>160,755</u>	<u>668</u>	<u>1,001</u>
Loss before other changes in net position	<u>(79,880)</u>	<u>(57,179)</u>	<u>(190)</u>	<u>1,063</u>
OTHER CHANGES IN NET POSITION				
State capital appropriations				
Capital gifts and grants, net	308	(220)		
Permanent endowments			3,826	1,309
Contributions from the University for the building program	18,692	99,713		
Other transfers	24,575	43,130		
Increase (decrease) in net position	<u>(36,305)</u>	<u>85,444</u>	<u>3,636</u>	<u>2,372</u>
NET POSITION				
Beginning of year, as previously reported	58,534	(26,910)	15,357	12,985
Cumulative effect of accounting change				
Beginning of year, as restated	58,534	(26,910)	15,357	12,985
End of Year	<u>\$ 22,229</u>	<u>\$ 58,534</u>	<u>\$ 18,993</u>	<u>\$ 15,357</u>

See Accompanying Notes to Financial Statements

University of California, Merced
STATEMENTS OF CASH FLOWS
As of for the year then ended June 30, 2020 and 2019 *(in thousands of dollars)*

	UC Merced		Foundation	
	2020	2019	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	\$ 84,937	\$ 84,172		
Grants and contracts	37,076	27,208		
Auxiliary enterprises	33,132	36,929		
Campus foundation private gifts			\$ 2,237	\$ 2,043
Payments to employees	(167,656)	(152,389)		
Payments to suppliers and utilities	(103,870)	(101,717)		
Payments to UCRP	(978)	(597)		
Payments for retiree health benefits	-	-		
Payments for other employee benefits	(67,944)	(60,953)		
Payments for scholarships and fellowships	(26,197)	(15,967)		
Loans issued to students	(646)	(667)		
Payments to campuses and beneficiaries			(2,882)	(2,111)
Other receipts (payments), net	23,464	(11,223)	(21)	97
Net cash used by operating activities	(188,682)	(195,204)	(666)	29
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	196,291	156,490		
Federal pell grants	28,454	27,382		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes			3,826	1,309
Other private gifts	4,015	3,287		
Student direct lending receipts	28,088	28,261		
Student direct lending payments	(28,088)	(28,261)		
Scheduled principal paid on debt	-	-		
Interest paid on debt	-	-		
Other receipts (payments), net	13,186	471		
Net cash provided by noncapital financing activities	241,946	187,630	3,826	1,309
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
State capital appropriations		-		
Federal financing appropriations	1,561	1,555		
Proceeds from debt issuance	3,872	3,900		
Proceeds from the Sale of Capital Assets	103	-		
Purchases of capital assets	(139,819)	(236,587)		
Scheduled principal paid on debt & capital leases	(26,516)	(14,934)		
Interest paid on debt and capital leases	(33,231)	(37,652)		
Commercial paper financing:				
Proceeds from Issuance	86,184	219		
Payments of Principal	(266)	(1,941)		
Interest Paid	-	-		
Other receipts (payments), net	73,738	258,327		
Net cash used by capital and related financing activities	(34,374)	(27,113)	-	-
Cash Flows from Investing Activities				
Proceeds from sale & maturities of investments	3,104	-	2,472	1,345
Purchase of investments			(5,696)	(2,753)
Investment income, net of investment expenses	4,449	5,343	59	70
Net cash provided by investing activities	7,553	5,343	(3,165)	(1,338)
Net increase (decrease) in cash and cash equivalents	26,443	(29,344)	(5)	-
Cash and cash equivalents, beginning of year	33,545	62,889	5	5
Cash and cash equivalents, end of year	\$ 59,988	\$ 33,545	\$ -	\$ 5

See Accompanying Notes to 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) are appointed by the governor and approved by the state Senate. Various University programs and capital outlay projects are funded through appropriations from the state’s annual Budget Act. The University’s financial statements are discretely presented in the state’s general purpose financial statements as a component unit.

Financial Reporting Entity

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

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

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

Significant Accounting Policies

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

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. The Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result,

interest costs would no longer be capitalized as part of the asset's historical cost upon implementation of this new standard. The University implemented this standard as of July 1, 2019.

