



UNIVERSITY OF CALIFORNIA, BERKELEY

**Annual Financial Report
2015-16**

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UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF NET POSITION (unaudited)

At June 30, 2016 and 2015 (In Thousands of Dollars)

	CAMPUS *		FOUNDATION	
	2016	2015	2016	2015
ASSETS				
Cash and cash equivalents	\$ 268,539	\$ 358,657	\$ 3,657	\$ 2,668
Short-term investments			42,862	64,950
Investments held by trustees	1,790	1,801		
Accounts receivable, net	240,518	244,708		
Pledges receivable, net	1,582	2,726	29,093	27,345
Current portion of notes and mortgages receivable, net	4,871	4,950		
Inventories	5,007	5,041		
Other current assets	3,524	2,964	2,976	963
Current assets	525,831	620,847	78,588	95,926
Investments	3,284,827	3,460,043	1,738,032	1,738,675
Investments held by trustees	4,169	7,826		
Restricted bond proceeds held by UC	11,074	40,779		
Pledges receivable, net	5,077	7,533	98,802	91,534
Notes and mortgages receivables, net	26,847	26,223		
Capital assets, net	3,962,014	3,918,971		
Other noncurrent assets	748	1,067	1,548	1,669
Noncurrent assets	7,294,756	7,462,442	1,838,382	1,831,878
Total assets	7,820,587	8,083,289	1,916,970	1,927,804
DEFERRED OUTFLOWS OF RESOURCES	471,967	341,595		
LIABILITIES				
Accounts payable	97,606	103,013	474	555
Accrued salaries	106,328	113,499		
Employee benefits	23,868	26,163		
Unearned revenue	211,197	189,673		
Commercial paper	114,077	67,323		
Current portion of long-term debt	102,923	99,865		
Funds held for others	1,824	1,588	15,476	15,204
Other current liabilities	114,684	102,551		
Current liabilities	772,507	703,675	15,950	15,759
Federal refundable loans	22,721	23,134		
Long-term debt	2,140,804	2,165,701		
Net pension liability	1,485,336	1,122,991		
Obligations for retiree health benefits	894,323	830,034		
Other noncurrent liabilities	31,303	29,822	72,976	76,437
Noncurrent liabilities	4,574,487	4,171,682	72,976	76,437
Total liabilities	5,346,994	4,875,357	88,926	92,196
DEFERRED INFLOWS OF RESOURCES	161,976	303,716		
NET POSITION				
Net investment in capital assets	1,662,713	1,652,325		
Restricted:				
Nonexpendable endowments and gifts	386,321	379,926	1,046,331	955,461
Expendable endowments and gifts	2,232,869	2,409,009	779,349	878,939
Expendable other, including debt service, loans, capital projects and appropriations	70,490	105,089		
Unrestricted	(1,568,809)	(1,300,538)	2,364	1,208
Total net position	\$ 2,783,584	\$ 3,245,811	\$ 1,828,044	\$ 1,835,608

* See accompanying Notes to Financial Statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (unaudited)

Years Ended June 30, 2016 and 2015 (In Thousands of Dollars)

	CAMPUS *		FOUNDATION	
	2016	2015	2016	2015
OPERATING REVENUES				
Student tuition and fees, net	\$ 781,081	\$ 730,157		
Grants and contracts, net:				
Federal	406,094	417,309		
State	74,699	82,952		
Private	173,983	189,967		
Local	11,901	8,111		
Educational activities, net	84,563	85,936		
Auxiliary enterprises, net	182,063	183,822		
Campus foundation private gifts			\$ 126,715	\$ 104,300
Other operating revenues, net	74,744	92,711	586	550
Total operating revenues	1,789,128	1,790,965	127,301	104,850
OPERATING EXPENSES				
Salaries and wages	1,199,051	1,173,895		
Pension benefits	237,084	142,083		
Retiree health benefits	91,569	99,510		
Other employee benefits	284,105	274,785		
Supplies and materials	167,791	160,335		
Depreciation and amortization	218,932	201,562		
Scholarships and fellowships	136,510	136,946		
Utilities	37,529	36,920		
Campus foundation grants			181,929	148,916
Other operating expenses	447,171	454,558	6,988	6,091
Total operating expenses	2,819,742	2,680,594	188,917	155,007
Operating loss	(1,030,614)	(889,629)	(61,616)	(50,157)
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	348,538	332,786		
State financing appropriations	28,399	23,335		
Build America Bonds federal interest subsidies	9,815	9,754		
Federal Pell grants	40,120	39,431		
Private gifts, net	238,185	216,734		
Investment income:				
Short-Term Investment Pool and other, net	23,913	53,394		
Endowment, net	19,813	26,429		
Campus foundation			8,894	9,729
Net (depreciation) appreciation in fair value of investments	(182,718)	70,855	(42,096)	41,488
Adjustment to gift annuities and trust liabilities			(1,215)	(1,397)
Interest expense	(94,094)	(73,213)		
Other nonoperating revenues, net	35,328	7,770		
Net nonoperating revenues	467,299	707,275	(34,417)	49,820
Loss before other changes in net position	(563,315)	(182,354)	(96,033)	(337)
OTHER CHANGES IN NET POSITION				
Capital gifts and grants, net	26,241	8,956		
Permanent endowments			88,469	65,937
Transfers from UC, net	74,847	61,809		
(Decrease) Increase in net position	(462,227)	(111,589)	(7,564)	65,600
NET POSITION				
Beginning of year	3,245,811	3,357,400	1,835,608	1,770,008
End of year	\$ 2,783,584	\$ 3,245,811	\$ 1,828,044	\$ 1,835,608

* See accompanying Notes to Financial Statements

STATEMENTS OF CASH FLOWS (unaudited)

Years Ended June 30, 2016 and 2015 (In Thousands of Dollars)

