UNIVERSITY OF CALIFORNIA, BERKELEY

Annual Financial Report

2017-18

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UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF NET POSITION (unaudited)

At June 30, 2018 and 2017 (In Thousands of Dollars)	CAMPUS *		FOUNDATION	
	2018	**2017**	**2018**	**2017**
ASSETS				
Cash and cash equivalents	$ 235,410	$ 142,545	$ 6,279	$ 4,587
Short-term investments			56,975	39,040
Investments held by trustees	1,678	1,360		
Accounts receivable, net	180,881	199,412		
Pledges receivable, net	2,985	2,380	41,772	31,825
Notes and mortgages receivable, net	7,057	4,629		
Inventories	4,871	5,035		
Other current assets	5,216	5,136	2,896	618
Current assets	**438,098**	**360,497**	**107,922**	**76,070**
Investments	3,750,499	3,586,379	2,113,645	1,956,253
Investments held by trustees	511	984		
Restricted bond proceeds held by UC	4,216	7,172		
Pledges receivable, net	2,451	3,293	75,244	80,547
Notes and mortgages receivables, net	17,794	25,124		
Capital assets, net	3,957,809	3,816,391		
Other noncurrent assets	1,030	1,431	4,069	3,720
Noncurrent assets	**7,734,310**	**7,440,774**	**2,192,958**	**2,040,520**
Total assets	**8,172,408**	**7,801,271**	**2,300,880**	**2,116,590**
DEFERRED OUTFLOWS OF RESOURCES	**373,584**	**472,872**		
LIABILITIES				
Accounts payable	70,658	85,576	851	804
Accrued salaries	51,781	51,236		
Employee benefits	9,761	10,227		
Unearned revenue	192,351	198,455		
Commercial paper	204,537	132,259		
Current portion of long-term debt	105,746	111,336		
Funds held for others	2,403	2,456	7,459	7,325
Other current liabilities	112,042	115,014	8,230	8,250
Current liabilities	**749,279**	**706,559**	**16,540**	**16,379**
Federal refundable loans	21,040	22,663		
Long-term debt	2,148,065	2,164,340		
Net pension liability	1,045,619	1,141,828		
Net retiree health benefits liability	1,443,567	1,556,935		
Other noncurrent liabilities	26,355	29,535	79,454	78,392
Noncurrent liabilities	**4,684,646**	**4,915,301**	**79,454**	**78,392**
Total liabilities	**5,433,925**	**5,621,860**	**95,994**	**94,771**
DEFERRED INFLOWS OF RESOURCES	**858,818**	**701,959**	**69,523**	**67,768**
NET POSITION				
Net investment in capital assets	1,534,095	1,450,997		
Restricted:				
Nonexpendable: Endowments and gifts	391,451	390,762	1,158,752	1,072,195
Expendable: Endowments and gifts	2,541,913	2,427,714	973,507	877,471
Expendable: Other, including debt service, loans, capital projects and appropriations	57,468	51,430		
Unrestricted	(2,271,678)	(2,370,579)	3,104	4,385
Total net position	**$ 2,253,249**	**$ 1,950,324**	**$ 2,135,363**	**$ 1,954,051**

