UNIVERSITY OF CALIFORNIA, BERKELEY

Annual Financial Report
2016-17

TABLE OF CONTENTS

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF NET POSITION (unaudited)

At June 30, 2017 (In thousands of dollars)	CAMPUS *	FOUNDATION
ASSETS		
Cash and cash equivalents	$ 142,545	$ 4,587
Short-term investments		39,040
Investments held by trustees	1,360	
Accounts receivable, net	199,412	
Pledges receivable, net	2,380	31,825
Notes and mortgages receivable, net	4,629	
Inventories	5,035	
Other current assets	5,136	618
Current assets	**360,497**	**76,070**
Investments	3,586,379	1,956,253
Investments held by trustees	984	
Restricted bond proceeds held by UC	7,172	
Pledges receivable, net	3,293	80,547
Notes and mortgages receivables, net	25,124	
Capital assets, net	3,816,391	
Other noncurrent assets	1,431	1,555
Noncurrent assets	**7,440,774**	**2,038,355**
Total assets	**7,801,271**	**2,114,425**
DEFERRED OUTFLOWS OF RESOURCES	**472,872**	
LIABILITIES		
Accounts payable	85,576	804
Accrued salaries	51,236	
Employee benefits	10,227	
Unearned revenue	198,455	
Commercial paper	132,259	
Current portion of long-term debt	111,336	
Funds held for others	2,456	15,575
Other current liabilities	115,014	
Current liabilities	**706,559**	**16,379**
Federal refundable loans	22,663	
Long-term debt	2,164,340	
Net pension liability	1,141,828	
Net retiree health benefits liability	1,556,935	
Other noncurrent liabilities	29,535	78,392
Noncurrent liabilities	**4,915,301**	**78,392**
Total liabilities	**5,621,860**	**94,771**
DEFERRED INFLOWS OF RESOURCES	**697,590**	
NET POSITION		
Net investment in capital assets	1,450,997	
Restricted:		
Nonexpendable: Endowments and gifts	395,131	1,123,333
Expendable: Endowments and gifts	2,427,714	891,936
Expendable: Other, including debt service, loans, capital projects and appropriations	51,430	
Unrestricted	(2,370,579)	4,385
Total net position	**$ 1,954,693**	**$ 2,019,654**

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

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

Year ended June 30, 2017 (In thousands of dollars)	CAMPUS *	FOUNDATION
OPERATING REVENUES		
Student tuition and fees, net	$ 834,442	
Grants and contracts, net:		
Federal	377,872	
State	79,555	
Private	179,739	
Local	12,978	
Educational activities, net	85,636	
Auxiliary enterprises, net	204,941	
Campus foundation private gifts		$ 113,734
Other operating revenues, net	76,351	454
Total operating revenues	**1,851,514**	**114,188**
OPERATING EXPENSES		
Salaries and wages	1,219,539	
Pension benefits	151,246	
Retiree health benefits	116,226	
Other employee benefits	279,952	
Supplies and materials	155,916	
Depreciation and amortization	228,367	
Scholarships and fellowships	134,580	
Utilities	40,952	
Campus foundation grants		198,795
Other operating expenses	446,335	10,161
Total operating expenses	**2,773,113**	**208,956**
Operating loss	**(921,599)**	**(94,768)**
NONOPERATING REVENUES (EXPENSES)		
State educational appropriations	368,270	
State financing appropriations	26,929	
Build America Bonds federal interest subsidies	9,797	
Federal Pell Grants	38,197	
Private gifts, net	267,563	
Investment income:		
Short-Term Investment Pool and other, net	25,456	
Endowment, net	21,724	
Campus foundation		8,415
Net appreciation in fair value of investments	299,475	202,919
Adjustment to gift annuities and trust liabilities		7,307
Interest expense	(100,133)	
Other nonoperating revenues, net	27,186	
Net nonoperating revenues	**984,464**	**218,641**
Income before other changes in net position	**62,865**	**123,873**
OTHER CHANGES IN NET POSITION		
Capital gifts and grants, net	53,993	
Permanent endowments		67,737
Transfer for pension benefits from UC	22,653	
Transfer of capital assets to UC	(202,188)	
(Decrease) Increase in net position	**(62,677)**	**191,610**
NET POSITION		
Beginning of year, as previously reported	2,783,584	1,828,044
Cumulative effect of accounting change	(766,214)	
End of year	**$ 1,954,693**	**$ 2,019,654**