In August 2018, the GASB issued Statement No. 90, Majority Equity Interests — An Amendment of GASB Statements No. 14 and No. 61 and this change was implemented as of 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. Implementation of Statement No. 90 had no impact on the financial statements.

In March 2020, the GASB issued Statement No. 93, Replacement of Interbank Offered Rates, and this standard was implemented by the University as of July 1, 2018. The Statement establishes reporting requirements related to the replacement of Interbank Offered Rates. Under this standard, the University is permitted to continued hedge accounting for interest rate swaps when the terms of the swaps are modified to replace the London Interbank Offered Rate (LIBOR) as the reference rate as long as certain criteria are met. Implementation of Statement No. 93 had no impact on the 2019 financial statements.

The significant accounting policies of UC Merced are as follows:

Cash and cash equivalents. UC Merced and the Foundation 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 for the General Endowment Pool (GEP). The allowable range for the portfolio as of June 30, 2020 is 25.6% to 58.1% public equity, 1.9% to 19.4% liquidity (income), 2.1% to 24.6% private equity, 11.8% to 28.8% absolute return and 2.7% to 15.5% real assets. 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, 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.

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, 2020 and 2019 as follows:

(in thousands of dollars)

	2020	2019
Student tuition and fees	\$ 43,036	\$ 37,844
Auxiliary enterprises	14,931	16,325
Other operating revenues	165	154
Scholarship allowances	\$ 58,132	\$ 54,323

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, 2020 the facilities and administrative cost recovery totaled \$6,853, which consisted of \$5,287 from federally sponsored programs, \$731 from state sponsored programs and \$835 from private sponsors. For the year ended June 30, 2019 the facilities and administrative cost recovery totaled \$5,628, which consisted of \$4,483 from federally sponsored programs, \$489 from state sponsored programs and \$656 from private sponsors.

Retiree health benefits and liability. On July 1, 2007, the University of California Retiree Health Benefit Trust ("UCRHBT") was created. The UCRHBT was established to allow certain University locations and affiliates (primarily Campuses, Medical Centers, and Hastings) that share the risks, rewards, and costs of providing for retiree health benefits to fund such benefits on a cost-sharing basis and accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. Currently, the University does not pre-fund retiree health benefits and instead provides for benefits on a pay-as-you-go basis. If pre-funding occurs in the future, the UCRHBT will be used as the vehicle for those assets.

Net retiree health benefits liability includes UC Merced's proportionate share of the University's net retiree health benefits liability. 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.

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 January 2017, the GASB issued Statement No. 84, Fiduciary Activities, effective for the University's fiscal year beginning July 1, 2020. 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 an equivalent arrangement that meets specific criteria. The University is evaluating the effect Statement No. 84 will have on its financial statements.

In June 2017, the GASB issued Statement No. 87, Leases, effective for the University's fiscal year beginning July 1, 2021. 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. The University is evaluating the effect Statement No. 87 will have on its financial statements.

In May 2019, the GASB issued Statement No. 91, Conduit Debt Obligations, effective for the University's fiscal year beginning July 1, 2022. The Statement defines a conduit debt obligation and clarifies the accounting and financial reporting for conduit debt obligations with additional or voluntary commitments by issuers. The University is evaluating the effect that Statement No. 91 will have on its financial statements.

In January 2020, the GASB issued Statement No. 92, Omnibus 2020, effective for the University's fiscal year beginning July 1, 2021. The Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The University is evaluating the effect that Statement No. 92 will have on its financial statements.

In March 2020, the GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, effective for the University's fiscal year beginning July 1, 2022. The Statement provides guidance for financial reporting for public-private and public-public partnership arrangements and availability payment arrangements. The University is evaluating the effect that Statement No. 94 will have on its financial statements.

