UNIVERSITY OF CALIFORNIA, BERKELEY

Annual Financial Report
2018-19

TABLE OF CONTENTS

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF NET POSITION (unaudited)

At June 30, 2019 and 2018 (In Thousands of Dollars)	CAMPUS *		FOUNDATION	
	2019	**2018**	**2019**	**2018**
ASSETS				
Cash and cash equivalents	$ 312,810	$ 237,088	$ 8,388	$ 6,279
Short-term investments			100,131	56,975
Accounts receivable, net	193,432	180,881		
Pledges receivable, net	5,633	2,985	29,167	41,772
Notes and mortgages receivable, net	5,608	7,057		
Inventories	5,410	4,871		
Other current assets	4,293	5,216	2,517	2,896
Current assets	**527,186**	**438,098**	**140,203**	**107,922**
Investments	3,908,633	3,750,499	2,227,911	2,113,645
Investments held by trustees	520	511		
Restricted bond proceeds held by UC	2,720	4,216		
Pledges receivable, net	15,204	2,451	69,108	75,244
Notes and mortgages receivables, net	17,484	17,794		
Capital assets, net	3,946,867	3,957,809		
Other noncurrent assets	779	1,030	4,085	4,069
Noncurrent assets	**7,892,207**	**7,734,310**	**2,301,104**	**2,192,958**
Total assets	**8,419,393**	**8,172,408**	**2,441,307**	**2,300,880**
DEFERRED OUTFLOWS OF RESOURCES	**827,761**	**381,027**		
LIABILITIES				
Accounts payable	73,498	70,658	3,944	851
Accrued salaries	9,935	51,781		
Employee benefits	1,123	9,761		
Unearned revenue	217,516	192,351		
Commercial paper	247,251	204,537		
Current portion of long-term debt	113,064	105,746		
Funds held for others	3,235	2,403	7,777	7,459
Other current liabilities	95,710	112,042	7,985	8,230
Current liabilities	**761,332**	**749,279**	**19,706**	**16,540**
Federal refundable loans	21,570	21,040		
Long-term debt	2,103,042	2,148,065		
Net pension liability	1,682,034	1,045,619		
Net retiree health benefits liability	1,496,425	1,443,567		
Other noncurrent liabilities	61,244	41,755	78,739	79,454
Noncurrent liabilities	**5,364,315**	**4,700,046**	**78,739**	**79,454**
Total liabilities	**6,125,647**	**5,449,325**	**98,445**	**95,994**
DEFERRED INFLOWS OF RESOURCES	**907,964**	**858,818**	**63,275**	**69,523**
NET POSITION				
Net investment in capital assets	1,510,552	1,534,095		
Restricted:				
Nonexpendable: Endowments and gifts	392,908	391,451	1,292,926	1,158,752
Expendable: Endowments and gifts	2,620,776	2,541,913	975,576	973,507
Expendable: Other, including debt service, loans, capital projects and appropriations	63,388	57,468		
Unrestricted	(2,374,081)	(2,279,635)	11,085	3,104
Total net position	**$ 2,213,543**	**$ 2,245,292**	**$ 2,279,587**	**$ 2,135,363**

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

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

At June 30, 2019 and 2018 (In Thousands of Dollars)	CAMPUS *		FOUNDATION	
	2019	**2018**	**2019**	**2018**
OPERATING REVENUES				
Student tuition and fees, net	$ 968,549	$933,909		
Grants and contracts, net:				
Federal	381,590	367,780		
State	74,391	93,563		
Private	208,332	212,358		
Local	15,070	13,368		
Educational activities, net	91,000	88,108		
Auxiliary enterprises, net	197,727	186,434		
Campus foundation private gifts			$ 146,998	$ 181,285
Other operating revenues, net	114,499	121,507	10	238
Total operating revenues	**2,051,158**	**2,017,027**	**147,008**	**181,523**
OPERATING EXPENSES				
Salaries and wages	1,294,488	1,255,313		
Pension benefits	280,069	99,394		
Retiree health benefits	62,718	77,158		
Other employee benefits	343,409	253,877		
Supplies and materials	173,936	157,992		
Depreciation and amortization	235,967	224,036		
Scholarships and fellowships	160,293	167,418		
Utilities	39,277	31,944		
Campus foundation grants			215,392	227,507
Other operating expenses	464,948	437,871	12,762	9,670
Total operating expenses	**3,055,105**	**2,705,003**	**228,154**	**237,177**
Operating loss	**(1,003,947)**	**(687,976)**	**(81,146)**	**(55,654)**
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	402,698	352,912		
State financing appropriations	39,172	38,019		
Build America Bonds federal interest subsidies	9,203	9,489		
Federal Pell Grants	43,882	43,364		
Private gifts, net	318,866	315,857		
Investment income:				
Short-Term Investment Pool and other, net	42,503	32,175		
Endowment, net	17,845	22,685		
Campus foundation			11,025	9,083
Net appreciation in fair value of investments	162,537	167,007	95,465	147,913
Interest expense	(100,473)	(99,093)		
Other nonoperating revenues (expenses), net	6,412	(7,566)		
Net nonoperating revenues	**942,645**	**874,849**	**106,490**	**156,996**
(Loss) Income before other changes in net position	**(61,302)**	**186,873**	**25,344**	**101,342**
OTHER CHANGES IN NET POSITION				
Capital gifts and grants, net	29,354	100,925		
Permanent endowments			118,880	79,970
Transfers from UC - capital asset related	199	14,870		
(Decrease) Increase in net position	**(31,749)**	**302,668**	**144,224**	**181,312**
NET POSITION				
Beginning of year, as previously reported	2,253,249	1,954,693	2,135,363	1,954,051
Cumulative effect of accounting change	(7,957)	(12,069)		
Beginning of year, as restated	2,245,292	1,942,624	2,135,363	1,954,051
End of year	**$ 2,213,543**	**$ 2,245,292**	**$ 2,279,587**	**$ 2,135,363**