	CAMPUS *		FOUNDATION	
	2016	2015	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	\$ 785,448	\$ 730,687		
Grants and contracts	694,757	626,743		
Educational activities	85,380	85,372		
Auxiliary enterprises	182,341	184,863		
Collection of loans from students and employees	8,086	8,169		
Campus foundation private gifts			\$ 99,658	\$ 97,014
Payments to employees	(1,204,557)	(1,158,775)		
Payments to suppliers and utilities	(616,379)	(624,003)	(6,868)	(5,954)
Payments for pension benefits	(132,840)	(128,440)		
Payments for retiree health benefits	(27,280)	(23,621)		
Payments for other employee benefits	(284,660)	(274,477)		
Payments for scholarships and fellowships	(136,506)	(137,042)		
Loans issued to students and employees	(8,518)	(8,993)		
Payments to campus and beneficiaries			(189,466)	(157,003)
Other receipts	52,992	70,915	3,477	3,330
Net cash used by operating activities	(601,736)	(648,602)	(93,199)	(62,613)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	348,587	332,744		
Federal Pell grants	39,438	40,078		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes			77,929	59,807
Other private gifts	241,786	222,917		
Student direct lending receipts	136,494	131,413		
Student direct lending payments	(136,494)	(131,413)		
Other receipts	71,614	51,019		
Net cash provided by noncapital financing activities	701,425	646,758	77,929	59,807
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
State capital appropriations				
State financing appropriations	28,399	23,335		
Build America Bonds federal interest subsidies	9,801	9,755		
Capital gifts and grants	19,866	17,183		
Proceeds from debt issuance	109,086	226,302		
Proceeds from the sale of capital assets	288	429		
Purchase of capital assets	(266,031)	(369,621)		
Refinancing or prepayment of outstanding debt	(52)	(51)		
Scheduled principal paid on debt and capital leases	(21,757)	(18,733)		
Interest paid on debt and capital leases	(105,631)	(90,073)		
Net cash used by capital and related financing activities	(226,031)	(201,474)		
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of investments, net of proceeds from sales and maturities of investments	(19,393)	(19,031)	7,365	(5,959)
Investment income, net of investment expenses	55,617	84,166	8,894	9,729
Net cash provided by investing activities	36,224	65,135	16,259	3,770
Net increase (decrease) in cash and cash equivalents	(90,118)	(138,183)	989	964
Cash and cash equivalents, beginning of year	358,657	496,840	2,668	1,704
Cash and cash equivalents, end of year	\$ 268,539	\$ 358,657	\$ 3,657	\$ 2,668

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF CASH FLOWS (continued)

Years Ended June 30, 2016 and 2015 (In Thousands of Dollars)

	CAMPUS *		FOUNDATION	
	2016	2015	2016	2015
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating loss	\$ (1,030,614)	\$ (889,629)	(61,616)	(50,157)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation and amortization expense	218,932	201,562		
Noncash gifts			(14,686)	(16,959)
Allowance for uncollectible accounts	7,400	(2,734)	6,093	(3,365)
Change in assets and liabilities:				
Accounts and pledges receivables	(1,002)	(71,834)	(15,109)	14,708
Investments held by trustees	9	158		
Notes and mortgages receivable	101	(120)		
Inventories	34	(508)		
Other assets	(242)	3,988	(896)	(467)
Accounts payable	1,635	(2,413)	(81)	(39)
Accrued salaries	(7,170)	12,546		
Employee benefits	(2,295)	417		
Unearned revenue	21,524	13,354	1,219	1,054
Pension obligations	104,951	12,813		
Obligations for retiree health benefits	64,289	75,889		
Other liabilities	20,712	(2,091)	(8,123)	(7,388)
Net cash used by operating activities	\$ (601,736)	\$ (648,602)	\$ (93,199)	\$ (62,613)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired through capital leases	\$ 1,114	\$ 3,930		
Capital assets acquired with a liability at year-end	6,346	12,268		
Gifts of capital assets	4,466	2,773		
Other noncash gifts			\$ 24,229	\$ 25,334

* See accompanying Notes to Financial Statements

ORGANIZATION

Founded in 1868, the University of California, Berkeley (Berkeley) is a campus of the University of California (UC) statewide university system. UC is administered by The Regents of the University of California (The Regents), of which, under the formation documents of UC, administrative authority with respect to Berkeley is vested in the President of UC. Berkeley is a public teaching and research university.

FINANCIAL REPORTING ENTITY

The financial statements of Berkeley present the financial position and the changes in financial position and cash flows of only that portion of UC that is attributable to the transactions of Berkeley.

The financial position and operating results of certain other legally separate organizations related to Berkeley that are not significant or for which Berkeley is not financially accountable, such as booster and alumni organizations and the Lawrence Berkeley National Laboratory (LBNL), are not included in the Berkeley reporting entity. The United States Department of Energy (DOE) is financially responsible for substantially all of the current and future costs incurred at LBNL although LBNL is operated and managed by UC under contract directly with the DOE.

Berkeley has a legally separate, tax-exempt, affiliated campus foundation, The University of California, Berkeley Foundation (Foundation). The economic resources received or held by the Foundation are entirely for the benefit of Berkeley. Because of the nature and significance of its relationship with Berkeley, including its ongoing financial support, the Foundation is reported as a discretely presented component unit of Berkeley in the financial statements. However, the Notes to Financial Statements pertain only to the Berkeley campus. Additional information on the Foundation can be found in its separately issued annual report, which can be requested by contacting the Foundation.

SIGNIFICANT ACCOUNTING POLICIES

Berkeley's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable statements of the Governmental Accounting Standards Board (GASB). The proprietary fund method of accounting is followed and uses the economic resources measurement focus and the accrual basis of accounting.

The significant accounting policies of Berkeley are as follows:

Cash and cash equivalents

Berkeley, like all UC operating entities, maximizes the return on its cash balances by investing in a Short Term Investment Pool (STIP) managed by the Treasurer of The Regents. The Regents are responsible for managing UC's STIP and establishing the investment policy, which is carried out by the Treasurer of The Regents.

Substantially all of Berkeley's cash is deposited into the STIP, and all Berkeley deposits into the STIP are considered demand deposits. Unrealized gains and losses associated with the fluctuation in the fair value of the investments included in the STIP (which are predominantly held to maturity) are not recorded by Berkeley but are absorbed by UC, as the manager of the pool. None of these amounts are insured by the Federal Deposit Insurance Corporation. To date, Berkeley has not experienced any losses on these accounts.

Interest income is reported as non-operating revenue in the statements of revenues, expenses and changes in net position.

Additional information on cash and investments can be obtained from the 2015-2016 annual report of UC.

Investments

Investments are measured and reported at fair value. Berkeley's investments consist of investments in UC's Total Return Investment Pool (TRIP) and General Endowment Pool (GEP). The basis of determining the fair value of pooled funds or mutual funds is determined as the number of units held in the pool multiplied by the price per unit share, computed on the last day of the month. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Investment in non-exchange traded debt and equity investments are valued using inputs provided by independent pricing services or by broker/dealers who actively trade in those markets. Certain securities may be valued on a basis of a price provided by a single source.