In May 2020, the GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements, effective for the University's fiscal year beginning July 1, 2023. The Statement requires for these arrangements to be recorded as a right-to-use intangible asset and a corresponding subscription liability. The University is evaluating the effect that Statement No. 96 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, 2020, and 2019, consist of the following:

(in thousands of dollars)

	UC Merced		UC Merced Foundation	
	2020	2019	2020	2019
Checking accounts	\$ 489	\$ 141	\$ -	\$ 5
University of California Managed Short Term				
Investment Pool (STIP)	59,499	33,404	-	-
Total cash and cash equivalents	\$ 59,988	\$ 33,545	\$ -	\$ 5

The checking accounts at June 30, 2020 and 2019 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 primarily invests in high quality, liquid, short duration US dollar-denominated bills, notes and cash equivalents. 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 Foundation 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	
	2020	2019	2020	2019
Under management of The Regents of University of California (not subject to categorization)				
General endowment pool (GEP)	\$ 47,807	\$ 41,780	\$ 14,288	\$ 13,694
Total Return Investment Pool (TRIP)	71,412	71,614	-	-
Total investments	\$ 119,219	\$ 113,394	\$ 14,288	\$ 13,694

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 U.S. Aggregate Bond Index, comprised of 25.1 percent corporate bonds and 29.7 percent mortgage/asset-backed bonds, all of which carry some degree of credit risk. The remaining 45.2 percent is government issued bonds.

Credit risk in TRIP and GEP is managed primarily by diversifying across issuers. The University monitors and reviews their exposures on an ongoing basis and will maintain a high quality portfolio within the investment guidelines set forth by the Office of the Chief Investment Officer.

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.

Substantially all of the University's and campus foundations' securities are registered in the University's name by the custodial bank as an agent for the University. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk for such investments is remote.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments.

The U.S. and non-U.S. equity portions of the University portfolios may be managed either passively or actively. For the portions managed passively, the concentration of individual securities is similar to their concentration in the benchmark. While some securities have a larger representation in the benchmark than others, the University considers passive management results in an absence of concentration of credit risk. For the portions managed actively, asset class guidelines do not specifically address concentration risk, but do state that the equity asset class, in the aggregate, will be appropriately diversified to control overall risk and will exhibit portfolio characteristics similar to the asset class benchmark (including concentration of credit risk). Concentration risk for individual portfolios is monitored relative to their individual benchmarks and agreed-upon risk parameters in their guidelines.

At June 30, 2020 and 2019, no single issuer comprised more than five percent of investments held by the University.

Interest rate risk

Interest rate risk is the risk that the 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.

Interest rate risk for STIP is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio as it is managed relative to the liquidity demands of the investors. The nature and maturity of individual

securities in STIP allow for the use of weighted average maturity as an effective risk management tool, rather than the more complex measure, effective duration.

The portfolio guidelines constrain the potential price movement due to interest rate changes of the portfolio being similar to that of the benchmark. There are similar restrictions for the high-yield and emerging market debt portfolios relative to their benchmarks.

The University considers the effective durations for commercial paper, mortgage loans, insurance contracts and money market funds to be zero. The terms of the mortgage loans include variable interest rates. Insurance contracts can be liquidated without loss of principal and money market funds consist of underlying securities that are of a short-term, liquid nature.

Investments also include various mortgage-backed securities, collateralized mortgage obligations, structured notes, variable-rate securities and callable bonds that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features. The effective durations of these securities, however, may be low.

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. The benchmarks for these investments are not hedged; therefore foreign currency risk is part of the investment strategy. Portfolio guidelines for U.S. investment-grade fixed-income securities also allow exposure to non-U.S. dollar-denominated bonds up to 10 percent of the total portfolio market value. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency exchange contracts. Under the University's investment policies, such instruments are not permitted for speculative use or to create leverage. Similar limits on foreign exchange exposure apply to the high-yield debt and emerging market debt portfolios.

More detail about the University of California's investments can be found in the 2019–2020 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, 2020 and 2019, 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, 2020 and 2019 are as follows:

(in thousands of dollars)

	UC Merced			UC Merced Foundation
	State and Federal Government	Other	Total	
<i>At June 30, 2020</i>				
Accounts receivable	\$ 12,051	\$ 5,883	\$ 17,934	\$ -
Allowance for uncollectible amounts	(280)	(512)	(792)	-
Accounts receivable, net	\$ 11,771	\$ 5,371	\$ 17,142	\$ -
<i>At June 30, 2019</i>				
Accounts receivable	\$ 11,068	\$ 5,142	\$ 16,210	\$ -
Allowance for uncollectible amounts	(334)	(366)	(700)	-
Accounts receivable, net	\$ 10,734	\$ 4,776	\$ 15,510	\$ -