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF CASH FLOWS (unaudited)

Years Ended June 30, 2019 and 2018 (In Thousands of Dollars)	CAMPUS *		FOUNDATION	
	2019	**2018**	**2019**	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$ 962,773	$ 932,454		
Grants and contracts	686,975	700,915		
Educational activities	90,926	87,473		
Auxiliary enterprises	209,156	171,259		
Collection of loans from students and employees	5,970	10,072		
Campus foundation private gifts			$ 154,980	$ 162,678
Payments to employees	(1,336,378)	(1,251,653)		
Payments for pension benefits	(104,552)	(143,374)		
Payments for retiree health benefits	(17,694)	(26,623)		
Payments for other employee benefits	(352,884)	(288,832)		
Payments to suppliers and utilities	(667,844)	(626,115)	(12,778)	(12,184)
Payments for scholarships and fellowships	(160,305)	(167,477)		
Loans issued to students and employees	(4,413)	(5,290)		
Payments to campus and beneficiaries			(222,706)	(234,988)
Other receipts	121,511	126,789	5,433	2,452
Net cash used by operating activities	**(566,759)**	**(480,402)**	**(75,071)**	**(82,042)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	402,698	352,912		
Federal Pell grants	43,981	43,052		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes			91,333	61,846
Other private gifts	303,464	316,095		
Student direct lending receipts	147,046	146,459		
Student direct lending payments	(147,046)	(146,459)		
Other receipts	16,601	2,218		
Net cash provided by noncapital financing activities	**766,744**	**714,277**	**91,333**	**61,846**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
State financing appropriations	39,173	38,019		
Build America Bonds federal interest subsidies	6,456	9,583		
Capital gifts and grants	23,567	24,282		
Proceeds from debt issuance	50,131	98,424		
Proceeds from the sale of capital assets	139	129		
Purchase of capital assets	(145,051)	(200,261)		
Refinancing or prepayment of outstanding debt	(48)	(49)		
Scheduled principal paid on debt and capital leases	(34,787)	(33,686)		
Interest paid on debt and capital leases	(106,346)	(107,948)		
Net cash used by capital and related financing activities	**(166,766)**	**(171,507)**		
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments, net of purchases of investments			(25,178)	12,805
Investment income, net of investment expenses	42,503	32,175	11,025	9,083
Net cash provided (used) by investing activities	**42,503**	**32,175**	**(14,153)**	**21,888**
Net increase in cash and cash equivalents	**75,722**	**94,543**	**2,109**	**1,692**
Cash and cash equivalents, beginning of year	**237,088**	**142,545**	**6,279**	**4,587**
Cash and cash equivalents, end of year	**$ 312,810**	**$ 237,088**	**$ 8,388**	**$ 6,279**

* 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	
	2019	**2018**	**2019**	**2018**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating loss	$ (1,003,947)	$ (687,976)	$ (81,146)	$ (55,654)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation and amortization expense	235,967	224,036		
Noncash gifts			(7,880)	(13,329)
Allowance for uncollectible accounts	1,466	5,111	(2,064)	(4,057)
Loss on impairment of capital assets	890	4,863		
Change in assets and liabilities:				
Accounts and pledges receivables	(7,843)	17,509	20,805	(587)
Notes and mortgages receivable	(1,569)	60		
Inventories	(539)	164		
Other assets	722	1,685	(623)	(3,687)
Accounts payable	4,189	(10,635)	3,093	46
Accrued salaries	(41,846)	545		
Employee benefits	(8,638)	(25,078)		
Unearned revenue	25,165	(6,104)	419	2,002
Net pension liability	180,940	(44,878)		
Net retiree health benefits liability	37,306	42,845		
Other liabilities	10,978	(2,549)	(7,675)	(6,776)
Net cash used by operating activities	**$ (566,759)**	**$ (480,402)**	**$ (75,071)**	**$ (82,042)**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired through capital leases	$ 631	$ 189		
Capital assets acquired with a liability at year-end	6,372	2,765		
Gifts of capital assets	5,591	77,614		
Other noncash gifts			$ 24,715	$ 27,126

* 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. 83, *Certain Asset Retirement Obligations*, was adopted by Berkeley as of July 1, 2018. The 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 is measured at the amount of the corresponding liability upon initial measurement and is generally recognized as an expense during the reporting periods that the asset provides service. The effects of reporting Statement No. 83 in the Berkeley's financial statements for the year ended June 30, 2018, were as follows:

(in thousands of dollars)	YEAR ENDED JUNE 30, 2018		
	As Previously Reported	Effect of Adoption of Statement No. 83	As Restated
Statement of Net Position			
Deferred outflows of resources	$373,584	$7,443	$381,027
Other noncurrent liabilities	26,355	15,400	41,755
Noncurrent liabilities	4,684,646	15,400	4,700,046
Total liabilities	5,433,925	15,400	5,449,325
Unrestricted	(2,271,678)	(7,957)	(2,279,635)
Net position	2,253,249	(7,957)	2,245,292
Statement of Revenues, Expenses and Changes in Net Position			
Other nonoperating revenues (expenses), net	(7,309)	(257)	(7,566)
Net nonoperating revenues	875,106	(257)	874,849
Income before other changes in net position	187,130	(257)	186,873

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, was implemented by Berkeley as of 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. Implementation of Statement No. 88 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 2018-2019 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 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, 2019 and 2018 reducing the pollution remediation liability.

Asset retirement obligations
Upon an obligating event, Berkeley records the costs of any expected tangible capital asset retirement obligations using the best estimate of the current value of outlays expected to be incurred. The liabilities are reviewed annually and may change as a result of additional information that refines the estimates. Actual asset retirement obligation costs may vary from these estimates as a result of changes in assumptions such as asset retirement dates, regulatory requirements, technology and costs of labor, materials and equipment.

Deferred outflows of resources and deferred inflows of resources
Deferred outflows of resources and deferred inflows of resources represent a consumption and acquisition of net position that apply to a future period, respectively. Berkeley classifies gains on refunding of debt, payments received or to be received from service concession arrangements and changes in irrevocable split-interest agreements as deferred inflows of resources. Berkeley classifies losses on refunding of debt and certain asset retirement obligations as deferred outflows of resources. Gains or losses on refunding of debt are amortized as a component of interest expense over the remaining life of the old debt, or the new debt, whichever is shorter. Asset retirement obligations are recognized over the remaining useful life of the related asset. Revenues from split interest agreements are recognized when the resources become available to spend.

Changes in the net pension and net retiree health liabilities not included in expense 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)

	2019	2018
Student tuition and fees	$ 204,746	$ 198,518
Auxiliary enterprises	34,581	32,306
Scholarship allowances	**$ 239,327**	**$ 230,824**

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, 2019, the facilities and administrative cost recovery totaled $121.7 million, which consisted of $86.1 million from federally sponsored programs and $35.6 million from other sponsors. 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.

Net pension liability
Berkeley records net pension liability equal to the net pension liability for its defined benefit plans. The net pension liability is measured as the total pension liability, less the amount of the pension plans' fiduciary net positions. The fiduciary net position and changes in net position of the defined benefit plans have been measured consistent with the accounting policies used by the plans. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are 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.

Pension expense is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for pension benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

Retiree health benefits and liability
Berkeley's net retiree health benefits liability is measured as the total retiree health benefits liability, less the amount of the University of California Retiree Health Benefit Trust's (UCRHBT) fiduciary net position. The fiduciary net position and changes in net position of UCRHBT have been measured consistent with the accounting policies used by the trust. The total retiree health benefits liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the health benefit trust's fiscal year end. Projected benefit payments are 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.

Expense for retiree health benefits is recognized for benefits earned during the period, interest on the unfunded liability and changes in benefit terms. The differences between expected and actual experience and changes in assumptions about future economic or demographic factors are reported as deferred inflows or outflows and are recognized over the average expected remaining service period for employees eligible for retiree health benefits. The differences between expected and actual returns are reported as deferred inflows or outflows and are recognized over five years.

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), except for tax on unrelated business income under IRC Section 511. UC is also exempt from federal income tax under IRC Section 115(a) as a state institution. 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 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 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 will not be capitalized. Berkeley expects interest expense to increase upon implementation of Statement No. 89.

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.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*, effective for Berkeley's fiscal year beginning July 1, 2021. The Statement defines a conduit debt obligation and clarifies the accounting and financial reporting for conduit debt obligations with additional or voluntary commitments by issuers. Berkeley is evaluating the effect that Statement No. 91 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, 2019 and 2018, the carrying amount of Berkeley's demand deposits, generally held in nationally recognized banking institutions, was $4.4 million and $3.4 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, 2019 and 2018, the carrying amount of Berkeley's STIP was $308.2 million and $233.4 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.