Investment transactions are recorded on the date the securities are purchased or sold (trade date). Realized gains or losses are recorded as the difference between the proceeds from the sale and the average cost of the investment sold. Dividend income is recorded on the ex-dividend date and interest income is accrued as earned. Gifts of securities are recorded at estimated fair value at the date of donation.

Accounts receivable, net

Accounts receivable, net of allowance for uncollectible amounts, include reimbursements due from federal, state, and local government and private sponsors of externally funded research, customers of educational activities and from students, employees and faculty for services.

Pledges receivable, net

Unconditional pledges of private gifts to Berkeley in the future, net of allowance for uncollectible amounts, are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Conditional pledges are recognized as receivables and revenues when the specified conditions are met. Berkeley recognizes contribution revenue when all eligibility requirements have been met.

Notes and mortgages receivable, net

Loans to students, net of allowance for uncollectible amounts, are provided from federal student loan programs and from other sources. Home mortgage loans, primarily to faculty, are provided from other sources.

Inventories

Inventories, consisting primarily of supplies and merchandise for resale, are valued at cost, typically determined under the weighted average method, which is not in excess of net realizable value.

Capital assets, net

Land, infrastructure, buildings and improvements, intangible assets, equipment, libraries, 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 value. Intangible assets include easements, land rights, trademarks, patents and other similar arrangements. 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 a cost in excess of \$5,000 and a useful life of more than one year is capitalized. Incremental costs, including salaries and employee benefits, directly related to the acquisition, development and installation of major software projects are included in the cost of the capital assets. 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 on tax-exempt borrowings during the temporary investment of project related borrowings.

Service concession arrangements

Berkeley has entered into service concession arrangements with third parties for student housing and certain other faculty and student services. Under these arrangements, Berkeley enters into ground leases with third parties at minimal or no cost, and gives the third party the right to construct, operate and maintain a facility, primarily for the benefit of students and faculty at competitive rates. Rate increases for use of the facilities are subject to certain constraints and ownership of the facilities reverts to Berkeley upon expiration of the ground lease. The facilities are reported as capital assets by Berkeley when placed in service, and a corresponding deferred inflow of resources is reported. Berkeley has not provided guarantees on financing obtained by the third parties under these arrangements.

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 Berkeley acting as an agent, or fiduciary, on behalf of organizations that are not significant or financially accountable to Berkeley.

Federal refundable loans

Certain loans to students are administered by Berkeley with funding primarily supported by the federal government. Berkeley's statement of net position includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

Self-insurance programs

UC is self-insured or insured through a wholly owned captive insurance company for medical malpractice, workers' compensation, employee health care and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer.

Liabilities are recorded 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. While Berkeley participates in the self-insurance programs, they are administered by UC's Office of the President. Accordingly, the self-insurance funding and liabilities are not included in the accompanying financial statements.

Pollution remediation obligations

Upon an obligating event, Berkeley estimates the components of any expected pollution remediation costs and recoveries from third parties. The costs, estimated using the expected cash flow technique, are accrued as a liability. Pollution remediation liabilities generally involve groundwater, soil and sediment contamination at certain sites where state and other regulatory agencies have indicated that Berkeley is among the responsible parties. The liabilities are revalued annually and may increase or decrease the cost or recovery from third parties, if any, as a result of additional information that refines the estimates, or from payments made from revenue sources that support the activity. There were no expected recoveries at June 30, 2016 reducing the pollution remediation liability.

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

Payments received or to be received by Berkeley from service concession arrangements are reported as deferred inflows of resources.

Changes in net pension liability not included in pension expense, including proportionate shares of collective pension expense from the University of California Retirement Plan, are reported as deferred outflows of resources or deferred inflows of resources related to pensions for Berkeley.

Net position

Net position is required to be classified for accounting and reporting purposes into the following categories:

Net investment in capital assets

This category includes all of Berkeley's capital assets, net of accumulated depreciation, reduced by outstanding debt attributable to the acquisition, construction, or improvement of those assets.

Restricted

Berkeley classifies 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, which must be retained in perpetuity by Berkeley, is classified as nonexpendable net position. This includes Berkeley's permanent endowment funds.

Expendable. The net position whose use by Berkeley is subject to externally imposed restrictions that can be fulfilled by actions of Berkeley pursuant to those restrictions or that expire by the passage of time are classified as expendable net position.

Unrestricted

The net position that is not subject to externally imposed restrictions governing their use are classified as unrestricted net position. Unrestricted net position may be designated for specific purposes by management or the Regents. Substantially all unrestricted net position is allocated for academic and research initiatives or programs, for capital programs or for other purposes.

University of California, Berkeley
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
YEARS ENDED JUNE 30, 2016 AND 2015

Expenses are charged to either restricted or unrestricted net position based upon a variety of factors, including consideration of prior and future revenue sources, the type of expense incurred, Berkeley's budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost.

Revenues and expenses

Operating revenues 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 Berkeley 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 Berkeley are mandated by the GASB to be recorded as nonoperating revenues, including state educational appropriations, certain federal grants for student financial aid, private gifts and investment income, since the GASB does not consider them to be related to the principal operating activities of Berkeley.

Private gift or capital gift revenues associated with Foundation grants to Berkeley are recorded by Berkeley as gifts when the Foundation transfers the gifts to Berkeley.

Nonoperating revenues and expenses include state educational appropriations, state financing appropriations, Build America Bonds federal interest subsidies, Federal Pell Grants, private gifts for other than capital purposes, investment income, net appreciation or depreciation in the fair value of investments, interest expense and other nonoperating revenues.

State capital appropriations, capital gifts and grants, and transfers from UC 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 Berkeley. A small portion of the student fees, reported as capital gifts and grants, is required for debt service associated with student union and recreational centers.

Berkeley recognizes certain scholarship allowances as the difference between the stated charge for tuition and fees, housing and dining charges, recreational center 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 against student tuition and fees in the statements of revenues, expenses and changes in net position for the years ended June 30 are as follows:

<i>(in thousands of dollars)</i>		
	2016	2015
Student tuition and fees	\$ 181,709	\$ 180,413
Auxiliary enterprises	31,972	32,876
Scholarship allowances	\$ 213,681	\$ 213,289

State appropriations

The state of California provides appropriations to UC on an annual basis. Berkeley's allocated share of state educational appropriations from UC is recognized as nonoperating revenue; however, the related expenses for educational or other specific operating purposes are reported as operating expenses. State appropriations for capital projects are recorded as revenue under other changes in net position when the related expenditures are incurred. Special state appropriations for AIDS, tobacco, and breast cancer research are reported as grant operating revenue.