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

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

At June 30, 2018 and 2017 (In Thousands of Dollars)	CAMPUS *		FOUNDATION	
	2018	**2017**	**2018**	**2017**
OPERATING REVENUES				
Student tuition and fees, net	$ 933,909	$834,442		
Grants and contracts, net:				
Federal	367,780	377,872		
State	93,563	79,555		
Private	212,358	179,739		
Local	13,368	12,978		
Educational activities, net	88,108	85,636		
Auxiliary enterprises, net	186,434	204,941		
Campus foundation private gifts			$ 181,285	$ 115,125
Other operating revenues, net	121,507	76,351	238	454
Total operating revenues	**2,017,027**	**1,851,514**	**181,523**	**115,579**
OPERATING EXPENSES				
Salaries and wages	1,255,313	1,219,539		
Pension benefits	99,394	151,246		
Retiree health benefits	77,158	116,226		
Other employee benefits	278,490	279,952		
Supplies and materials	157,992	155,916		
Depreciation and amortization	224,036	228,367		
Scholarships and fellowships	167,418	134,580		
Utilities	31,944	40,952		
Campus foundation grants			227,507	198,795
Other operating expenses	437,871	446,335	9,670	10,161
Total operating expenses	**2,729,616**	**2,773,113**	**237,177**	**208,956**
Operating loss	**(712,589)**	**(921,599)**	**(55,654)**	**(93,377)**
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	352,912	368,270		
State financing appropriations	38,019	26,929		
Build America Bonds federal interest subsidies	9,489	9,797		
Federal Pell Grants	43,364	38,197		
Private gifts, net	315,857	267,563		
Investment income:				
Short-Term Investment Pool and other, net	32,175	25,456		
Endowment, net	22,685	21,724		
Campus foundation			9,083	8,415
Net appreciation in fair value of investments	167,007	299,475	147,913	202,919
Interest expense	(99,093)	(100,133)		
Other nonoperating (expenses) revenues, net	(7,309)	27,186		
Net nonoperating revenues	**875,106**	**984,464**	**156,996**	**211,334**
Income before other changes in net position	**162,517**	**62,865**	**101,342**	**117,957**
OTHER CHANGES IN NET POSITION				
Capital gifts and grants, net	100,925	53,993		
Permanent endowments			79,970	67,632
Transfer for pension benefits from UC	24,613	22,653		
Transfers from (to) UC - capital asset related	14,870	(202,188)		
Increase (Decrease) in net position	**302,925**	**(62,677)**	**181,312**	**185,589**
NET POSITION				
Beginning of year, as previously reported	1,954,693	2,783,584	1,954,051	1,828,044
Cumulative effect of accounting change	(4,369)	(770,583)		(59,582)
Beginning of year, as restated	1,950,324	2,013,001	1,954,051	1,768,462
End of year	**$ 2,253,249**	**$ 1,950,324**	**$ 2,135,363**	**$ 1,954,051**

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF CASH FLOWS (unaudited)

Years Ended June 30, 2018 and 2017 (In Thousands of Dollars)	CAMPUS *		FOUNDATION	
	2018	**2017**	**2018**	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$ 932,454	$ 840,045		
Grants and contracts	700,915	684,449		
Educational activities	87,473	82,660		
Auxiliary enterprises	171,259	205,577		
Collection of loans from students and employees	10,072	7,360		
Campus foundation private gifts			$ 162,678	$ 115,399
Payments to employees	(1,251,653)	(1,278,736)		
Payments for pension benefits	(143,374)	(148,289)		
Payments for retiree health benefits	(26,623)	(27,193)		
Payments for other employee benefits	(288,832)	(287,324)		
Payments to suppliers and utilities	(626,115)	(649,618)	(12,184)	(10,166)
Payments for scholarships and fellowships	(167,477)	(134,496)		
Loans issued to students and employees	(5,290)	(5,718)		
Payments to campus and beneficiaries			(234,988)	(206,011)
Other receipts	125,111	65,720	2,452	2,842
Net cash used by operating activities	**(482,080)**	**(645,563)**	**(82,042)**	**(97,936)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	352,912	368,270		
Federal Pell grants	43,052	37,099		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes			61,846	49,682
Other private gifts	316,095	268,548		
Student direct lending receipts	146,459	142,611		
Student direct lending payments	(146,459)	(142,611)		
Other receipts	2,218	22,490		
Net cash provided by noncapital financing activities	**714,277**	**696,407**	**61,846**	**49,682**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
State financing appropriations	38,019	26,929		
Build America Bonds federal interest subsidies	9,583	9,797		
Capital gifts and grants	24,282	23,519		
Proceeds from debt issuance	98,424	150,216		
Proceeds from the sale of capital assets	129	101		
Purchase of capital assets	(200,261)	(25,146)		
Refinancing or prepayment of outstanding debt	(49)	(202,239)		
Scheduled principal paid on debt and capital leases	(33,686)	(87,293)		
Interest paid on debt and capital leases	(107,948)	(107,040)		
Net cash used by capital and related financing activities	**(171,507)**	**(211,156)**		
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments, net of purchases of investments		8,862	12,805	40,769
Investment income, net of investment expenses	32,175	25,456	9,083	8,415
Net cash provided by investing activities	**32,175**	**34,318**	**21,888**	**49,184**
Net increase (decrease) in cash and cash equivalents	**92,865**	**(125,994)**	**1,692**	**930**
Cash and cash equivalents, beginning of year	**142,545**	**268,539**	**4,587**	**3,657**
Cash and cash equivalents, end of year	**$ 235,410**	**$ 142,545**	**$ 6,279**	**$ 4,587**