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 $1,148.7 million and $1,107.2 million at June 30, 2019 and 2018, 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 $2,759.9 million and $2,643.3 million at June 30, 2019 and 2018, 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 2018-2019 Annual Financial Report.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable and the allowance for uncollectible accounts at June 30, 2019 and 2018 are as follows:

(in thousands of dollars)

	STATE & FEDERAL GOVERNMENT	LOCAL GOVT & PRIVATE GRANTS & CONTRACTS	OTHER	TOTAL
At June 30, 2019				
Accounts receivable	$ 120,804	$ 66,195	$ 39,150	$ 226,149
Allowance for uncollectible accounts		(17,676)	(15,041)	(32,717)
Accounts receivable, net	**$ 120,804**	**$ 48,519**	**$ 24,109**	**$ 193,432**
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**

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

Uncollectible accounts have decreased the following revenues for the years ended June 30:

(in thousands of dollars)

	2019	2018
Student tuition and fees	$ 1,232	$ (174)
Educational activities	48	(7)
Auxiliary enterprises	176	(409)
Other operating revenues	115	1,109
Expense for uncollectible accounts	$ 1,571	$ 519

NOTE 4: PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2019 and 2018 is summarized as follows:

(in thousands of dollars)

		2019		2018
Total pledges receivable outstanding	$	28,070	$	9,929
Less: Unamortized discount to present value		(742)		(181)
Allowance for uncollectible pledges		(6,491)		(4,312)
Total pledges receivable, net		**20,837**		**5,436**
Less: Current portion of pledges receivable		(5,633)		(2,985)
Noncurrent portion of pledges receivable	**$**	**15,204**	**$**	**2,451**

Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2019 and thereafter are as follows:

(in thousands of dollars)

Year Ending June 30		
2020	$	11,459
2021		5,342
2022		5,122
2023		5,006
2024		141
2025-2029		250
Beyond 2029		750
Total payments on pledges receivable	**$**	**28,070**

Adjustments to the allowance for uncollectible pledges for Berkeley have increased (decreased) the following revenues for the years ended June 30, 2019 and 2018:

(in thousands of dollars)

		2019		2018
Private gifts	$	2,634	$	(3,867)

NOTE 5: 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, 2019								
Notes and mortgages receivable	$	5,841	$	19,682	$	306	$	19,988
Allowance for uncollectible amounts		(233)		(2,504)				(2,504)
Notes and mortgages receivable, net	**$**	**5,608**	**$**	**17,178**	**$**	**306**	**$**	**17,484**
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**

NOTE 6: 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 $0.5 million at both June 30, 2019 and 2018.

NOTE 7: 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 $2.7 million and $4.2 million at June 30, 2019 and 2018, respectively.

NOTE 8: CAPITAL ASSETS

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

(in thousands of dollars)

	2017	ADDITIONS	DISPOSALS	2018	ADDITIONS	DISPOSALS	2019
ORIGINAL COST							
Land	$ 119,998	$ (30)		$ 119,968	$ -		$ 119,968
Infrastructure	72,717	2,236	-	74,953	1,847	-	76,800
Buildings and improvements	4,830,138	369,531	(1,213)	5,198,456	129,619	(14,855)	5,313,220
Equipment, software and intangibles	590,570	37,832	(17,428)	610,974	55,657	(23,119)	643,512
Libraries and collections	1,048,085	33,753	(2,368)	1,079,470	34,598	(2,985)	1,111,083
Special collections	144,950	5,728		150,678	4,636		155,314
Construction in progress	169,632	(92,647)		76,985	1,896		78,881
Capital assets, at original cost	**$ 6,976,090**	**$ 356,403**	**$ (21,009)**	**$ 7,311,484**	**$ 228,253**	**$ (40,959)**	**$ 7,498,778**

	2017	DEPRECIATION AND AMORTIZATION	DISPOSALS	2018	DEPRECIATION AND AMORTIZATION	DISPOSALS	2019
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure	$ 34,510	$ 2,617		$ 37,127	$ 2,638		$ 39,765
Buildings and improvements	1,932,688	149,707	(15,601)	2,066,794	158,866	(12,601)	2,213,059
Equipment, software and intangibles	401,299	40,673	(12,091)	429,881	43,276	(22,145)	451,012
Libraries and collections	791,202	31,039	(2,368)	819,873	31,187	(2,985)	848,075
Accumulated depreciation and amortization	**$ 3,159,699**	**$ 224,036**	**$ (30,060)**	**$ 3,353,675**	**$ 235,967**	**$ (37,731)**	**$ 3,551,911**
Capital assets, net	**$ 3,816,391**			**$ 3,957,809**			**$ 3,946,867**

For the years ended June 30, 2019 and 2018, service concession arrangements, reported as buildings and improvements, were $206.7 million and $130.1 million of original cost and $7.0 million and $3.1 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, financing 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	2019	2018
INTERIM FINANCING:				
Commercial paper	0.13% - 0.22%		$247,251	$204,537
LONG-TERM FINANCING:				
UC revenue bonds:				
General revenue bonds	3.82% - 5.78%	2019-2112	1,559,080	1,579,164
Limited projects revenue bonds	3.3% - 6.03%	2019-2050	652,050	665,185
UC revenue bonds			2,211,130	2,244,349
Financing obligations	1.65% - 3.48%	2019-2026	1,901	3,036
Other borrowings	0 - 2.45%	2019-2025	3,075	6,426
Total outstanding debt			**2,463,357**	**2,458,348**
Less: Commercial paper			(247,251)	(204,537)
Current portion of outstanding debt			(113,064)	(105,746)
Noncurrent portion of outstanding debt			**$2,103,042**	**$2,148,065**