Grant and contract revenue

Berkeley receives grant and contract revenue from governmental and private sources. Berkeley 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 cost reimbursement rates negotiated with UC's federal cognizant agency, the U.S. Department of Health and Human Services. For the year ended June 30, 2016, the facilities and administrative cost recovery totaled \$123.4 million, \$85.9 million from federally sponsored programs and \$37.5 million from other sponsors. For the year ended June 30, 2015, the facilities and administrative cost recovery totaled \$118.7 million, \$82.6 million from federally sponsored programs and \$36.1 million from other sponsors.

Net pension liability

The University of California Retirement Plan (UCRP) provides retirement benefits to retired employees of Berkeley. Berkeley is required to contribute to UCRP at a rate set by The Regents. Pension obligations include Berkeley's share of UC's net pension liability for UCRP and its liability to UC for additional deposits in UCRP made by UC. The additional deposits in UCRP made by UC resources were to make up the gap between the approved contribution rates and the required contributions based on The Regents' funding policy. These deposits, carried as internal loans by UC, are being repaid by Berkeley, plus accrued interest, over a thirty-year period through a supplemental pension assessment. Supplemental pension assessments and changes in Berkeley's share of the internal loans are reported as pension expense in the statements of revenues, expenses and changes in net position.

Berkeley's share of pension obligations, deferred inflows of resources, deferred outflows of resources and pension expense have been determined based upon its 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.

Retiree health benefits and obligations for retiree health benefits

The University of California Retiree Health Benefit Trust (UCRHBT) provides retiree health benefits to retired employees of Berkeley. Contributions from Berkeley to the UCRHBT are effectively made to a single-employer health plan administered by UC as a cost-sharing plan. Berkeley is required to contribute at a rate assessed each year by UC. As a result, Berkeley's required contributions are recognized as an expense in the statements of revenues, expenses and changes in net position.

Transactions with UC and UC Affiliates

Berkeley has various transactions with the UC and UC affiliates. UC, as the primary reporting entity, has at its discretion the ability to transfer cash from Berkeley at will (subject to certain restrictive covenants or bond indentures) and to use that cash at its discretion.

Certain revenues and expenses are allocated from UC to Berkeley. Allocated revenues and expenses reported in the statements of revenues, expenses and changes in net position are management's best estimates of Berkeley's arms-length receipt and payment of such amounts for its circumstances.

Compensated absences

Berkeley accrues annual leave, including employer-related costs, for employees at rates based upon length of service and 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 Berkeley programs.

Tax exemption

UC is recognized as a tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code (IRC). Because UC is a state institution, related income received by UC is also exempt from federal tax under IRC Section 115(a). In addition, UC 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although management believes the estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made and actual amounts could differ from those estimates.

New accounting pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for Berkeley's fiscal year beginning July 1, 2015. This Statement establishes standards for accounting and financial reporting for fair value measurements. The Statement requires investments to be measured at fair value and permits the use of net asset value as the fair value when an investment does not have a readily determinable fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Implementation of Statement No. 72 resulted in additional disclosures of investments and other assets reported at fair value within the fair value hierarchy.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for Berkeley's fiscal year beginning July 1, 2015. This Statement establishes requirements for those pensions and pension plans that were not covered by Statements 67 and 68, specifically those not administered through a trust meeting specified criteria. Implementation of Statement No. 73 had no impact on the financial statements for the year ended June 30, 2016.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for Berkeley's fiscal year beginning July 1, 2017. This Statement revises existing standards for measuring and reporting retiree health benefits provided by Berkeley to its employees. This Statement requires recognition of a liability equal to the net retiree health benefit liability, which is measured as the total retiree health benefit liability, less the amount of the UCRHBT's fiduciary net position. The total retiree health benefit liability is determined based upon discounting projected benefit payments based on claims costs, the benefit terms and legal agreements existing at the UCRHBT's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return of investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. The Statement requires that most changes in the net retiree health benefit liability be included in the retiree health benefit expense in the period of change. As of June 30, 2016 Berkeley reported a retiree health benefit obligation of \$894 million. Under Statement No. 75, Berkeley's OPEB obligation is expected to increase. Berkeley is evaluating the effect that Statement 75 will have on its financial statements.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for Berkeley's fiscal year beginning July 1, 2015. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. Implementation of Statement No. 76 had no impact on the financial statements for the year ended June 30, 2016.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*, effective for Berkeley's fiscal year beginning July 1, 2016. This statement requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments that reduce the reporting government's tax revenues. The purpose of this statement is to increase transparency in regards to tax abatements governments enter into and make the impact of these agreements more apparent to users of the financial statements. Implementation of Statement No. 77 had no impact on the financial statements for the year ended June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*, effective for Berkeley's fiscal year beginning July 1, 2015. This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investment at amortized cost for financial reporting purposes. Implementation of Statement No. 79 had no impact on the financial statements for the year ended June 30, 2016.

In April 2016, the GASB issued Statement No. 82, *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for the University's fiscal year beginning July 1, 2016. Berkeley has elected to early implement this Statement, effective July 1, 2015. This Statement clarifies or amends Statement No. 67, 68 and 73 and specifically addresses the issues of presentation of payroll related measures in required supplementary information, the selection of assumptions and of payments made by employers to satisfy plan member contribution requirements. Implementation of Statement No. 82 had no impact on the financial statements.

NOTE 1: CASH AND CASH EQUIVALENTS

UC maintains centralized management for substantially all of its cash and cash equivalents. Cash and cash equivalents consists of cash in Berkeley's demand deposit accounts and cash in UC's STIP.

Cash in Berkeley's demand deposit accounts is minimized by sweeping available cash balances into UC's investment accounts on a daily basis. At June 30, 2016 and 2015, the carrying amount of Berkeley's demand deposits, generally held in nationally recognized banking institutions, was \$8.6 million and \$8.5 million, respectively. Berkeley's deposits in demand deposit accounts are uninsured and uncollateralized.

Berkeley does not have a significant exposure to foreign currency risk in demand deposit accounts. Accounts held in foreign countries maintain minimum operating balances with the intent to reduce potential foreign exchange risk while providing an adequate level of liquidity to meet the obligations of the academic programs established abroad. The equivalent U.S. dollar balance required to support research groups in foreign countries was \$0.3 million at June 30, 2016 and \$0.7 million at June 30, 2015.

A portion of Berkeley's cash is deposited by UC into the STIP. STIP allows Berkeley to maximize its returns on its short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities and is managed to maximize current earned income. Cash to provide for payroll, construction expenditures and other operating expenses is invested in STIP. At June 30, 2016 and 2015, the carrying amount of Berkeley's STIP was \$259.8 million and \$349.4 million, respectively.