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF CASH FLOWS (continued)

Years Ended June 30, 2018 and 2017 (In Thousands of Dollars)	CAMPUS *		FOUNDATION	
	2018	**2017**	**2018**	**2017**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating loss	$ (712,589)	$ (921,599)	$ (55,654)	$ (93,377)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation and amortization expense	224,036	228,367		
Noncash gifts			(13,329)	(15,419)
Allowance for uncollectible accounts	5,111	14,446	(4,057)	7,171
Loss on impairment of capital assets	4,863			
Change in assets and liabilities:				
Accounts and pledges receivables	17,509	30,039	(587)	8,352
Investments held by trustees	(314)	432		
Notes and mortgages receivable	60	95		
Inventories	164	(28)		
Other assets	321	(2,294)	(3,687)	1,062
Accounts payable	(10,635)	(13,068)	46	(1,060)
Accrued salaries	545	(55,092)		
Employee benefits	(465)	(13,641)		
Unearned revenue	(6,104)	(12,742)	2,002	1,509
Net pension liability	(44,878)	11,364		
Net retiree health benefits liability	42,845	81,749		
Other liabilities	(2,549)	6,407	(6,776)	(6,174)
Net cash used by operating activities	**$ (482,080)**	**$ (645,563)**	**$ (82,042)**	**$ (97,936)**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired through capital leases	$ 189	$ 2,407		
Capital assets acquired with a liability at year-end	2,765	8,904		
Gifts of capital assets	77,614	29,700		
Other noncash gifts			$ 27,126	$ 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. 81, *Irrevocable Split-Interest Agreements*, was implemented by Berkeley as of July 1, 2017. The Statement establishes standards for accounting and financial reporting for irrevocable split-interest agreements. The Statement requires Berkeley to recognize assets, liabilities and deferred inflows of resources for split-interest agreements administered by Berkeley at the inception of the agreement. The Statement also requires Berkeley to recognize assets and deferred inflows representing its beneficial interests in irrevocable split-interest agreements that are administered by third parties. The Statement requires Berkeley to recognize revenue when the resources become available to spend. The effects of reporting Statement No. 81 in Berkeley's financial statements for the year ended June 30, 2017, were as follows:

(in thousands of dollars)	YEAR ENDED JUNE 30, 2017		
	As Previously Reported	Effect of Adoption of Statement No. 81	As Restated
Statement of Net Position			
Deferred inflow of resources	$ 697,590	$ 4,369	$ 701,959
Net position			
Net investment in capital assets	$ 1,450,997		$ 1,450,997
Restricted:			
Nonexpendable : Endowment and gifts	395,131	(4,369)	390,762
Expendable : Endowment and gifts	2,427,714		2,427,714
Expendable : Other, including debt service, loans, capital projects and appropriations	51,430		51,430
Unrestricted:	(2,370,579)		(2,370,579)
Total net position	**$ 1,954,693**	**$ (4,369)**	**$ 1,950,324**
Statement of Revenues, Expenses and Changes in Net Position			
Decrease in net position	$ (62,677)		(62,677)
Beginning of year, as previously reported	2,783,584		2,783,584
Cumulative effect of accounting change	(766,214)	(4,369)	(770,583)
Net position, end of year	**$ 1,954,693**	**$ (4,369)**	**$ 1,950,324**

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. Implementation of Statement No. 85 had no impact on the financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, effective for 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. Implementation of Statement No. 86 had no impact on the 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 2017-2018 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.