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, 2020 and 2019 is summarized as follows:

(in thousands of dollars)

	UC Merced		UC Merced Foundation	
	2020	2019	2020	2019
Total pledges receivable outstanding	\$ 315	\$ 515	\$ 341	\$ 540
Less: Unamortized discount to present value	-	(1)	(1)	(3)
Allowance for uncollectible pledges	(315)	(315)	(196)	(196)
Total pledges receivable, net	-	199	144	341
Less: Current portion of pledges receivable	-	(150)	(127)	(254)
Noncurrent portion of pledges receivable	\$ -	\$ 49	\$ 17	\$ 87

Payments of pledges receivable for the fiscal years subsequent to June 30, 2020 and thereafter are as follows:

(in thousands of dollars)

	UC Merced	UC Merced Foundation
<i>Year Ending June 30</i>		
2021	315	324
2022		12
2023		5
2024		
2025		
2026-2028		
Total payments on pledges receivable	\$ 315	\$ 341

6. Capital Assets

The campus' capital asset activity for the years ended June 30, 2020 and 2019 is as follows:

(in thousands of dollars)

	2018	Additions	Disposals	2019	Additions	Disposals	2020
Original Cost							
Land	\$ 40,076			\$ 40,076		\$ (275)	\$ 39,801
Infrastructure	37,414	51,273		88,687	32,944		121,631
Buildings and improvements	700,259	401,228		1,101,487	828,044		1,929,531
Equipment, software and intangibles	75,861	7,286	\$ (7,149)	75,998	7,090	\$ (2,744)	80,344
Libraries and collections	22,237	1,470		23,707	1,785		25,492
Special collections	132			132	235		367
Construction in progress	601,891	27,400		629,291	(598,540)		30,751
Capital assets, at original cost	\$ 1,477,870	\$ 488,657	\$ (7,149)	\$ 1,959,378	\$ 271,558	\$ (3,019)	\$ 2,227,917

	2018	Depreciation and Amortization		2019	Depreciation and Amortization		2020
		Amortization	Disposals		Amortization	Disposals	
Accumulated depreciation and amortization							
Infrastructure	\$ 15,746	\$ 2,326		\$ 18,072	\$ 3,535		\$ 21,607
Buildings and improvements	198,854	25,589	(137)	224,306	34,612		258,918
Equipment, software and intangibles	44,910	6,588	\$ (5,144)	46,354	5,776	\$ (2,337)	49,793
Libraries and collections	9,254	1,482		10,736	1,580		12,316
Accumulated depreciation and amortization	\$ 268,764	\$ 35,985	\$ (5,281)	\$ 299,468	\$ 45,503	\$ (2,337)	\$ 342,634
Capital assets, net	\$ 1,209,106			\$ 1,659,910			\$ 1,885,283

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, 2020 and 2019 is as follows:

(in thousands of dollars)

	2020	2019
Interim Financing:		
Commercial paper	\$ 86,876	\$ 958
Long-term Financing:		
University of California General Revenue Bonds	1,035,684	1,050,704
Note payables to UCOP	5,507	5,949
Other borrowings	658,978	545,579
Total outstanding debt	1,787,045	1,603,190
Less: Commercial paper	(86,876)	(958)
Current portion of outstanding debt	(134,855)	(101,191)
Noncurrent portion of outstanding debt	\$ 1,565,314	\$ 1,501,041

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

Additional information on the University of California's debt can be found in the 2019–2020 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, 2020 and 2019 are as follows:

(in thousands of dollars)

	UC Merced		UC Merced Foundation	
	2020	2019	2020	2019
Restricted				
Endowments and gifts	\$ 16,881	\$ 16,869	\$ 13,453	\$ 9,703
Nonexpendable	16,881	16,869	13,453	9,703
Endowments	20,246	19,706	4,348	4,078
Funds functioning as endowments	9,287	9,202	-	-
Gifts	8,427	7,370	949	1,497
Expendable	37,960	36,278	5,297	5,575
Unrestricted	8,575	2,918	243	79
University endowments and gifts	\$ 63,416	\$ 56,065	\$ 18,993	\$ 15,357

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 \$1,849 and \$1,683 for the years ended June 30, 2020 and 2019, respectively.