NOTE 2: INVESTMENTS

The Regents, as the governing Board of UC, is responsible for the oversight of UC's investments and establishes investment policy, which is carried out by UC's Chief Investment Officer. These investments are associated with the STIP, TRIP, GEP, and other investment pools managed by UC's Chief Investment Officer, or are separately invested.

Berkeley's share of STIP is classified as cash and cash equivalents in the statements of net position.

UC does not maintain the composition of investments by investment type by campus. UC managed commingled funds (UC pooled funds) serve as the core investment vehicle for Berkeley. A description of the funds used is as follows:

TRIP allows Berkeley the opportunity to maximize the return on its 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. It allows Berkeley to maximize its return on its long-term capital. Its objective 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 Berkeley's perspective. The fair value of Berkeley's investment in TRIP was \$1,034.5 million and \$1,033.0 million at June 30, 2016 and 2015, respectively.

Investments in TRIP are committed for a three-year lock-up period and would therefore not be available to Berkeley until the end of such lock-up period. After the lock-up period expires, one calendar quarter notice will be required for any redemptions or withdrawals. Withdrawals will occur on the last business day of the month. Investments into TRIP are subject to certain withdraws guidelines such as limiting the with drawls to 10% of the current value of TRIP in any one quarter.

GEP is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. GEP is a balanced portfolio 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. The fair value of Berkeley's investment in GEP was \$2,250.3 million and \$2,427.0 million at June 30, 2016 and 2015, respectively.

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

Additional information on UC's investments can be obtained from its 2015-2016 annual financial report.

NOTE 3: INVESTMENTS HELD BY TRUSTEES

Proceeds from the sale of the state of California's lease revenue bonds to be used for financing certain Berkeley capital projects were deposited in a commingled U.S. bond fund managed by the state of California Treasurer's Office, as trustee, and distributed to Berkeley as the projects are constructed. The fair value of these deposits was \$6.0 million and \$9.6 million at June 30, 2016 and 2015, respectively.

NOTE 4: RESTRICTED BOND PROCEEDS HELD BY UC

Proceeds from the sale of UC revenue bonds to be used for financing certain Berkeley capital projects were deposited in a commingled fund managed by the Treasurer of the Regents and distributed to Berkeley as the projects are constructed. Berkeley's share of restricted bond proceeds held by UC was \$11.0 million at June 30, 2016 and \$40.8 million at June 30, 2015.

University of California, Berkeley
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NOTE 5: ACCOUNTS RECEIVABLE

Accounts receivable and the allowance for uncollectible accounts at June 30 are as follows:

(in thousands of dollars)

	STATE & FEDERAL GOVERNMENT	LOCAL GOVT & PRIVATE GRANTS & CONTRACTS	OTHER	TOTAL
At June 30, 2016				
Accounts receivable	\$ 148,017	\$ 90,676	\$ 14,349	\$ 253,042
Allowance for uncollectible accounts	225	(8,662)	(4,087)	(12,524)
Accounts receivable, net	\$ 148,242	\$ 82,014	\$ 10,262	\$ 240,518
At June 30, 2015				
Accounts receivable	\$ 154,701	\$ 58,374	\$ 36,799	\$ 249,874
Allowance for uncollectible accounts	(401)	(1,155)	(3,610)	(5,166)
Accounts receivable, net	\$ 154,300	\$ 57,219	\$ 33,189	\$ 244,708

Berkeley's other accounts receivable are primarily related to tuition and fees and auxiliary enterprises.

The expense for uncollectible accounts has either increased or (decreased) the following revenues for the years ended June 30:

(in thousands of dollars)

	2016	2015
Student tuition and fees	\$ (438)	\$ (58)
Grants and contracts	(8,495)	(66)
Educational activities	(70)	69
Auxiliary enterprises	(154)	135
Other operating revenues	(37)	1,647
Expense for uncollectible accounts	\$ (9,194)	\$ 1,727

NOTE 6: PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2016 and 2015 is summarized as follows:

(in thousands of dollars)

	2016	2015
Total pledges receivable outstanding	\$ 19,049	\$ 24,958
Less: Unamortized discount to present value	(435)	(606)
Allowance for uncollectible pledges	(11,955)	(14,093)
Total pledges receivable, net	6,659	10,259
Less: Current portion of pledges receivable	(1,582)	(2,726)
Noncurrent portion of pledges receivable	\$ 5,077	\$ 7,533

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Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2016 and thereafter are as follows:

(in thousands of dollars)

<u>Year Ending June 30</u>	
2017	\$ 13,286
2018	2,614
2019	614
2020	265
2021	260
2022-2026	1,260
Beyond 2026	750
Total payments on pledges receivable	\$ 19,049

Adjustments to the allowance for uncollectible pledges for Berkeley have increased (decreased) the following revenues for the years ended June 30, 2016 and 2015:

(in thousands of dollars)

	<u>2016</u>	<u>2015</u>
Private gifts	\$ 1,397	\$ (293)
Capital gifts and grants	-	(8,119)

NOTE 7: NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2016 and 2015, along with the allowance for uncollectible amounts, are as follows:

(in thousands of dollars)

	<u>CURRENT</u>	<u>NONCURRENT</u>		<u>TOTAL</u>
		<u>NOTES</u>	<u>MORTGAGES</u>	
<u>At June 30, 2016</u>				
Notes and mortgages receivable	\$ 4,921	\$ 26,626	\$ 2,079	\$ 28,705
Allowance for uncollectible amounts	(50)	(1,858)		(1,858)
Notes and mortgages receivable, net	\$ 4,871	\$ 24,768	\$ 2,079	\$ 26,847
<u>At June 30, 2015</u>				
Notes and mortgages receivable	\$ 5,001	\$ 25,868	\$ 2,170	\$ 28,038
Allowance for uncollectible amounts	(51)	(1,815)		(1,815)
Notes and mortgages receivable, net	\$ 4,950	\$ 24,053	\$ 2,170	\$ 26,223

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NOTE 8: CAPITAL ASSETS

Berkeley's capital asset activity for the years ended June 30 is as follows:

(in thousands of dollars)