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF CASH FLOWS (unaudited)

Year ended June 30, 2017 (In thousands of dollars)	CAMPUS *	FOUNDATION
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	$ 840,045	
Grants and contracts	684,449	
Educational activities	82,660	
Auxiliary enterprises	205,577	
Collection of loans from students and employees	7,360	
Campus foundation private gifts		$ 115,399
Payments to employees	(1,278,736)	
Payments to suppliers and utilities	(649,618)	(10,166)
Payments for pension benefits	(148,289)	
Payments for retiree health benefits	(27,193)	
Payments for other employee benefits	(287,324)	
Payments for scholarships and fellowships	(134,496)	
Loans issued to students and employees	(5,718)	
Payments to campus and beneficiaries		(206,011)
Other receipts	65,720	2,842
Net cash used by operating activities	**(645,563)**	**(97,936)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State educational appropriations	368,270	
Federal Pell grants	37,099	
Gifts received for other than capital purposes:		
Private gifts for endowment purposes		49,682
Other private gifts	268,548	
Student direct lending receipts	142,611	
Student direct lending payments	(142,611)	
Other receipts	22,490	
Net cash provided by noncapital financing activities	**696,407**	**49,682**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	14,072	
State financing appropriations	12,857	
Build America Bonds federal interest subsidies	9,797	
Capital gifts and grants	23,519	
Proceeds from debt issuance	150,216	
Proceeds from the sale of capital assets	101	
Purchase of capital assets	(25,146)	
Refinancing or prepayment of outstanding debt	(202,239)	
Scheduled principal paid on debt and capital leases	(87,293)	
Interest paid on debt and capital leases	(107,040)	
Net cash used by capital and related financing activities	**(211,156)**	
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments, net of purchases of investments	8,862	40,769
Investment income, net of investment expenses	25,456	8,415
Net cash provided by investing activities	**34,318**	**49,184**
Net (decrease) increase in cash and cash equivalents	**(125,994)**	**930**
Cash and cash equivalents, beginning of year	268,539	3,657
Cash and cash equivalents, end of year	**$ 142,545**	**$ 4,587**

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF CASH FLOWS (continued)

Year ended June 30, 2017 (In thousands of dollars)		CAMPUS *		FOUNDATION
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating loss	$	(921,599)		(94,768)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation and amortization expense		228,367		
Noncash gifts				(15,419)
Allowance for uncollectible accounts		14,446		7,171
Change in assets and liabilities:				
Accounts and pledges receivables		30,039		8,352
Investments held by trustees		432		
Notes and mortgages receivable		95		
Inventories		(28)		
Other assets		(2,294)		1,062
Accounts payable		(13,068)		331
Accrued salaries		(55,092)		
Employee benefits		(13,641)		
Unearned revenue		(12,742)		1,509
Net pension liability		11,364		
Net retiree health benefits liability		81,749		
Other liabilities		6,407		(6,174)
Net cash used by operating activities	**$**	**(645,563)**	**$**	**(97,936)**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired through capital leases	$	2,407		
Capital assets acquired with a liability at year-end		8,904		
Gifts of capital assets		29,700		
Other noncash gifts			$	34,764

* 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). 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

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. Berkeley follows accounting principles issued by the Governmental Accounting Standards Board (GASB).

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* was implemented by UC as of July 1, 2016. This Statement establishes financial reporting standards for retiree health benefit plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of the retiree health benefit plans in existing guidance by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement revises note disclosures and required supplementary information (RSI) related to the measurement of the retiree health benefits liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Implementation of Statement No. 74 resulted in additional disclosures for the University of California Retiree Health Benefits Trust (UCRHBT).