9. Operating Expenses by Function

Operating expenses, by functional classification, for fiscal years ended June 30, 2020 and 2019, are as follows:

<i>(in thousands of dollars)</i>	2020	2019
Instruction	\$ 94,875	\$ 84,365
Research	38,142	36,591
Public service	9,421	8,170
Academic support	32,051	29,115
Student services	33,619	33,644
Institutional support	79,198	69,035
Operation and maintenance of plant	28,457	22,652
Student financial aid	26,202	15,967
Auxiliary enterprises	39,599	40,648
Depreciation and amortization	45,504	35,985
Other	30,643	5,038
Total	\$ 457,711	\$ 381,210

10. Deferred Outflows and Inflows of Resources

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

(in thousands of dollars)

	Net Pension Liability	Net Retiree Health Benefits Liability	Debt Refunding	Total
<i>At June 30, 2020</i>				
Deferred outflows of resources	\$ 65,259	\$ 75,052	\$ 16,781	\$ 157,092
Deferred inflows of resources	3,269	67,124		70,393
<i>At June 30, 2019</i>				
Deferred outflows of resources	\$ 60,682	\$ 44,763	\$ 18,929	\$ 124,374
Deferred inflows of resources	2,278	64,390		66,668

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 2019-2020 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. For the fiscal year 2019-2020, the assessed rate per \$100 of retirement covered payroll is \$2.60 (decreased from \$2.70 for FY 2018-2019).

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>	2020	2019
Proportion of the net obligation	0.92%	0.90%
Proportionate share of the net obligation	\$ 212,020	\$ 172,620

UC Merced’s net retiree health benefits liability was measured as of June 30, 2020 and 2019 and was calculated in accordance with the guidelines set forth in GASB No. 74 and GASB No. 75. 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:

	2020	2019
Discount Rate	2.2%	3.5%
Inflation	2.5%	2.5%
Investment rate of return	2.5%	2.5%
Health care cost trend rates	Initially ranges from 2.7 to 9.0 decreasing to an ultimate rate of 4.04 for 2076 and later years	Initially ranges from 4.4 to 9.4 decreasing to an ultimate rate of 4.04 for 2077 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 for the June 30, 2020 actuarial report are based upon the results of an experience study for the four-year period ending June 30, 2018.

For pre-retirement mortality rates, the Pub-2010 Teacher Employee Headcount-Weighted Above-Median Mortality Table, projected generationally with the two-dimensional mortality improvement scale MP-2018 was used.

For post-retirement, healthy mortality rates are based on the Pub-2010 Healthy Teacher Retiree Headcount-Weighted Above-Median Mortality Table, projected generationally with the two-dimensional mortality improvement scale MP-2018. Base Mortality Tables are adjusted as follows. Faculty: 90% for Males and Females. Staff and Safety: 115% for Males and 110% for Females.

For Spouses/Domestic Partners, rates are based on the Pub-2010 Contingent Survivor Headcount-Weighted Above-Median Mortality Table, projected generationally with the two-dimensional mortality improvement scale MP-2018.

For disabled members, rates are based on the Pub-2010 Non-Safety Disabled Retiree Headcount-Weighted Mortality Table, projected generationally with the two-dimensional mortality improvement scale MP-2018.

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

The following presents the June 30, 2020 net retiree health benefits liability of UC Merced calculated using the June 30, 2020 health care cost trend rate assumption with initial trend ranging from 2.7 percent to 9.00 percent grading down to an ultimate trend of 4.04 percent over 57 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:

(in thousands of dollars)

	1% Decrease (1.7% to 8.0% Decreasing to 3.04%)	Current Discount (2.7% to 9.0% Decreasing to 4.04%)	1% Increase (3.7% - 10.0% Decreasing to 5.04%)
UC Merced	\$ 171,783	\$ 212,020	\$ 266,384

Discount Rate

The discount rate used to estimate the net retiree health benefits liability as of June 30, 2020 and 2019 was 2.21 percent and 3.50 percent, respectively. Since the University’s retiree health benefits are effectively funded on a pay-as-you-go cash cost basis, plan assets at the beginning of each year will always be insufficient to meet the projected benefit payments. As prescribed by GASB No. 75, the discount rate will be based on the index rate for 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of the measurement date. The University of California elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index.