	2014	ADDITIONS	DISPOSALS	2015	ADDITIONS	DISPOSALS	2016
ORIGINAL COST							
Land	\$ 110,989			\$ 110,989	\$ 1,134	\$ (1)	\$ 112,122
Infrastructure	63,358	\$ 6,342	\$ -	69,700	\$ 2,834	-	72,534
Buildings and improvements	4,205,014	307,942	(1,612)	4,511,344	374,422	(475)	4,885,291
Equipment, software and intangibles	515,933	43,312	(36,546)	522,699	36,485	(56,120)	503,064
Libraries and collections	971,925	33,226	(13,633)	991,518	35,833	(8,171)	1,019,180
Special collections	115,366	5,607		120,973	7,095		128,068
Construction in progress	405,220	(22,756)		382,464	(191,184)		191,280
Capital assets, at original cost	\$ 6,387,805	\$ 373,673	\$ (51,791)	\$ 6,709,687	\$ 266,619	\$ (64,767)	\$ 6,911,539
ACCUMULATED DEPRECIATION AND AMORTIZATION							
	2014	DEPRECIATION AND AMORTIZATION	DISPOSALS	2015	DEPRECIATION AND AMORTIZATION	DISPOSALS	2016
Infrastructure	\$ 26,486	\$ 2,652		\$ 29,138	\$ 2,651		\$ 31,789
Buildings and improvements	1,493,938	135,378	(2,753)	1,626,563	152,408	(154)	1,778,817
Equipment, software and intangibles	391,489	33,549	(36,078)	388,960	33,586	(51,798)	370,748
Libraries and collections	729,705	29,983	(13,633)	746,055	30,287	(8,171)	768,171
Accumulated depreciation and amortization	\$ 2,641,618	\$ 201,562	\$ (52,464)	\$ 2,790,716	\$ 218,932	\$ (60,123)	\$ 2,949,525
Capital assets, net	\$ 3,746,187			\$ 3,918,971			\$ 3,962,014

Service concession arrangements, reported as buildings and improvements, are \$19.1 million of original cost and \$0.8 million accumulated depreciation recorded at June 30, 2016.

NOTE 9: DEBT

UC directly finances Berkeley's construction, renovation and acquisition of facilities and equipment, or for such other purposes as are authorized by The Regents through the issuance of debt obligations. Commercial paper and bank loans provide interim financing. Long-term financing includes revenue bonds, capital lease obligations and other borrowings.

Berkeley's share of outstanding debt at June 30 is as follows:

(in thousands of dollars)

	INTEREST RATES	MATURITY YEARS	2016	2015
INTERIM FINANCING:				
Commercial paper	0.5527%		\$ 114,077	\$ 67,323
LONG-TERM FINANCING:				
UC general revenue bonds	0.1 - 7.6%	2017-2112	1,510,855	1,588,965
UC limited projects revenue bonds	2.4 - 5.9%	2017-2050	712,827	659,585
UC revenue bonds			2,223,682	2,248,550
Capital lease obligations	1.25 - 3.255%	2017-2021	5,269	6,934
Other borrowings	0.0 - 1.99%	2017-2025	14,776	10,082
Total outstanding debt			2,357,804	2,332,889
Less: Commercial paper			(114,077)	(67,323)
Current portion of outstanding debt			(102,923)	(99,865)
Noncurrent portion of outstanding debt			\$ 2,140,804	\$ 2,165,701

Interest expense associated with financing projects during construction, net of any investment income earned on tax-exempt bond proceeds during construction, is capitalized. Total interest expense during the years ended June 30, 2016 and 2015 was \$99.1 million and \$91.9 million, respectively. Interest expense, net of investment income, totaling \$5.0 million and \$18.7

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million was capitalized during the years ended June 30, 2016 and 2015, respectively. The remaining \$94.1 million in 2016 and \$73.2 million in 2015 is reported as interest expense in the statement of revenues, expenses and changes in net position.

Outstanding Debt Activity

The activity with respect to Berkeley's share of UC's current and noncurrent debt for the years ended June 30 is as follows:

(in thousands of dollars)

	UC REVENUE BONDS	CAPITAL LEASE OBLIGATIONS	OTHER BORROWINGS	TOTAL
<i>Year ended June 30, 2016</i>				
Long-term debt and capital leases at June 30, 2015	\$ 2,248,550	\$ 6,934	\$ 10,082	\$ 2,265,566
New obligations	72,309	962	4,756	78,027
Scheduled principal payments	(97,177)	(2,627)	(62)	(99,866)
Long-term debt and capital leases at June 30, 2016	2,223,682	5,269	14,776	2,243,727
Less: Current portion	(100,619)	(2,252)	(52)	(102,923)
Noncurrent portion at June 30, 2016	\$ 2,123,063	\$ 3,017	\$ 14,724	\$ 2,140,804
<i>Year ended June 30, 2015</i>				
Long-term debt and capital leases at June 30, 2014	\$ 2,245,766	\$ 5,522	\$ 3,023	\$ 2,254,311
New obligations	99,945	3,483	7,059	110,487
Scheduled principal payments	(97,161)	(2,071)		(99,232)
Long-term debt and capital leases at June 30, 2015	2,248,550	6,934	10,082	2,265,566
Less: Current portion	(97,177)	(2,627)	(61)	(99,865)
Noncurrent portion at June 30, 2015	\$ 2,151,373	\$ 4,307	\$ 10,021	\$ 2,165,701

Commercial Paper

Commercial paper may be issued for interim/permanent financing for capital projects, interim financing of equipment, standby or interim financing for gift financed projects and working capital for Berkeley.

The program's liquidity is supported by available investments in STIP and TRIP. Commercial paper is collateralized by a pledge of the revenues derived from the ownership or operation of the projects financed and constitute limited obligations of UC. There is no encumbrance, mortgage or other pledge of property securing commercial paper, and the paper does not constitute general obligations of UC.

Berkeley's share of commercial paper outstanding, including interest rates, at June 30 is as follows:

<i>(in thousands of dollars)</i>					
		2016		2015	
	INTEREST RATES	OUTSTANDING	INTEREST RATES	OUTSTANDING	
Taxable	0.39 - 0.60%	\$ 114,077	0.1 - 0.15%	\$ 67,323	
Total outstanding		\$ 114,077		\$ 67,323	

UC Revenue Bonds

Revenue bonds have financed various auxiliary, administrative, academic and research facilities of Berkeley. They generally have annual principal and semiannual interest payments, serial and term maturities, contain sinking fund requirements and may have optional redemption provisions. Revenue bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents. Revenue bond indentures require UC, and therefore Berkeley, to use the facilities in a way which will not cause the interest on the tax-exempt bonds to be included in the gross income of the bondholders for federal tax purposes.