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* was implemented by Berkeley as of 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 benefits liability, less the amount of the UCRHBT's fiduciary net position. The total retiree health benefits liability is determined based upon discounting projected benefit payments based on claims costs, the benefit terms and legal agreements existing at the UCRHBT's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. The Statement requires that most changes in the net retiree health benefits liability be included in retiree health benefits expense in the period of change. The prior year cumulative effect on Berkeley's net position of the accounting change is reflected in Berkeley's statement of revenues, expenses, and changes in net position.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for Berkeley's fiscal year beginning July 1, 2016. This Statement amends the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions — an Amendment of GASB Statement*

No. 27, to exclude pensions provided to employees of state or local governmental employers through cost-sharing, multiple-employer defined benefit pension plans that are not state or local governmental pension plans. This Statement establishes requirements for recognition and measurement of pension expense, expenditures and liabilities; note disclosures; and required supplementary information. Implementation of Statement No. 78 had no impact on Berkeley's financial statements.

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. The net asset value for the STIP is held at a constant value of $1 and is not adjusted for 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) and 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 UC's 2016-2017 Annual Financial Report.

Investments
Investments are 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. 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 sponsors of externally funded research, educational activities and amounts due from students, employees and faculty.

Pledges receivable, net
Unconditional pledges of private gifts to Berkeley, 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 and the related pledges receivable 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 UC's STIP and from other sources. Mortgage loans provided by STIP are classified as investments and loans provided by other sources are classified as mortgages receivable in the statements of net position.

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 acquisition value at the date of donation in the case of gifts. Estimates of acquisition 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.

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 reviewed 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. Pollution remediation liabilities are included in other current liabilities and other noncurrent liabilities on the statement of net position. There were no expected recoveries at June 30, 2017 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 refunding 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.

Changes in net pension liability and net retiree health benefit liability not included in pension expense 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:

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.

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 expense incurred, Berkeley's budgetary policies surrounding the various revenue sources or whether the expense is a recurring cost. Unrestricted net position is negative due primarily to liabilities for pension and retiree health benefits exceeding assets available to pay such obligations.

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.

Capital gifts and grants, and transfers from and to 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 netted against student tuition and fees in the statements of revenues, expenses and changes in net position for the year ended June 30, 2017 are as follows:

(in thousands of dollars)		
Student tuition and fees	$	189,709
Auxiliary enterprises		33,026
Scholarship allowances	**$**	**222,735**

State appropriations
The state of California provides appropriations to UC on an annual basis. State educational appropriations are recognized as nonoperating revenue; however, the related expenses for educational or other specific operating purposes are reported as operating expenses. 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, 2017, the facilities and administrative cost recovery totaled $119.8 million, which consisted of $81.1 million from federally sponsored programs and $38.7 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. Net pension liability includes 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. Berkeley is required to contribute at a rate assessed each year by UC. Berkeley's share of obligations for retiree health benefits, deferred inflows of resources, deferred outflows of resources and retiree health benefits 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 UCRHBT have been measured consistent with the accounting policies used by the trust.

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. Berkeley records expense transactions where direct and incremental economic benefits are received by Berkeley.

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 March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for Berkeley's fiscal year beginning July 1, 2017. This statement addresses when Irrevocable Split-Interest Agreements constitute an asset for accounting and financial reporting purposes when the resources are administered by a third party. The Statement also provides expanded guidance for circumstances in which the government holds the assets. Berkeley is evaluating the effect that Statement No. 81 will have on its financial statements.

In December 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for Berkeley's fiscal year beginning July 1, 2018. This Statement establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to asset retirement obligations. The Statement requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred. The deferred outflow of resources associated with an asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. Disclosure requirements include a general description of the asset retirement obligation and associated tangible capital assets, the source of the obligation to retire the assets, the methods and assumptions used to measure the liability, and other relevant information. Berkeley is evaluating the effect that Statement No. 83 will have on its financial statements.

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

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

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

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

NOTE 1: CASH AND CASH EQUIVALENTS

UC maintains centralized management for substantially all of its cash and cash equivalents. Berkeley's cash and cash equivalents consists of cash in 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, 2017, the carrying amount of Berkeley's demand deposits, generally held in nationally recognized banking institutions, was $11.4 million. Berkeley's deposits in demand deposit accounts are uninsured and uncollateralized.