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, 2018 and 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.

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

Changes in net pension liability and net retiree health benefit liability not included in pension 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 is 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 years ended June 30 are as follows:

(in thousands of dollars)

	2018	2017
Student tuition and fees	$ 198,518	$ 189,709
Auxiliary enterprises	32,306	33,026
Scholarship allowances	**$ 230,824**	**$ 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, 2018, the facilities and administrative cost recovery totaled $123.8 million, which consisted of $84.7 million from federally sponsored programs and $39.1 million from other sponsors. 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.

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 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 June 2017, the GASB issued Statement No. 87, *Leases*, effective for 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.

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

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

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests — An Amendment of GASB Statements No. 14 and No. 61*, effective for Berkeley's fiscal year beginning July 1, 2019. The Statement defines a majority equity interest in a legally separate organization and clarifies the accounting and financial reporting for majority equity interests, classified as either investments or component units, in the financial statements. Berkeley is evaluating the effect that Statement No. 90 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, 2018 and 2017, the carrying amount of Berkeley's demand deposits, generally held in nationally recognized banking institutions, was $1.7 million and $11.4 million, respectively. 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, 2018 and 2017, the carrying amount of Berkeley's STIP was $233.4 million and $130.9 million, respectively.

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 intermediate-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 $1,107.2 million and $1,083.4 million at June 30, 2018 and 2017, respectively.

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 $2,643.3 million and $2,503.0 million at June 30, 2018 and 2017, 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 and changes in interest rates.

More detail about the University of California's investments can be found in UC's 2017-2018 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 $2.2 million and $2.3 million at June 30, 2018 and 2017, 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 $4.2 million and $7.2 million at June 30, 2018 and 2017, respectively.

NOTE 5: ACCOUNTS RECEIVABLE

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

(in thousands of dollars)

	STATE & FEDERAL GOVERNMENT		LOCAL GOVT & PRIVATE GRANTS & CONTRACTS		OTHER		TOTAL
At June 30, 2018							
Accounts receivable	$	118,225	$	53,729	$	40,345	$ 212,299
Allowance for uncollectible accounts				(17,539)		(13,879)	(31,418)
Accounts receivable, net	**$**	**118,225**	**$**	**36,190**	**$**	**26,466**	**$ 180,881**
At June 30, 2017							
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 either increased or (decreased) the following revenues for the years ended June 30:

(in thousands of dollars)

	2018	2017
Student tuition and fees	$ (174)	$ 4,683
Grants and contracts	-	10,000
Educational activities	(7)	3
Auxiliary enterprises	(409)	1,040
Other operating revenues	1,109	555
Expense for uncollectible accounts	$ 519	$ 16,281

NOTE 6: PLEDGES RECEIVABLE

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

(in thousands of dollars)

	2018	2017
Total pledges receivable outstanding	$ 9,929	$ 16,021
Less: Unamortized discount to present value	(181)	(312)
Allowance for uncollectible pledges	(4,312)	(10,036)
Total pledges receivable, net	**5,436**	**5,673**
Less: Current portion of pledges receivable	(2,985)	(2,380)
Noncurrent portion of pledges receivable	**$ 2,451**	**$ 3,293**

Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2018 and thereafter are as follows:

(in thousands of dollars)

Year Ending June 30	
2019	$ 7,187
2020	402
2021	325
2022	265
2023	250
2024-2028	250
Beyond 2028	1,250
Total payments on pledges receivable	**$ 9,929**