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 was $104.3 million for both years ended June 30, 2019 and 2018. Interest expense, net of investment income, totaling $3.8 million and $5.2 million was capitalized during the years ended June 30, 2019 and 2018, respectively. The remaining $100.5 million and $99.1 million in 2019 and 2018, 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	FINANCING OBLIGATIONS	OTHER BORROWINGS	TOTAL
Year ended June 30, 2019				
Long-term debt and financing obligations at June 30, 2018	$ 2,244,350	$ 3,035	$ 6,426	$ 2,253,811
New obligations	71,006	338		71,344
Refinancing or prepayment of outstanding debt			(3,303)	(3,303)
Scheduled principal payments	(104,226)	(1,472)	(48)	(105,746)
Long-term debt and capital leases at June 30, 2019	**2,211,130**	**1,901**	**3,075**	**2,216,106**
Less: Current portion	(112,193)	(823)	(48)	(113,064)
Noncurrent portion at June 30, 2019	**$ 2,098,937**	**$ 1,078**	**$ 3,027**	**$ 2,103,042**
Year ended June 30, 2018				
Long-term debt and financing obligations 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**

Commercial Paper
Commercial paper may be issued for interim 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 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. 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 UC 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 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 covenants. 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 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 $1.9 million and $3.0 million for the years ended June 30, 2019 and 2018, respectively.

Other UC Borrowings
Other borrowings of $3.1 million and $6.4 million at June 30, 2019 and 2018, respectively, from UC's bank line of credit and loans with various expiration dates through 2025, were obtained to provide interim financing for buildings and equipment.

Future Debt Service
Berkeley's share of future debt service payments for each of the five fiscal years subsequent to June 30, 2019 and thereafter are as presented below:

(in thousands of dollars)

Year Ending June 30	COMMERCIAL PAPER	REVENUE BONDS	FINANCING OBLIGATIONS	OTHER BORROWINGS	TOTAL PAYMENT	PRINCIPAL	INTEREST
2020	$ 247,663	148,906	871	55	397,495	296,091	101,404
2021		136,643	638	49	137,330	37,949	99,381
2022		135,314	272	49	135,635	37,842	97,793
2023		134,634	133	49	134,816	38,614	96,202
2024		143,002	37	26	143,065	48,513	94,552
2025-2112		3,698,424	56	2,888	3,701,368	2,004,348	1,697,020
Total future debt service	**247,663**	**4,396,923**	**2,007**	**3,116**	**4,649,709**	**$2,463,357**	**$2,186,352**
Less: Interest component of future payments	(412)	(2,185,793)	(106)	(41)	(2,186,352)		
Principal portion of future payments	**$247,251**	**$2,211,130**	**$1,901**	**$3,075**	**$2,463,357**		

Additional information on UC’s debt can be obtained in its 2018-2019 Annual Financial Report.

NOTE 10: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The composition of deferred outflows and inflows of resources at June 30, 2019 and 2018 is summarized as follows:

(in thousands of dollars)

	SERVICE CONCESSION ARRANGEMENTS	NET PENSION LIABILITY	NET RETIREE HEALTH BENEFITS	DEBT REFUNDING	IRREVOCABLE SPLIT-INTEREST AGREEMENTS	ASSET RETIREMENT OBLIGATION	TOTAL
At June 30, 2019							
Deferred outflows of resources		$ 483,398	$ 296,349	$ 40,827		$ 7,187	$ 827,761
Deferred inflows of resources	$ 199,745	85,857	622,362				907,964
At June 30, 2018							
Deferred outflows of resources		$ 58,229	$ 270,414	$ 44,941		$ 7,443	$ 381,027
Deferred inflows of resources	$ 126,952	116,162	611,979		$ 3,725		858,818

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

Most 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 governmental defined benefit plan funded with Berkeley and employee contributions, and the University of California Retirement Savings Program (UCRSP) which includes defined contribution plans with options to participate in internally or externally managed 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 2018-2019 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 or plan provisions. 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 UCRP are based upon rates determined by The Regents. The Regents' funding policy provides for contributions at rates to maintain UCRP on an actuarially sound basis. While the UC independent actuary annually determines the total funding policy contributions, the UC is not required to contribute an amount equal to the total funding contribution. The actual contributions and the contribution rates of the UC and employees are based on numerous factors, including the availability of funds to the UC, the impact of employee contributions on the competitiveness of the UC's total remuneration package, and collective bargaining agreements.

The Regents determines the portion of the total contribution to be made by the employer and by the employees, and employee contribution rates for represented employees are subject to collective bargaining. Effective July 1, 2014, employee member contributions range from 7.0 percent to 9.0 percent. Berkeley pays a uniform contribution rate of 14.0 percent of covered payroll on behalf of all UCRP members. The contribution rate will be increased starting July 1, 2020 by 0.5 percent per year, on July 1st, for six years to 17.0 percent.

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 possibly a lump sum equal to the present value of their accrued benefits. Deferred contributions to UCRP as of June 30, 2019 and 2018, are as follows:

(in thousands of dollars)

	2019	2018
Contributions - employer	$ 99,901	$ 140,595
Contributions - employee	46,604	68,382
Total	**$ 146,505**	**$ 208,977**

Additional deposits were made by Berkeley to UCRP for the fiscal years ended June 30, 2019 and 2018. 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, 2019 and 2018 of $38.7 and $30.7 million, respectively.