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, 2017, the carrying amount of Berkeley's STIP was $130.9 million.

NOTE 2: INVESTMENTS

The Regents, as the governing Board of UC, are 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 for each 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 economies of scale of investing in a large pool across a broad range of asset classes. TRIP is managed to a total return objective and is intended to supplement STIP. Investments authorized by The Regents for TRIP include a diversified portfolio of equity, fixed income and alternative investments. The fair value of Berkeley's investment in TRIP was $1,083.4 million at June 30, 2017.

GEP is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. GEP is a balanced portfolio and the primary investment vehicle for endowed gift funds. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements. The fair value of Berkeley's investment in GEP was $2,503.0 million at June 30, 2017.

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.

More detail about the University of California's investments can be found in UC's 2016-2017 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 $2.3 million at June 30, 2017.

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 $7.2 million at June 30, 2017.

NOTE 5: ACCOUNTS RECEIVABLE

Accounts receivable and the allowance for uncollectible accounts at June 30, 2017 are as follows:

(in thousands of dollars)

	STATE & FEDERAL GOVERNMENT	LOCAL GOVT & PRIVATE GRANTS & CONTRACTS	OTHER	TOTAL
Accounts receivable	$ 133,143	$ 59,149	$ 33,639	$ 225,931
Allowance for uncollectible accounts	(2)	(17,998)	(8,519)	(26,519)
Accounts receivable, net	**$ 133,141**	**$ 41,151**	**$ 25,120**	**$ 199,412**

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

The expense for uncollectible accounts has decreased the following revenues for the year ended June 30, 2017:

(in thousands of dollars)	
Student tuition and fees	$ 4,683
Grants and contracts	10,000
Educational activities	3
Auxiliary enterprises	1,040
Other operating revenues	555
Expense for uncollectible accounts	$ 16,281

NOTE 6: PLEDGES RECEIVABLE

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

(in thousands of dollars)	
Total pledges receivable outstanding	$ 16,021
Less: Unamortized discount to present value	(312)
Allowance for uncollectible pledges	(10,036)
Total pledges receivable, net	**5,673**
Less: Current portion of pledges receivable	(2,380)
Noncurrent portion of pledges receivable	**$ 3,293**

Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2017 and thereafter are as follows:

(in thousands of dollars)

Year Ending June 30	
2018	$ 11,459
2019	1,582
2020	500
2021	470
2022	260
2023-2027	1,250
Beyond 2027	500
Total payments on pledge	**$ 16,021**

Adjustments to the allowance for uncollectible pledges for Berkeley have increased the following revenues for the year ended June 30, 2017:

(in thousands of dollars)

Private gifts	$ 1,332
Capital gifts and grants	25

NOTE 7: NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2017, along with the allowance for uncollectible amounts, are as follows:

(in thousands of dollars)

		NONCURRENT		
	CURRENT	NOTES	MORTGAGES	TOTAL
Notes and mortgages receivable	$ 4,700	$ 25,442	$ 1,970	$ 27,412
Allowance for uncollectible amounts	(71)	(2,288)		(2,288)
Notes and mortgages receivable, net	**$ 4,629**	**$ 23,154**	**$ 1,970**	**$ 25,124**

NOTE 8: CAPITAL ASSETS

Berkeley's capital asset activity for the year ended June 30, 2017 is as follows:

(in thousands of dollars)

	2016	ADDITIONS	DISPOSALS	2017
ORIGINAL COST				
Land	$ 112,122	$ 7,876		$ 119,998
Infrastructure	72,534	$ 183	-	72,717
Buildings and improvements	4,885,291	(55,059)	(94)	4,830,138
Equipment, software and intangibles	503,065	98,786	(11,281)	590,570
Libraries and collections	1,019,180	36,617	(7,712)	1,048,085
Special collections	128,067	16,883		144,950
Construction in progress	191,280	(21,648)		169,632
Capital assets, at original cost	**$ 6,911,539**	**$ 83,638**	**$ (19,087)**	**$ 6,976,090**