Adjustments to the allowance for uncollectible pledges for Berkeley have decreased the following revenues for the years ended June 30, 2018 and 2017:

(in thousands of dollars)

	2018	2017
Private gifts	$ 3,867	$ 1,332
Capital gifts and grants	-	25

NOTE 7: NOTES AND MORTGAGES RECEIVABLE

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

(in thousands of dollars)

		NONCURRENT		
	CURRENT	NOTES	MORTGAGES	TOTAL
At June 30, 2018				
Notes and mortgages receivable	$ 7,336	$ 19,771	$ 315	$ 20,086
Allowance for uncollectible amounts	(279)	(2,292)		(2,292)
Notes and mortgages receivable, net	**$ 7,057**	**$ 17,479**	**$ 315**	**$ 17,794**
At June 30, 2017				
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 years ended June 30 is as follows:

(in thousands of dollars)

	2016	ADDITIONS	DISPOSALS	2017	ADDITIONS	DISPOSALS	2018
ORIGINAL COST							
Land	$ 112,122	$ 7,876		$ 119,998	$ (30)		$ 119,968
Infrastructure	72,534	$ 183	-	72,717	$ 2,236	-	74,953
Buildings and improvements	4,885,291	(55,059)	(94)	4,830,138	369,531	(1,213)	5,198,456
Equipment, software and intangibles	503,065	98,786	(11,281)	590,570	37,832	(17,428)	610,974
Libraries and collections	1,019,180	36,617	(7,712)	1,048,085	33,753	(2,368)	1,079,470
Special collections	128,067	16,883		144,950	5,728		150,678
Construction in progress	191,280	(21,648)		169,632	(92,647)		76,985
Capital assets, at original cost	**$ 6,911,539**	**$ 83,638**	**$ (19,087)**	**$ 6,976,090**	**$ 356,403**	**$ (21,009)**	**$ 7,311,484**

	2016	DEPRECIATION AND AMORTIZATION	DISPOSALS	2017	DEPRECIATION AND AMORTIZATION	DISPOSALS	2018
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure	$ 31,789	$ 2,721		$ 34,510	$ 2,617		$ 37,127
Buildings and improvements	1,778,817	153,921	(50)	1,932,688	149,707	(15,601)	2,066,794
Equipment, software and intangibles	370,748	40,982	(10,431)	401,299	40,673	(12,091)	429,881
Libraries and collections	768,171	30,743	(7,712)	791,202	31,039	(2,368)	819,873
Accumulated depreciation and amortization	**$ 2,949,525**	**$ 228,367**	**$ (18,193)**	**$ 3,159,699**	**$ 224,036**	**$ (30,060)**	**$ 3,353,675**
Capital assets, net	**$ 3,962,014**			**$ 3,816,391**			**$ 3,957,809**

For the years ended June 30, 2018 and 2017, service concession arrangements, reported as buildings and improvements, were $130.1 million and $46.2 million of original cost and $3.1 million and $1.2 million accumulated depreciation, respectively.

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 is as follows:

(in thousands of dollars)