Net Pension Liability

Berkeley's pension obligations as of June 30, 2019 and 2018, are as follows:

(in thousands of dollars)

	2019	2018
Net pension liability to UCRP	$ 1,332,610	$ 739,402
Payable to UC	349,424	306,217
Net pension liability	$ 1,682,034	$ 1,045,619

Net Pension Liability to UCRP

Berkeley's proportionate share of the net pension liability as of June 30, 2019 and 2018, is as follows:

(in thousands of dollars)

	2019	2018
Proportion of the net pension liability	7.7%	7.8%
Proportionate share of net pension liability	$ 1,332,610	$ 739,402

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)	**2019**	**2018**
Inflation	2.5%	3.0%
Investment rate of return	6.8	7.3
Projected salary increases	3.7 - 6.0	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 were changed in 2019 based upon the results of an experience study conducted for the period July 1, 2014 through June 30, 2018. In 2019, for preretirement mortality rates, the Pub-2010 Teacher Employee Amount-Weighted Above-Median Mortality Table was used. For post-retirement, healthy mortality rates were based on the Pub-2010 Healthy Teacher Amount-Weighted Above-Median Mortality Table multiplied by 90 percent for male Faculty members, 95 percent for female Faculty members, 100 percent for other male members and 110 percent for other female members. For beneficiaries of retired members, rates were based on the Pub-2010 Contingent Survivor Amount-Weighted Above-Median Mortality Table multiplied by 100 percent for males and 90 percent for females. For disabled members, rates were based on the Pub-2010 Non-Safety Disabled Retiree Amount-Weighted Mortality Table. All mortality tables above were projected generationally with the two-dimensional mortality improvement scale MP-2018.

The actuarial assumptions used in 2018 were based upon the results of an experience study conducted for the period July 1, 2010 through June 30, 2014. In 2018, for preretirement mortality rates, the RP-2014 White Collar Employee Mortality Tables (separate table for males and females) projected with the two-dimensional MP-2014 projection scale to 2029 were used. For post-retirement, healthy mortality rates were 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 were 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 2019 using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected 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, 2019 are summarized in the following table:

Asset Class	**Target Allocation**	**Long-Term Exptected Real Rate of Return**
U.S. Equity	27.6%	5.6%
Developed International Equity	16.8	6.5
Emerging Market Equity	5.6	8.6
Core Bonds	13.0	1.5
High Yield Bonds	2.5	3.7
Treasury Inflation Protected Securities	2.0	1.2
Emerging Market Debt	2.5	3.9
Private Equity	10.0	9.2
Real Estate	7.0	6.6
Absolute Return	10.0	3.3
Real Assets	3.0	5.6
Total	**100%**	**5.4%**

Discount Rate

The discount rate used to estimate the net pension liability as of June 30, 2019 and 2018 was 6.75 and 7.25 percent, respectively. To calculate the discount rate, cash flows into and out of UCRP were projected in order to determine whether UCRP has sufficient cash in future periods for projected benefit payments for current members. For this purpose, 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, 2019 and 2018.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the June 30, 2019 net pension liability of Berkeley calculated using the June 30, 2019 discount rate assumption of 6.75 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net pension liability - Berkeley	$ 2,178,559	$1,332,610	$ 636,393

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)

	2019	2018
Deferred Outflows of Resources:		
Changes in proportion and differences between Berkeley's contributions and proportionate share of contributions	$ -	$ 3,267
Changes of assumptions or other inputs	448,446	35,858
Difference between expected and actual experience	34,952	19,104
Total Deferred Outflows of Resources	$ 483,398	$ 58,229
Deferred Inflows of Resources:		
Changes in proportion and differences between Berkeley's contributions and proportionate share of contributions	$ 76,653	$ 94,905
Net difference between projected and actual earnings on pension plan investments	8,615	16,921
Difference between expected and actual experience	589	4,336
Total Deferred Inflows of Resources	$ 85,857	$ 116,162

The net amount of deferred outflows of resources and deferred inflows of resources as of June 30, 2019 related to pensions that will be recognized in pension expense during the next five years are as follows:

(in thousands of dollars)

Year Ending June 30	
2020	$ 127,663
2021	53,322
2022	111,278
2023	105,278
Total	$ 397,541

Defined Contribution Plan
Effective July 1, 2016, newly hired (or becoming eligible) employees can elect a defined contribution option instead of participating in UCRP. For employees who elect this option, both Berkeley and the participants make mandatory contributions, on a pretax basis, on eligible pay up to the IRS compensation limit. The participant contributes 7.0 percent and Berkeley contributes 8.0 percent. Berkeley contributions are fully vested after one year of service. For employees who elect to participate in UCRP and who are subject to the California Public Employees' Pension Reform Act (PEPRA) maximum, both Berkeley and the participants make mandatory DC Plan retirement contributions on a pretax basis. For designated faculty, Berkeley contributes 5.0 percent to the DC Plan on all eligible pay up to the IRC compensation limit. For staff, Berkeley contributes 3.0 percent to the DC Plan on eligible pay above the PEPRA maximum up to the IRC compensation limit. Both designated faculty and staff contribute 7.0 percent on eligible pay above the PEPRA maximum up to the IRC compensation limit. Berkeley may also contribute on behalf of eligible senior managers.