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

The following presents the June 30, 2020 net retiree health benefits liability of UC Merced calculated using the June 30, 2020 discount rate assumption of 2.21 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 (1.21%)	Current Discount (2.21%)	1% Increase (3.21%)
UC Merced	\$ 256,969	\$ 212,020	\$ 177,065

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:

<i>(in thousands of dollars)</i>	2020	2019
Deferred Outflows of Resources		
Changes between expected and actual experience	\$ 497	\$ 579
Changes of assumptions or other inputs	62,104	33,577
Net difference between projected and actual earnings on plan investments	29	29
Change in proportion and differences between employer contributions and proportionate share	12,422	10,578
Total	\$ 75,052	\$ 44,763
Deferred Inflows of Resources		
Difference between expected and actual experience	\$ 34,674	\$ 26,635
Changes of assumptions or other inputs	21,410	24,929
Net difference between projected and actual earnings on pension plan investments	11,040	12,826
Total	\$ 67,124	\$ 64,390

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>	
2021	\$ 1,283
2022	1,280
2023	1,276
2024	192
2025	(1,395)
Thereafter	5,292
Total	\$ 7,928

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 2018-2019 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. For the year ended June 30, 2020, the University paid a contribution rate of 18.72 percent of covered payroll on behalf of all UCRP members.

Employee contributions to UCRP are accounted for separately and currently accrue interest 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, 2020 and 2019 are as follows:

<i>(in thousands of dollars)</i>	2020	2019
UC Merced	\$ 17,020	\$ 15,543
Employees	8,795	8,157
Total	\$ 25,815	\$ 23,700

Net Pension Liability. UC Merced’s proportionate share of the net pension liability for UCRP as of June 30, 2020 and 2019 is as follows:

<i>(in thousands of dollars)</i>	2020	2019
Proportion of the net pension liability	0.9%	0.9%
Proportionate share of net pension liability	\$ 192,069	\$ 159,075

UC Merced’s net pension liability was measured as of June 30, 2020. Plan fiduciary net position (plan assets) was valued as of the measurement date while the total pension liability was determined based on a roll forward from the July 1, 2019 actuarial valuation. Following the results of the July 1, 2019 actuarial valuation, the University provided revised payroll information for the actuarial evaluation as

well as some additional records to be included as active members as of July 1, 2019. This revised data has been reflected in this GASB 67 and 68 valuation along with adjustments made for a small group of continuing active multi-tier members who had an unexpected decrease in service. 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:

	2020	2019
Inflation	2.5%	2.5%
Investment rate of return	6.75%	6.75%
Projected salary increases	3.65 - 5.95%	3.65 - 5.95%
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. Pension liability as of June 30, 2020 was measured by an actuarial valuation as of July 1, 2019 using the same actuarial assumptions as those used in the July 1, 2020 funding valuation. They are based on the results of an experience study for the period July 1, 2014 through June 30, 2018, with the exception of the investment return assumption, inflation assumption, and various salary assumptions which were approved by the Regents. For active and inactive members, mortality rates are based on the Pub-2010 Teacher Employee Amount-Weighted Above-Median Mortality Table, projected generationally with the two-dimensional mortality improvement scale MP-2018. For healthy Faculty retirees, mortality rates are based on the Pub-2010 Healthy Teacher Amount-Weighted Above-Median Mortality Table multiplied by 90% for males and 95% for females, projected generationally with the two-dimensional mortality improvement scale MP-2018. For healthy Staff & Safety retirees, mortality rates are based on the Pub-2010 Healthy Teacher Amount-Weighted Above-Median Mortality Table multiplied by 100% for males and 110% for females, projected generationally with the two-dimensional mortality improvement scale MP-2018.