	INTEREST RATES	MATURITY YEARS	2018	2017
INTERIM FINANCING:				
Commercial paper	0.12% - 0.18%		$204,537	$132,259
LONG-TERM FINANCING:				
UC revenue bonds:				
General revenue bonds	1.40% - 7.55%	2018-2112	1,579,164	1,562,203
Limited projects revenue bonds	2.91% - 6.03%	2018-2050	665,185	701,623
UC revenue bonds			2,244,349	2,263,826
Capital lease obligations	1.25% - 5.39%	2018-2022	3,036	5,114
Other borrowings	1.66%	2018-2024	6,426	6,736
Total outstanding debt			**2,458,348**	**2,407,935**
Less: Commercial paper			(204,537)	(132,259)
Current portion of outstanding debt			(105,746)	(111,336)
Noncurrent portion of outstanding debt			**$2,148,065**	**$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, 2018 and 2017 was $104.3 million and $101.2 million, respectively. Interest expense, net of investment income, totaling $5.2 million and $1.1 million was capitalized during the years ended June 30, 2018 and 2017, respectively. The remaining $99.1 million and $100.1 million in 2018 and 2017, respectively, 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
Year ended June 30, 2018				
Long-term debt and capital leases at June 30, 2017	$ 2,263,826	$ 5,114	$ 6,736	$ 2,275,676
New obligations	83,110	188	6,173	89,471
Refinancing or prepayment of outstanding debt				-
Scheduled principal payments	(102,586)	(2,267)	(6,483)	(111,336)
Long-term debt and capital leases at June 30, 2018	**2,244,350**	**3,035**	**6,426**	**2,253,811**
Less: Current portion	(104,226)	(1,472)	(48)	(105,746)
Noncurrent portion at June 30, 2018	**$ 2,140,124**	**$ 1,563**	**$ 6,378**	**$ 2,148,065**
Year ended June 30, 2017				
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. The bonds generally have annual principal and semiannual or monthly 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 the University, 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. All Indentures permit UC to issue additional bonds as long as certain conditions are met.

General Revenue Bonds are collateralized solely by General Revenues as defined in the General Revenue Bond Indenture. General Revenues are certain operating and nonoperating revenues of the University consisting of gross student tuition and fees; a portion of state appropriations; 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 the University 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 covenants. 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 the University to achieve the sum of gross project revenues equal to 1.1 times debt service and maintain certain other covenants. The pledge of revenues for Limited Project Revenue Bonds is subordinate to the pledge of revenues for General Revenue Bonds, but senior to pledges for commercial paper notes.

Capital Leases

Berkeley's capital leases with other lessors, typically for equipment, totaled $3.0 million and $5.1 million for the years ended June 30, 2018 and 2017, respectively.

Other UC Borrowings

Other borrowings of $6.4 million and $6.7 million at June 30, 2018 and 2017, respectively, from UC's bank line of credit and loans with various expiration dates through 2024, 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, 2018 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
2019	204,841	141,553	1,527	58	347,979	246,058	101,921
2020		140,725	815	58	141,598	41,164	100,434
2021		135,906	583	52	136,541	37,690	98,851
2022		134,582	209	52	134,843	37,572	97,271
2023		133,903	0	52	133,955	38,265	95,690
2024-2112		3,833,922	0	6,214	3,840,136	2,057,599	1,782,537
Total future debt service	**204,841**	**4,520,591**	**3,134**	**6,486**	**4,735,052**	**$2,458,348**	**$2,276,704**
Less: Interest component of future payments	(304)	(2,276,242)	(98)	(60)	(2,276,704)		
Principal portion of future payments	**$204,537**	**$2,244,349**	**$3,036**	**$6,426**	**$2,458,348**		

Additional information on UC's debt can be obtained in its 2017-2018 Annual Financial Report.

NOTE 10: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The composition of deferred outflows and inflows of resources at June 30, 2018 and 2017 is summarized as follows:

(in thousands of dollars)

	SERVICE CONCESSION ARRANGEMENTS	NET PENSION LIABILITY	NET RETIREE HEALTH BENEFITS	DEBT REFUNDING	IRREVOCABLE SPLIT-INTEREST AGREEMENTS	TOTAL
At June 30, 2018						
Deferred outflows of resources		$ 58,229	$ 270,414	$ 44,941		$ 373,584
Deferred inflows of resources	$ 126,952	116,162	611,979		$ 3,725	858,818
At June 30, 2017						
Deferred outflows of resources		$ 90,631	$ 332,180	$ 50,061		$ 472,872
Deferred inflows of resources	$ 44,991	135,067	517,532		$ 4,369	701,959