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General Revenue Bonds are collateralized solely by General Revenues as defined in the Indenture. General Revenues are certain operating and nonoperating revenues of UC consisting of gross student tuition and fees; facilities and administrative cost recovery from contracts and grants; revenues from educational, auxiliary and other activities; and other revenues, including unrestricted investment income. The General Revenue Bond Indenture requires UC to set rates, charges and fees each year sufficient for General Revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. General Revenues, as defined in the Indenture, have been amended to include certain state appropriations as to secure payment of the General Revenue Bonds. Berkeley's General Revenues for the years ended June 30, 2016 and 2015 were \$1.8 billion and \$1.9 billion, respectively. The pledge of General Revenues for interest rate swap agreements is on a parity basis with the University's General Revenue Bonds.

Limited Project Revenue Bonds are issued to finance auxiliary enterprises and are collateralized by a pledge consisting of the sum of the gross revenues of the specific projects. The Limited Project Revenue Bond Indenture requires UC to achieve the sum of gross project revenues equal to 1.1 times debt service and maintain certain other financial covenants. Berkeley's pledged revenues for the years ended June 30, 2016 and 2015 were \$189.0 million for both years.

The pledge of revenues under Limited Project Revenue Bonds is subordinate to the pledge of revenues associated with General Revenue Bonds, but senior to pledges under commercial paper agreements or bank loans.

All Indentures permit UC to issue additional bonds as long as certain conditions are met.

Capital Leases

Berkeley's capital leases with other lessors, typically for equipment, totaled \$5.3 million and \$6.9 million for the years ended June 30, 2016 and 2015, respectively.

Other UC Borrowings

Other borrowings of \$14.8 million at June 30, 2016 and \$10.0 million at June 30, 2015, from UC's bank line of credit and loans with various expiration dates through 2025, were obtained to provide interim financing for buildings and equipment.

Future Debt Service

Berkeley's share of future debt service payments for each of the five fiscal years subsequent to June 30, 2016 and thereafter are as presented below:

(in thousands of dollars)

	COMMERCIAL PAPER	REVENUE BONDS	CAPITAL LEASES	OTHER BORROWINGS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year Ending June 30							
2017	\$ 114,708	\$ 191,901	\$ 2,335	\$ 339	\$ 309,283	\$ 217,000	\$ 92,283
2018		119,693	1,799	335	121,827	31,204	90,623
2019		120,977	907	335	122,219	32,659	89,560
2020		126,704	308	335	127,347	39,054	88,293
2021		122,109	70	329	122,508	35,755	86,753
2022-2112		3,682,082		14,825	3,696,907	2,002,132	1,694,775
Total future debt service	114,708	4,363,466	5,419	16,498	4,500,091	\$2,357,804	\$ 2,142,287
Less: Interest component of future payments	(631)	(2,139,784)	(150)	(1,722)	(2,142,287)		
Principal portion of future payments	\$ 114,077	\$2,223,682	\$ 5,269	\$ 14,776	\$ 2,357,804		

Additional information on UC's debt can be obtained in its 2015-2016 annual financial report.

NOTE 10: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

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

(in thousands of dollars)

	SERVICE CONCESSION ARRANGEMENTS	NET PENSION LIABILITY	LOSS ON DEBT REFUNDING	TOTAL
<i>At June 30, 2016</i>				
Deferred outflows of resources		\$ 416,787	\$ 55,180	\$ 471,967
Deferred inflows of resources	\$ 18,786	143,190		161,976
<i>At June 30, 2015</i>				
Deferred outflows of resources		\$ 282,333	\$ 59,262	\$ 341,595
Deferred inflows of resources	\$ 19,080	284,636		303,716

NOTE 11: THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

Most Berkeley employees participate in the University of California Retirement System (UCRS) that is administered by UC. 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 pension plans with several investment portfolios generally funded with employee non-elective and elective contributions. The Regents has the authority to establish and amend the benefit plans. Additional information on the retirement plans can be obtained from the 2015-2016 annual reports of the University of California Retirement System.

UCRP provides lifetime retirement income, disability protection, death benefits, and post-retirement and pre-retirement survivor benefits to eligible employees of UC, and its affiliates. 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 Berkeley campus 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 determines the portion of the total contribution to be made by Berkeley and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements. Effective July 1, 2014, employee member contributions range from 7.0 percent to 9.0 percent. The University pays a uniform contribution rate of 14.0 percent of covered payroll on behalf of all UCCP members.

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

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Contributions to UCRP for the years ended June 30 are as follows:

(in thousands of dollars)

	2016	2015
Contributions - employer	\$ 132,809	\$ 129,808
Contributions - employee	74,448	72,185
Total	\$ 207,257	\$ 201,993

Net Pension Liability Berkeley's pension obligations as of June 30, 2016 and 2015 are as follows:

(in thousands of dollars)

	2016	2015
Net pension liability to UCRP	\$1,202,405	\$ 879,681
Payable to UC	282,931	243,310
Pension obligations	\$1,485,336	\$1,122,991

Net Pension Liability to UCRP

Berkeley's proportionate share of the net pension liability as of June 30 is as follows:

(in thousands of dollars)

	2016	2015
Proportion of the net pension liability	8.8%	9.1%
Proportionate share of net pension liability	\$1,202,405	\$ 879,681

Berkeley's net pension liability was measured as of June 30, 2016 and 2015 and was calculated using the plan net position valued as of the measurement date and total pension liability determined based upon rolling forward the total pension liability from the results of the actuarial valuations as of July 1 one year prior to the measurement date. 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. Berkeley's net pension liability was calculated using the following methods and assumptions:

	2016	2015
Inflation	3.0%	3.0%
Investment rate of return	7.3 %	7.3 %
Projected salary increases	3.8 - 6.2 %	3.8 - 6.2 %
Cost-of-living adjustments	2.0 %	2.0 %

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in 2016 and 2015 were based upon the results of an experience study conducted for the period of July 1, 2010 through June 30, 2014. For active members, inactive members and healthy retirees, the RP-2014 White Collar Mortality Tables are used (separate tables for males and females), projected with the two-dimensional MP2014 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP2014 projection scale to 2029 and with ages then set back one year for males and set forward five years for females.