The long-term expected investment rate of return for UCRP was determined using 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 investment 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 as of June 30, 2020 are summarized in the following table:

<i>Asset Class</i>	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	27.6%	5.60%
Developed International Equity	16.8%	6.53%
Emerging Market Equity	5.6%	8.62%
Core Bonds	13.0%	1.46%
High Yield Bonds	2.5%	3.65%
TIPS	2.0%	1.18%
Emerging Market Debt	2.5%	3.91%
Private Equity	10.0%	9.17%
Private Real Estate	7.0%	6.60%
Absolute Return	10.0%	3.30%
Real Assets	3.0%	5.60%
Total	100.0%	5.4%

Discount Rate. The discount rate used to measure the pension liability was 6.75% as of June 30, 2020. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those approved by the Regents as detailed on pages 81 and 82 of the July 1, 2019 UCRP Actuarial Valuation Report. For future members eligible for the UCRP 2016 Tier, 65% are assumed to elect UCRP's 2016 Tier with the remaining 35% assumed to elect the defined contribution plan. Employer contributions towards UCRP's UAAL on behalf of future members that elect the defined contribution plan have also been included. For purposes of the projection, only employee and employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. The projections also include STIP transfers of \$600 million in 2020-21 and \$700 million in 2021-22. Based on those assumptions, the plan fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments of 6.75% was applied to all periods of projected benefit payments to determine the pension liability as of June 30, 2020.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption. The following presents the June 30, 2020 net pension liability of UC Merced calculated using the June 30, 2020 discount rate assumption of 6.75 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 (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
UC Merced	\$ 299,793	\$ 192,069	\$ 103,434

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)

	2020	2019
Deferred Outflows of Resources		
Changes in proportion and differences between location's contributions and proportionate share of contributions	\$ 3,222	\$ 2,978
Changes of assumptions or other inputs	39,447	53,532
Net difference between projected and actual earnings on pension plan investments	19,673	-
Difference between expected and actual experience in the Total Pension Liability	2,917	4,172
Total	\$ 65,259	\$ 60,682
Deferred Inflows of Resources		
Changes in proportion and differences between location's contributions and proportionate share of contributions	\$ 1,101	\$ 1,180
Changes of assumptions or other inputs	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,028
Difference between expected and actual experience in the Total Pension Liability	2,168	70
Total	\$ 3,269	\$ 2,278

Deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the year ending June 30, 2020 as follows:

(in thousands of dollars)

2021	\$ 15,365
2022	21,556
2023	19,475
2024	5,594
Total	\$ 61,990

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 \$23,888 and \$17,220 at June 30, 2020 and 2019, respectively.

UC Merced leases buildings and equipment under agreements recorded as operating leases. The terms of operating leases extend through June 2024. Operating lease expenses, net of income from subleases, for the years ended June 30, 2020 and 2019 were \$1.54 million and \$(.68) million, respectively.

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

(in thousands of dollars)

	Minimum Annual Lease Payments	
<i>Year Ending June 30</i>		
2021	\$	6,358
2022		6,634
2023		6,923
2024		7,100
Total	\$	27,015

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.

Risks and Uncertainties

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been declared a pandemic by the World Health Organization. The outbreak of the disease has affected travel, commerce and financial markets globally, in the United States and California, including cities and counties throughout the state. On March 4, 2020, the Governor declared a state of emergency to help the state prepare and respond to COVID-19, and on March 19, 2020, the Governor issued a statewide order, Executive Order N-33-20, directing all residents to heed current state public health directives to stay home or at their place of residence except as needed to maintain continuity of operations of critical infrastructure sectors during the COVID-19 response. Such orders and restrictions have resulted in business closures, work stoppages, slowdowns and delays, work-from-home policies, travel restrictions and cancellations of events.

While there has been and will continue to be material financial impacts to the University due to COVID-19 that will affect financial results for 2021 and potentially beyond, we believe we have sufficient liquidity to meet our operating and financial needs. However, given the difficulty in predicting the duration and severity of the coronavirus on the University, the economy and the financial markets, the ultimate impact may be material.

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
2020	0.9%	\$ 192,069	\$ 119,989	160.1%	76.6%
2019	0.9%	\$ 159,075	\$ 109,576	145.2%	79.5%
2018	0.9%	\$ 84,548	\$ 104,029	81.3%	87.2%

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
2020	0.9%	\$ 212,020	\$ 120,000	176.7%	0.7%
2019	0.9%	\$ 172,620	\$ 111,037	155.5%	0.8%
2018	1.0%	\$ 176,521	\$ 116,821	151.1%	0.7%

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