The DC Plan Pretax Account also includes mandatory contributions from part-time, seasonal and temporary employees at Berkeley who are not currently participating in UCRP or another defined benefit plan to which Berkeley contributes (Safe Harbor participants). Safe Harbor participation includes certain Berkeley student employees and resident aliens with F-1 and J-1 visa status. Safe Harbor participants contribute 7.5 percent of their gross salary (up to the Social Security wage base) to the Plan in lieu of deductions for Social Security taxes.

All Berkeley employees, except students who normally work fewer than 20 hours per week, are eligible to make voluntary contributions to the DC Plan After-Tax Account and defer taxation on the earnings until the accumulations are withdrawn. The maximum amount participants may contribute annually to the After-Tax Account is determined by the IRC §415(c) limit. Berkeley may also make DC Plan contributions on behalf of eligible senior managers.

The Supplemental Defined Contribution Plan (SDC Plan) accepts employer contributions on behalf of certain designated employees. Employer contributions are fully vested and there is no provision for employee contributions. There were no assets or employer contributions to the SDC Plan for the years ended June 30, 2019 and 2018.

Tax Deferred 403(b) Plan
The UC's Tax-Deferred 403(b) Plan (403(b) Plan) accepts pretax employee contributions. Berkeley also makes 403(b) Plan retirement contributions on the summer or equivalent term salaries of eligible academic employees who teach, conduct research or provide administrative service during the summer session or an equivalent term. To be eligible, employees must hold academic year appointments and be active members of UCRP or another defined benefit plan to which Berkeley contributes. The contribution rate is 7.0 percent of eligible salary, of which 3.5 percent is employer-paid and 3.5 percent is employee-paid, both on a pretax basis. Berkeley may also make contributions in behalf of certain members of management.

457(b) Deferred Compensation Plan
The UC's 457(b) Deferred Compensation Plan (457(b) Plan) accepts pretax employee contributions. There were no employer contributions to the 457(b) Plan for the years ended June 30, 2019 and 2018. Participants in the DC Plan, the SDC Plan, the 403(b) Plan and the 457(b) Plan may direct their elective and nonelective contributions to investment funds managed by the Chief Investment Officer. They may also invest account balances in certain mutual funds.

Additional information on the retirement plans can be obtained from the 2018-2019 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. While retiree health benefits are not a legal obligation of UC and can be cancelled or modified at any time, accounting standards require UC to recognize a net retiree health liability based on the current practices of providing retiree health benefits.

Contributions toward retiree health benefits, at rates determined by UC, are made to UCRHBT. The UC receives retiree health contributions from retirees that are deducted from their UCRP benefit payments or are received from the retiree through direct pay. The UC acts as a third-party administrator on behalf of UCRHBT and pays health care insurers and administrators amounts currently due under the UC's retiree health benefit plans for retirees. UCRHBT reimburses the UC for these amounts.

Retirees are eligible for medical and dental benefits. The costs of the medical and dental benefits are shared between Berkeley and the retiree. Berkeley does not contribute toward the cost of other benefits available to retirees. Retirees employed by Berkeley prior to 1990 and not rehired after that date are eligible for the UC's maximum contribution if they retire before age 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least five years of service. Retirees employed by Berkeley after 1989 and prior to July 2013 become eligible for a percentage of the UC's contribution starting at 50 percent of the maximum UC contribution with 10 years of service, increasing to 100 percent after 20 years of service. 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 UC's contribution based on age and years of service. Retirees are eligible for the maximum UC contribution at age 65 with 20 or more years of service. Retirees pay the excess, if any, of the premium over the applicable portion of the UC's contribution.

Contributions
Berkeley does not pre-fund retiree health benefits and instead provides for benefits based upon projected pay-as-you-go financing. Berkeley and retiree contributions toward premiums made under purchased plan arrangements are determined by applying the health plan contract rates across the number of participants in the respective plans. Premium rates for the self-insured plan contributions are set by the UC based upon a trend analysis of the historic cost, utilization, demographics and administrative expenses to provide for the claims incurred and the actuarially determined level of incurred but not reported liability. The assessment rates were $2.70 and $2.80 per $100 of UCRP covered payroll effective July 1, 2018 and 2017, respectively.

In addition to the explicit Berkeley contribution provided to retirees, there is an "implicit subsidy." The gross premiums for members that are not currently eligible for Medicare benefits are the same for active employees and retirees, based on a blend of their health costs. Retirees, on average, are expected to have higher health care costs than active employees. This is primarily due to the older average age of retirees. Since the same gross premiums apply to both groups, the premiums paid for active employees by Berkeley are subsidizing the premiums for retirees. This effect is called the implicit subsidy. The implicit subsidy associated with retiree health costs paid during the past year is also considered to be a contribution from Berkeley.

Berkeley's contribution for the years ended June 30, 2019 and 2018, was $17.7 million and $26.6 million, respectively.