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 defined benefit plan funded with University and employee contributions, and the University of California Retirement Savings Program (UCRSP) that includes 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 2017-2018 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 as of June 30, 2018 and 2017, are as follows:

(in thousands of dollars)

	2018	2017
Contributions - employer	$ 140,595	$ 138,359
Contributions - employee	68,382	73,648
Total	**$ 208,977**	**$ 212,007**

Additional deposits were made by UC to UCRP for the fiscal years ended June 30, 2018 and 2017. Berkeley reported other change in net position and an increase in the pension payable to UC for its portion of these additional deposits based upon their proportionate share of covered compensation for the year ended June 30, 2018 and 2017 of $30.7 and $40.0 million, respectively.

Net Pension Liability
Berkeley's pension obligations as of June 30, 2018 and 2017, are as follows:

(in thousands of dollars)

	2018	2017
Net pension liability to UCRP	$ 739,402	$ 841,650
Payable to UC	306,217	300,178
Net pension liability	$ 1,045,619	$ 1,141,828

Net Pension Liability to UCRP
Berkeley's proportionate share of the net pension liability as of June 30, 2018 and 2017, is as follows:

(in thousands of dollars)

	2018	2017
Proportion of the net pension liability	7.8%	8.3%
Proportionate share of net pension liability	$ 739,402	$ 841,650

Berkeley's net pension liability was measured as of June 30 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 certain events occurring far into the future. Berkeley's net pension liability was calculated using the following methods and assumptions:

(shown as percentage)	2018	2017
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 as of June 30, 2018 and 2017 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 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 investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption as of June 30, 2018 and 2017 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	6.5	4.2
Real Assets	3.0	4.4
Total	**100%**	**5.6%**

Discount Rate

The discount rate used to estimate the net pension liability as of June 30, 2018 and 2017 was 7.25 percent. To calculate the discount rate, cash flows into and out of UCRP were projected in order to determine whether 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 and member 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, 2018 and 2017.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the June 30, 2018 net pension liability of Berkeley calculated using the June 30, 2018 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	$ 1,416,448	$ 739,402	$ 174,414

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)

	2018	2017
Deferred Outflows of Resources:		
Changes in proportion and differences between Berkeley's contributions		
and proportionate share of contributions	$ 3,267	$ 10,569
Changes of assumptions or other inputs	35,858	65,180
Difference between expected and actual experience	19,104	14,882
Total Deferred Outflows of Resources	$ 58,229	$ 90,631
Deferred Inflows of Resources:		
Changes in proportion and differences between Berkeley's contributions		
and proportionate share of contributions	$ 94,905	$ 74,852
Changes of assumptions or other inputs	-	31,424
Net difference between projected and actual earnings on pension plan investments	16,921	16,259
Difference between expected and actual experience	4,336	12,532
Total Deferred Inflows of Resources	$ 116,162	$ 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	
2019	$ 39,019
2020	(596)
2021	(75,811)
2022	(17,293)
2023	(3,252)
Total	$ (57,933)

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 2017-2018 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 plan.

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 administrator 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 \$2.80 and \$2.93 per \$100 of UCRP covered payroll effective July 1, 2017 and 2016, respectively. Berkeley's contribution for the years ended June 30, 2018 and 2017, was \$26.6 million and \$27.2 million, respectively.

Net Retiree Health Benefits Liability

Berkeley's proportionate share of the net retiree health benefits liability as of June 30, 2018 and 2017, is as follows:

(in thousands of dollars)

	2018	2017
Proportion of the retiree health benefits liability	7.9%	8.3%
Proportionate share of retiree health benefits liability	$1,443,567	$1,556,935

Berkeley's net retiree health benefits liability was measured as of June 30 based on rolling forward 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. Significant actuarial methods and assumptions used to calculate Berkeley's net retiree health benefits liability were:

(shown as percentage)	2018	2017
Discount rate	3.9%	3.6%
Inflation	3.0	3.0
Investment rate of return	3.0	3.0
Health care cost trend rates	Initially ranges from 5.0 to 9.3 decreasing to an ultimate rate of 5.0 for 2033 and later years	Initially ranges from 5.0 to 9.5 decreasing to an ultimate rate of 5.0 for 2032 and later years

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 active members and healthy retirees, the RP-2014 White Collar Mortality Tables are used (separate tables for males and females), 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, 2018 net retiree health benefits liability calculated using the June 30, 2018 health care cost trend rate assumptions with initial trend ranging from 5.0 percent to 9.3 percent grading down to an ultimate trend of 5.0 percent over 15 years, as well as what the net retiree health benefits liability would be if it were calculated using a health care cost trend rate different than the current assumption:

(in thousands of dollars)

	1% Decrease (4.0% - 8.3%)	Current Trend Rate (5.0% - 9.3%)	1% Increase (6.0% - 10.3%)
Net retiree health benefits liability - Berkeley	$ 1,235,918	$ 1,443,567	$ 1,735,009

Discount Rate
The discount rate used to estimate the net retiree health benefits liability as of June 30, 2018 and 2017, was 3.87 and 3.58 percent, respectively. 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, 2018 net retiree health benefits liability calculated using the June 30, 2018 discount rate assumption of 3.87 percent, as well as what the net retiree health benefits liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Net retiree health benefits liability - Berkeley	$ 1,723,345	$ 1,443,567	$ 1,239,957

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 years ended June 30:

(in thousands of dollars)

	2018	2017
Deferred Outflows of Resources:		
Changes of assumptions or other inputs	$ 264,199	$ 324,815
Net difference between projected and actual earnings on plan investments	302	279
Difference between expected and actual experience	5,913	7,086
Total Deferred Outflows of Resources	$ 270,414	$ 332,180
Deferred Inflows of Resources:		
Changes in proportion and differences between Berkeley's contributions and proportionate share of contributions	$ 177,039	$ 119,036
Changes of assumptions or other inputs	254,711	275,823
Difference between expected and actual experience	180,229	122,673
Total Deferred Inflows of Resources	$ 611,979	$ 517,532

The net amount of deferred outflows of resources and deferred inflows of resources as of June 30, 2018 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	
2019	$ (42,219)
2020	(42,245)
2021	(42,272)
2022	(42,305)
2023	(42,336)
Thereafter	(130,188)
Total	$ (341,565)

Additional information on the retiree health plans can be obtained from UC's 2017–2018 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, 2018 and 2017, is as follows:

(in thousands of dollars)

	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
At June 30, 2018				
Endowments	$ 391,451	$ 988,821	$ 1,156	$ 1,381,428
Funds functioning as endowments		1,158,591		1,158,591
Gifts		394,501	19,433	413,934
Total endowments and gifts	**$ 391,451**	**$ 2,541,913**	**$ 20,589**	**$ 2,953,953**
At June 30, 2017				
Endowments	$ 390,762	$ 993,099	$ 1,664	$ 1,385,525
Funds functioning as endowments		1,092,712		1,092,712
Gifts		341,903	5,312	347,215
Total endowments and gifts	**$ 390,762**	**$ 2,427,714**	**$ 6,976**	**$ 2,825,452**

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 $1,089.5 million and $1,015.1 million at June 30, 2018 and 2017, 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 $87.4 million and $84.8 million for the years ended June 30, 2018 and 2017, respectively. The portion of this annual income distribution from accumulated capital gains, in addition to the dividend and interest income earned, was $64.7 million and $63.1 million for the year ended June 30, 2018 and 2017, respectively.

NOTE 14: COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled $123.3 million at June 30, 2018.

Berkeley leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the year ended June 30, 2018 were $24.6 million. The terms of operating leases extend through 2028.

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	
2019	$	11,705
2020		5,339
2021		2,992
2022		2,053
2023		2,106
2024-2028		7,119
Total	**$**	**31,314**

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.