	2016	DEPRECIATION AND AMORTIZATION	DISPOSALS	2017
ACCUMULATED DEPRECIATION AND AMORTIZATION				
Infrastructure	$ 31,789	$ 2,721		$ 34,510
Buildings and improvements	1,778,817	153,921	(50)	1,932,688
Equipment, software and intangibles	370,748	40,982	(10,431)	401,299
Libraries and collections	768,171	30,743	(7,712)	791,202
Accumulated depreciation and amortization	**$ 2,949,525**	**$ 228,367**	**$ (18,193)**	**$ 3,159,699**
Capital assets, net	**$ 3,962,014**			**$ 3,816,391**

Service concession arrangements, reported as buildings and improvements, are $46.2 million of original cost and $1.2 million accumulated depreciation recorded at June 30, 2017.

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 UC's outstanding debt at June 30, 2017 is as follows:

(in thousands of dollars)

	INTEREST RATES	MATURITY YEARS	
INTERIM FINANCING:			
Commercial paper	0.93 - 1.26%		$ 132,259
LONG-TERM FINANCING:			
UC general revenue bonds	0.9 - 7.6%	2018-2048	1,562,203
UC limited projects revenue bonds	2.5 - 5.9%	2018-2022	701,623
UC revenue bonds			2,263,826
Capital lease obligations	1.25 - 10%	2018-2022	5,114
Other borrowings	0.0 - 1.66%	2018-2022	6,736
Total outstanding debt			**2,407,935**
Less: Commercial paper			(132,259)
Current portion of outstanding debt			(111,336)
Noncurrent portion of outstanding debt			**$ 2,164,340**

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 year ended June 30, 2017 was $101.2 million. Interest expense, net of investment income, totaling $1.1 million was capitalized during the year ended June 30, 2017. The remaining $100.1 million in 2017 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 year ended June 30, 2017 is as follows:

(in thousands of dollars)

	UC REVENUE BONDS	CAPITAL LEASE OBLIGATIONS	OTHER BORROWINGS	TOTAL
Long-term debt and capital leases at June 30, 2016	$ 2,223,682	$ 5,269	$ 14,776	$ 2,243,727
New obligations	140,763	2,097	1,207	144,067
Refinancing or prepayment of outstanding debt			(9,195)	(9,195)
Scheduled principal payments	(100,619)	(2,252)	(52)	(102,923)
Long-term debt and capital leases at June 30, 2017	**2,263,826**	**5,114**	**6,736**	**2,275,676**
Less: Current portion	(102,586)	(2,267)	(6,483)	(111,336)
Noncurrent portion at June 30, 2017	**$ 2,161,240**	**$ 2,847**	**$ 253**	**$ 2,164,340**

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.

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.

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 year ended June 30, 2017 was $1.9 billion. The pledge of General Revenues for interest rate swap agreements is on a parity basis with the UC'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 year ended June 30, 2017 were $201.3 million.

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.

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 $5.1 million for the year ended June 30, 2017.

Other UC Borrowings
Other borrowings of $6.7 million at June 30, 2017, from UC's bank line of credit and loans with various expiration dates through 2022, 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, 2017 and thereafter are as presented below:

(in thousands of dollars)

Year Ending June 30	COMMERCIAL PAPER	REVENUE BONDS	CAPITAL LEASES	OTHER BORROWINGS	TOTAL PAYMENT	PRINCIPAL	INTEREST
2018	132,481	195,774	2,362	6,493	337,110	243,595	93,515
2019		125,196	1,460	48	126,704	34,495	92,209
2020		130,922	748	48	131,718	40,810	90,908
2021		126,326	516	42	126,884	37,552	89,332
2022		125,001	210	42	125,253	37,501	87,752
2023-2112		3,675,385		73	3,675,458	2,013,982	1,661,476
Total future debt service	**132,481**	**4,378,604**	**5,296**	**6,746**	**4,523,127**	**$2,407,935**	**$2,115,192**
Less: Interest component of future payments	(222)	(2,114,778)	(182)	(10)	(2,115,192)		
Principal portion of future payments	**$132,259**	**$2,263,826**	**$5,114**	**$6,736**	**$2,407,935**		

Additional information on UC's debt can be obtained in its 2016-2017 Annual Financial Report.