Net Retiree Health Benefits Liability
Berkeley's proportionate share of the net retiree health benefits liability as of June 30, 2019 and 2018, is as follows:

(in thousands of dollars)	2019	2018
Proportion of the retiree health benefits liability	7.8%	7.9%
Proportionate share of retiree health benefits liability	$1,496,425	$1,443,567

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)	2019	2018
Discount rate	3.5%	3.9%
Inflation	2.5	3.0
Investment rate of return	2.5	3.0
Health care cost trend rates	Initially ranges from 4.4 to 9.4 decreasing to an ultimate rate of 4.0 for 2077 and later years	Initially ranges from 5.0 to 9.3 decreasing to an ultimate rate of 5.0 for 2033 and later years

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions were changed in 2019 based upon the results of an experience study conducted for the period July 1, 2014 through June 30, 2018. For pre-retirement mortality rates, the Pub-2010 Teacher Employee Headcount- Weighted Above-Median Mortality Table were used. For post-retirement, healthy mortality rates were based on the Pub-2010 Healthy Teacher Retiree Headcount-Weighted Above-Median Mortality Table and multiplied by 90 percent for faculty members or 115 percent and 110 percent for other male and female members, respectively. For beneficiaries of retired members, rates were based on the Pub-2010 Contingent Survivor Headcount-Weighted Above-Median Mortality Table. For disabled members, rates were based on the Pub-2010 Non-Safety Disabled Retiree-Headcount Weighted Mortality Table. All mortality rates are projected generationally with the two-dimensional mortality improvement scale MP-2018.

The actuarial assumptions used in 2018 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 table for males and females) projected with the two-dimensional MP-2014 projection scale to 2029 were used. For post-retirement, healthy mortality rates are based on the RP-2014 White Collar Healthy Annuitant Mortality Table projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table projected with the two-dimensional MP-2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP-2014 projection scale to 2029 and with ages then set back one year for males and set forward five years for females.

Sensitivity of Net Retiree Health Benefits Liability to the Health Care Cost Trend Rate
The following presents the June 30, 2019 net retiree health benefits liability of Berkeley calculated using the June 30, 2019 health care cost trend rate assumptions with initial trend ranging from 4.4 percent to 9.4 percent grading down to an ultimate trend of 4.0 percent over 58 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 (3.4% - 8.4%)	Current Trend Rate (4.4% - 9.4%)	1% Increase (5.4% - 10.4%)
Net retiree health benefits liability - Berkeley	$ 1,232,869	$ 1,496,425	$ 1,845,822

Discount Rate
The discount rate used to estimate the net retiree health benefits liability as of June 30, 2019 and 2018, was 3.5 and 3.87 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 not sufficient to make benefit payments.

Sensitivity of Net Retiree Health Benefits Liability to the Discount Rate Assumption
The following presents the June 30, 2019 net retiree health benefits liability of Berkeley calculated using the June 30, 2019 discount rate assumption of 3.5 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 (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
Net retiree health benefits liability - Berkeley	$ 1,791,809	$ 1,496,425	$ 1,264,218

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)

	2019	2018
Deferred Outflows of Resources:		
Changes of assumptions or other inputs	$ 291,080	$ 264,199
Net difference between projected and actual earnings on plan investments	251	302
Difference between expected and actual experience	5,018	5,913
Total Deferred Outflows of Resources	$ 296,349	$ 270,414
Deferred Inflows of Resources:		
Changes in proportion and differences between Berkeley's contributions and proportionate share of contributions	$ 175,366	$ 177,039
Changes of assumptions or other inputs	216,104	254,711
Difference between expected and actual experience	230,892	180,229
Total Deferred Inflows of Resources	$ 622,362	$ 611,979

The net amount of deferred outflows of resources and deferred inflows of resources as of June 30, 2019 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	
2020	$ (45,998)
2021	(46,025)
2022	(46,057)
2023	(46,087)
2024	(55,292)
Thereafter	(86,554)
Total	$ (326,013)

Additional information on the retiree health plans can be obtained from UC's 2018–2019 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, 2019 and 2018, is as follows:

(in thousands of dollars)

	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
At June 30, 2019				
Endowments	$ 392,908	$ 968,586	$ 1,216	$ 1,362,710
Funds functioning as endowments		1,212,266		1,212,266
Gifts		439,924	9,197	449,121
Total endowments and gifts	**$ 392,908**	**$ 2,620,776**	**$ 10,413**	**$ 3,024,097**
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**

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 $1,154.7 million and $1,089.5 million at June 30, 2019 and 2018, 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 $92.3 million and $87.4 million for the years ended June 30, 2019 and 2018, respectively. The portion of this annual income distribution from accumulated capital gains, in addition to the dividend and interest income earned, was $74.4 million and $64.7 million for the year ended June 30, 2019 and 2018, respectively.

NOTE 14: COMMITMENTS AND CONTINGENCIES

Contractual Commitments
Amounts committed but unexpended for construction projects totaled $178.0 million at June 30, 2019.

Berkeley leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the year ended June 30, 2019 were $35.2 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	
2020	$	15,335
2021		13,653
2022		6,791
2023		5,400
2024		5,237
2025-2029		5,135
Total	**$**	**51,551**

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.