The long-term expected investment rate of return assumption for UCRP was determined in 2015 based on a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected expenses and a risk

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YEARS ENDED JUNE 30, 2016 AND 2015

margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	28.5%	6.1%
Developed International Equity	18.5	7.0
Emerging Market Equity	8.0	8.6
Core Fixed Income	12.5	0.8
High Yield Bonds	2.5	3.0
Emerging Market Debt	2.5	3.9
TIPS	4.5	0.4
Real Estate	5.5	4.8
Private Equity	8.0	11.2
Absolute Return/Hedge Funds/Real Assets	9.5	4.2
Total	100%	5.6%

Discount Rate

The discount rate used to estimate the net pension liability as of June 30, 2016 and 2015 was 7.25 percent for both years. To calculate the discount rate, cash flows into and out of UCRP were projected in order to determine whether UCRS has sufficient cash in future periods for projected benefit payments for current members. For this purpose, Berkeley contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected Berkeley contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are not included. UCRP was projected to have assets sufficient to make projected benefit payments for current members for all future years as of June 30, 2016 and 2015.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the June 30, 2016 net pension liability of Berkeley calculated using the June 30, 2016 discount rate assumption of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
<i>As of June 30, 2016</i>			
Net pension liability - Berkeley	\$ 1,887,156	\$ 1,202,405	\$ 630,205

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 years ended June 30:

(in thousands of dollars)

	2016	2015 (Restated)
Deferred Outflows of Resources:		
Changes in proportion and differences between Berkeley's contributions and proportionate share of contributions	\$ 18,033	\$ 25,500
Changes of assumptions or other inputs	157,763	256,833
Net difference between projected and actual earnings on pension plan investments	229,241	-
Difference between expected and actual experience	11,750	-
Total Deferred Outflows of Resources	\$ 416,787	\$ 282,333
Deferred Inflows of Resources:		
Changes in proportion and differences between Berkeley's contributions and proportionate share of contributions	\$ 42,035	\$ 21,965
Changes of assumptions or other inputs	77,316	125,502
Net difference between projected and actual earnings on pension plan investments	-	101,547
Difference between expected and actual experience	23,839	35,622
Total Deferred Inflows of Resources	\$ 143,190	\$ 284,636

Net deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the years ending June 30 as follows:

(in thousands of dollars)

<i>Year Ending June 30</i>	
2017	\$ 41,717
2018	23,724
2019	127,355
2020	82,961
2021	(2,106)
Total	\$ 273,651

The UCRSP 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 Berkeley 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.

Additional information on UC's retirement plans can be obtained in its 2015-16 annual financial report.

NOTE 12: RETIREE HEALTH BENEFIT COSTS AND OBLIGATIONS

UC administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision benefits, to eligible retirees and their eligible family members (retirees) of UC and its affiliates, including Berkeley. The Regents has the authority to establish and amend the plans.

Membership in UCRP is required to become eligible for retiree health benefits.

University of California, Berkeley
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
YEARS ENDED JUNE 30, 2016 AND 2015

The contribution requirements of Berkeley and eligible retirees are established and may be amended by UC. The contribution requirements are based upon projected pay-as-you-go financing. Contributions toward medical and dental benefits are shared between the campus and the retiree. Berkeley contributes toward wellness benefits. Berkeley does not contribute toward the cost of other benefits available to retirees. Retirees who are employed by Berkeley after July 1, 2013, and retire at the age of 56 or older, become eligible for a percentage of the campus' contribution based on age and years of service. Retirees are eligible for the maximum campus contribution at age 65 with 20 or more years of service. Retirees employed by Berkeley prior to 1990 and not rehired after that date are eligible for the maximum employer contribution if they retire before age 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least five years of service. Retirees employed by Berkeley after 1989 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum employer contribution, increasing to 100 percent after 20 years of service.

Active employees do not make any contributions toward the retiree health benefit plans. Retirees pay the excess, if any, of the premium over the applicable portion of Berkeley's contribution.

Participating UC campuses, such as Berkeley, are required to contribute at a rate assessed each year by UC. The contribution requirements are based upon projected pay-as-you-go financing requirements. The assessment rates were \$2.98 and \$2.65 per \$100 of UCRP-covered payroll effective July 1, 2016 and 2015, respectively.

Berkeley's retiree health benefits expense is its share, as determined by UC, of the actuarially-determined annual required contribution. The annual required contribution represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize unfunded actuarial liabilities over a period of up to 30 years. For the years ended June 30, 2016 and 2015, Berkeley's contributions for retiree health benefits was \$27.3 million and \$23.6 million, respectively, and Berkeley's accrual of unfunded obligations for retiree health benefits was \$64.3 million and \$75.9 million, respectively.

Information related to plan assets and liabilities as they relate to Berkeley campus is not readily available. Additional information on the retiree health plans can be obtained from the 2015–2016 UC annual financial report.

NOTE 13: ENDOWMENTS AND GIFTS

The value of endowments and gifts held and administered by UC but reflected in Berkeley's statements of net position at June 30, 2016 and 2015 is as follows:

(in thousands of dollars)

	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
<i>At June 30, 2016</i>				
Endowments	\$ 381,967	\$ 948,669	\$ 1,753	\$ 1,332,389
Funds functioning as endowments		977,968		977,968
Annuity and life income	4,354			4,354
Gifts		306,232	11,037	317,269
Total endowments and gifts	\$ 386,321	\$ 2,232,869	\$ 12,790	\$ 2,631,980
<i>At June 30, 2015</i>				
Endowments	\$ 375,305	\$ 1,046,267	\$ 3,621	\$ 1,425,193
Funds functioning as endowments		1,065,869		1,065,869
Annuity and life income	4,621			4,621
Gifts		296,873	19,801	316,674
Total endowments and gifts	\$ 379,926	\$ 2,409,009	\$ 23,422	\$ 2,812,357

UC'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 and interest income and by capital gains may vary significantly from year to year. UC's policy is to retain the realized and unrealized appreciation with the endowment after the annual income distribution has been made. The net appreciation available to meet future spending needs is subject to the approval of The Regents and amounted to \$886.0 million and \$981.3 million at June 30, 2016 and 2015, respectively.

The portion of investment returns earned on endowments 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 Berkeley from endowments held by UC was \$81.0 million and \$77.9 million for the years ended June 30, 2016 and 2015, respectively. The portion of this annual income distribution from accumulated capital gains, in addition to the dividend and interest income earned, was \$61.1 million and \$51.5 million, respectively, for the years ended June 30, 2016 and 2015.

NOTE 14: COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled \$198.8 million at June 30, 2016.

Berkeley leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the year ended June 30, 2016 were \$18.4 million. The terms of operating leases extend through 2027.

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

(in thousands of dollars)

Year Ending June 30	Minimum Annual Lease Payments
2017	\$ 9,826
2018	8,284
2019	7,453
2020	4,615
2021	2,374
2022-2026	10,545
2027-2031	336
Total	\$ 43,433

Contingencies

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

Berkeley 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, management and general counsel are of the opinion that the outcome of such matters will not have a material effect on Berkeley's financial position.