NOTE 10: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The composition of deferred outflows and inflows of resources at June 30, 2017 is summarized as follows:

(in thousands of dollars)

	SERVICE CONCESSION ARRANGEMENTS	NET PENSION LIABILITY	NET RETIREE HEALTH BENEFITS	DEBT REFUNDING	TOTAL
Deferred outflows of resources		$ 90,631	$ 332,180	$ 50,061	$ 472,872
Deferred inflows of resources	$ 44,991	135,067	517,532		697,590

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

Substantially all full-time employees of Berkeley 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 2016-2017 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 determine 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. UC pays a uniform contribution rate of 14.0 percent of covered payroll on behalf of all UCRP members.

Employee contributions to UCRP are accounted for separately and currently accrue interest at 6.0 percent annually. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may also elect monthly retirement income or a lump sum equal to the present value of their accrued benefits. Contributions to UCRP for the year ended June 30, 2017 are as follows:

(in thousands of dollars)	
Contributions - employer	$ 138,359
Contributions - employee	73,648
Total	**$ 212,007**

Additional deposits of $40 million were made by UC to UCRP for the fiscal year ended June 30, 2017. Berkeley reported an other change in net position and an increase in the pension payable to UC for its portion of these additional deposits based upon its proportionate share of covered compensation for the year ended June 30, 2017.

Net Pension Liability

Berkeley's pension obligations as of June 30, 2017 are as follows:

(in thousands of dollars)	
Net pension liability to UCRP	$ 841,650
Payable to UC	300,178
Pension obligations	$1,141,828

Net Pension Liability to UCRP

Berkeley's proportionate share of the net pension liability as of June 30, 2017 is as follows:

(in thousands of dollars)	
Proportion of the net pension liability	8.3%
Proportionate share of net pension liability	$ 841,650

Berkeley's net pension liability was measured as of June 30, 2017 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, 2016. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of certain events occurring far into the future. Berkeley's net pension liability was calculated using the following methods and assumptions:

Inflation	3.0%
Investment rate of return	7.3 %
Projected salary increases	3.8 - 6.2 %
Cost-of-living adjustments	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 2017 were based upon the results of an experience study conducted for the period of July 1, 2010 through June 30, 2014. For pre-retirement mortality rates, the RP-2014 White

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

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

Asset Class	Target Allocation	Long-Term Exptected 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, 2017 was 7.25 percent. 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 and member 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, 2017.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the June 30, 2017 net pension liability of Berkeley calculated using the June 30, 2017 discount rate assumption of 7.25, 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%)
Net pension liability - Berkeley	$ 1,521,791	$ 841,650	$ 273,689

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, 2017:

(in thousands of dollars)	
Deferred Outflows of Resources:	
Changes in proportion and differences between Berkeley's contributions and proportionate share of contributions	$ 10,569
Changes of assumptions or other inputs	65,180
Net difference between projected and actual earnings on pension plan investments	-
Difference between expected and actual experience	14,882
Total Deferred Outflows of Resources	$ 90,631
Deferred Inflows of Resources:	
Changes in proportion and differences between Berkeley's contributions and proportionate share of contributions	$ 74,852
Changes of assumptions or other inputs	31,424
Net difference between projected and actual earnings on pension plan investments	16,259
Difference between expected and actual experience	12,532
Total Deferred Inflows of Resources	$135,067

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)	
Year Ending June 30	
2018	$ (42,012)
2019	55,395
2020	13,501
2021	(66,437)
2022	(4,883)
Total	$ (44,436)

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 the retirement plans can be obtained from the 2016-2017 annual report of the University of California Retirement System.

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, to eligible retirees (and their eligible family members) of UC and its affiliates, including Berkeley, through the

University of California Retiree Health Benefit Trust (UCRHBT). The Regents has the authority to establish and amend the plans.

The contribution requirements of the eligible retirees are established and may be amended by UC. Membership in UCRP is required to become eligible for retiree health benefits. Contributions toward benefits are shared with the retiree. UC 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 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.

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

Participating UC locations, 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 rate was $2.93 per $100 of UCRP covered payroll effective July 1, 2016. Berkeley's contribution for the year ended June 30, 2017 was $27 million.

