



**UNIVERSITY OF CALIFORNIA, BERKELEY**

**Annual Financial Report  
2019-20**

## **TABLE OF CONTENTS**

<b>Statements of Net Position at June 30, 2020 and 2019</b>	<b>1</b>
<b>Statements of Revenues, Expenses and Changes in Net Position for the Years Ended June 30, 2020 and 2019</b>	<b>2</b>
<b>Statements of Cash Flows for the Years Ended June 30, 2020 and 2019</b>	<b>3</b>
<b>Notes to Financial Statements</b>	<b>5</b>

## UNIVERSITY OF CALIFORNIA, BERKELEY

**STATEMENTS OF NET POSITION** (unaudited)

At June 30, 2020 and 2019 (In Thousands of Dollars)

	CAMPUS *		FOUNDATION	
	2020	2019	2020	2019
<b>ASSETS</b>				
Cash and cash equivalents	\$ 666,798	\$ 577,324	\$ 89,699	\$ 108,519
Accounts receivable, net	228,321	193,432		
Pledges receivable, net	8,372	5,633	30,994	29,167
Notes and mortgages receivable, net	5,006	5,608		
Inventories	5,496	5,410		
Other current assets	5,413	4,293	1,594	2,517
<b>Current assets</b>	<b>919,406</b>	<b>791,700</b>	<b>122,287</b>	<b>140,203</b>
Investments	3,945,595	3,908,633	2,290,097	2,227,911
Investments held by trustees	969	3,240		
Pledges receivable, net	15,521	15,204	64,323	69,108
Notes and mortgages receivables, net	16,184	17,484		
Capital assets, net	3,943,607	3,946,867		
Other noncurrent assets	1,824	779	3,888	4,085
<b>Noncurrent assets</b>	<b>7,923,700</b>	<b>7,892,207</b>	<b>2,358,308</b>	<b>2,301,104</b>
<b>Total assets</b>	<b>8,843,106</b>	<b>8,683,907</b>	<b>2,480,595</b>	<b>2,441,307</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>1,047,379</b>	<b>827,761</b>		
<b>LIABILITIES</b>				
Accounts payable	53,010	73,498	1,201	3,944
Accrued salaries	23,554	11,058		
Unearned revenue	253,322	217,516		
Commercial paper	326,008	247,251		
Current portion of long-term debt	112,431	113,064		
Funds held for others	2,500	3,235	2,017	7,777
Other current liabilities	71,036	95,710	7,513	7,985
<b>Current liabilities</b>	<b>841,861</b>	<b>761,332</b>	<b>10,731</b>	<b>19,706</b>
Federal refundable loans	14,097	21,570		
Long-term debt	2,056,729	2,103,042		
Net pension liability	1,545,394	1,332,610		
Pension payable to University	368,399	349,424		
Net retiree health benefits liability	1,706,807	1,496,425		
Other noncurrent liabilities	75,007	61,244	74,678	78,739
<b>Noncurrent liabilities</b>	<b>5,766,433</b>	<b>5,364,315</b>	<b>74,678</b>	<b>78,739</b>
<b>Total liabilities</b>	<b>6,608,294</b>	<b>6,125,647</b>	<b>85,409</b>	<b>98,445</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>952,541</b>	<b>907,964</b>	<b>60,533</b>	<b>63,275</b>
<b>NET POSITION</b>				
Net investment in capital assets	1,465,513	1,510,552		
Restricted:				
Nonexpendable: Endowments and gifts	404,858	392,908	1,358,902	1,292,926
Expendable: Endowments and gifts	2,971,316	2,885,290	968,425	975,576
Expendable: Other, including debt service, loans, capital projects and appropriations	85,985	63,388		
Unrestricted	(2,598,022)	(2,374,081)	7,326	11,085
<b>Total net position</b>	<b>\$ 2,329,650</b>	<b>\$ 2,478,057</b>	<b>\$ 2,334,653</b>	<b>\$ 2,279,587</b>

\* See accompanying Notes to Financial Statements

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

At June 30, 2020 and 2019 (In Thousands of Dollars)