Net Retiree Health Benefits Liability
Berkeley's proportionate share of the net retiree health benefits liability at June 30, 2017 is as follows:

(in thousands of dollars)	
Proportion of the retiree health benefits liability	8.3%
Proportionate share of retiree health benefits liability	1,556,935

Berkeley's net retiree health benefits liability was measured as of June 30, 2017 and calculated using the plan net position valued as of measurement date and total retiree health benefits liability based upon rolling forward the results of the actuarial valuations as of July 1, 2016. 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 Berkeley's net retiree health benefits liability were:

Discount rate	3.58%
Inflation	3.0%
Payroll growth	3.0%
Projected salary increases	0.25% - 2.65%

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

Sensitivity of Net Retiree Health Benefits Liability to the Health Care Cost Trend Rate
The following presents Berkeley's June 30, 2017 net retiree health benefits liability calculated using the June 30, 2017 health care cost trend rate assumption with initial trend ranging from 5.0 percent to 9.5 percent grading down to an ultimate trend of 5.0 percent over 15 years, as well as what the net retiree health benefits liability would be if it were calculated using a health care cost trend rate different than the current assumption:

(in thousands of dollars)

	1% Decrease (4.0% - 8.5%)	Current Trend Rate (5.0% - 9.5%)	1% Increase (6.0% - 10.5%)
Net retiree health benefits liability - Berkeley	$ 1,323,194	$ 1,556,935	$ 1,880,090

Discount Rate
The discount rate used to estimate the net retiree health benefits liability as of June 30, 2017 as 3.58 percent. The discount rate was based on the Bond Buyer 20-year tax-exempt general obligations municipal bond index rate since UCHRBT plan assets are projected not sufficient to make benefit payments.

Sensitivity of Net Retiree Health Benefits Liability to the Discount Rate Assumption
The following presents Berkeley's June 30, 2017 net retiree health benefits liability calculated using the June 30, 2017 discount rate assumption of 3.58 percent, as well as what the net retiree health benefits liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Net retiree health benefits liability - Berkeley	$ 1,865,442	$ 1,556,935	$ 1,328,736

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 for the year ended June 30, 2017:

(in thousands of dollars)

Deferred Outflows of Resources:	
Changes of assumptions or other inputs	$324,815
Net difference between projected and actual earnings on plan investments	279
Difference between expected and actual experience	7,086
Total Deferred Outflows of Resources	$332,180
Deferred Inflows of Resources:	
Changes in proportion and differences between Berkeley's contributions and proportionate share of contributions	$119,036
Changes of assumptions or other inputs	275,823
Difference between expected and actual experience	122,673
Total Deferred Inflows of Resources	$517,532

The net amount of deferred outflows of resources and deferred inflows of resources as of June 30, 2017 related to retiree health benefits that will be recognized in retiree health benefit expense during the next five years and thereafter are as follows:

(in thousands of dollars)

Year Ending June 30	
2018	$ (17,758)
2019	(17,758)
2020	(17,786)
2021	(17,814)
2022	(17,848)
Thereafter	(96,388)
Total	$ (185,352)

Additional information on the retiree health plans can be obtained from UC's 2016–2017 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, 2017 is as follows:

(in thousands of dollars)

	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
Endowments	$ 390,762	$ 993,099	$ 1,664	$ 1,385,525
Funds functioning as endowments		1,092,712		1,092,712
Annuity and life income	4,369			4,369
Gifts		341,903	5,312	347,215
Total endowments and gifts	**$ 395,131**	**$ 2,427,714**	**$ 6,976**	**$ 2,829,821**

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 $1,015.1 million at June 30, 2017.

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 $84.8 million for the year ended June 30, 2017. The portion of this annual income distribution from accumulated capital gains, in addition to the dividend and interest income earned, was $63.1 million for the year ended June 30, 2017.

NOTE 14: COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled $182.5 million at June 30, 2017.

Berkeley leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the year ended June 30, 2017 were $26.2 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
2018	$	12,653
2019		10,936
2020		4,580
2021		2,374
2022		1,873
2023-2027		9,008
Total	**$**	**41,424**

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.