	CAMPUS *		FOUNDATION	
	2020	2019	2020	2019
<b>OPERATING REVENUES</b>				
Student tuition and fees, net	\$ 1,011,824	\$968,549		
Grants and contracts, net:				
Federal	422,742	381,590		
State	51,661	74,391		
Private	194,472	208,332		
Local	8,536	15,070		
Educational activities, net	76,553	91,000		
Auxiliary enterprises, net	186,815	197,727		
Campus foundation private gifts			\$ 205,406	\$ 146,998
Other operating revenues, net	117,072	114,499	71	10
<b>Total operating revenues</b>	<b>2,069,675</b>	<b>2,051,158</b>	<b>205,477</b>	<b>147,008</b>
<b>OPERATING EXPENSES</b>				
Salaries and wages	1,388,250	1,294,488		
Pension benefits	375,669	322,942		
Retiree health benefits	61,488	62,718		
Other employee benefits	333,931	300,536		
Supplies and materials	151,269	173,936		
Depreciation and amortization	235,160	235,967		
Scholarships and fellowships	185,427	160,293		
Utilities	36,364	39,277		
Campus foundation grants			247,667	215,392
Other operating expenses	461,923	464,948	9,519	12,762
<b>Total operating expenses</b>	<b>3,229,481</b>	<b>3,055,105</b>	<b>257,186</b>	<b>228,154</b>
<b>Operating loss</b>	<b>(1,159,806)</b>	<b>(1,003,947)</b>	<b>(51,709)</b>	<b>(81,146)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State educational appropriations	410,849	402,698		
State financing appropriations	39,453	39,172		
Build America Bonds federal interest subsidies	9,139	9,203		
Federal Pell Grants	45,938	43,882		
Private gifts, net	326,789	318,866		
Investment income:				
Short-Term Investment Pool and other, net	36,485	42,503		
Endowment, net	96,136	92,288		
Campus foundation			8,160	11,025
Net appreciation in fair value of investments	36,962	161,859	34,622	95,465
Interest expense	(101,265)	(100,473)		
Other nonoperating revenues (expenses), net	43,826	25,134		
<b>Net nonoperating revenues</b>	<b>944,312</b>	<b>1,035,132</b>	<b>42,782</b>	<b>106,490</b>
<b>(Loss) Income before other changes in net position</b>	<b>(215,494)</b>	<b>31,185</b>	<b>(8,927)</b>	<b>25,344</b>
<b>OTHER CHANGES IN NET POSITION</b>				
Capital gifts and grants, net	67,087	29,354		
Permanent endowments			63,993	118,880
<b>(Decrease) Increase in net position</b>	<b>(148,407)</b>	<b>60,539</b>	<b>55,066</b>	<b>144,224</b>
<b>NET POSITION</b>				
Beginning of year, as previously reported	2,478,057	2,425,475	2,279,587	2,135,363
Cumulative effect of accounting change		(7,957)		
Beginning of year, as restated	2,478,057	2,417,518	2,279,587	2,135,363
<b>End of year</b>	<b>\$ 2,329,650</b>	<b>\$ 2,478,057</b>	<b>\$ 2,334,653</b>	<b>\$ 2,279,587</b>

\* See accompanying Notes to Financial Statements

## UNIVERSITY OF CALIFORNIA, BERKELEY

**STATEMENTS OF CASH FLOWS** (unaudited)

Years Ended June 30, 2020 and 2019 (In Thousands of Dollars)

	CAMPUS *		FOUNDATION	
	2020	2019	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Student tuition and fees	\$ 1,015,932	\$ 962,773		
Grants and contracts	698,752	686,975		
Educational activities	80,470	90,926		
Auxiliary enterprises	176,548	209,156		
Collection of loans from students and employees	5,670	5,970		
Campus foundation private gifts			\$ 182,748	\$ 154,980
Payments to employees	(1,374,487)	(1,336,378)		
Payments for other employee benefits	(505,599)	(475,130)		
Payments to suppliers and utilities	(657,484)	(667,844)	(12,065)	(12,778)
Payments for scholarships and fellowships	(185,424)	(160,305)		
Loans issued to students and employees	(3,702)	(4,413)		
Payments to campus and beneficiaries			(254,955)	(222,706)
Other receipts	75,216	123,819	2,757	5,433
<b>Net cash used by operating activities</b>	<b>(674,108)</b>	<b>(564,451)</b>	<b>(81,515)</b>	<b>(75,071)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
State educational appropriations	410,849	402,698		
Federal Pell grants	41,834	43,981		
Gifts received for other than capital purposes:				
Private gifts for permanent endowments			52,452	91,333
Other private gifts	323,732	303,464		
Student direct lending receipts	146,338	147,046		
Student direct lending payments	(146,338)	(147,046)		
Commercial paper financing:				
Proceeds from issuance	10,000	6,650		
Payments of principal	(3,814)	(6,010)		
Other receipts	51,207	23,022		
<b>Net cash provided by noncapital financing activities</b>	<b>833,808</b>	<b>773,805</b>	<b>52,452</b>	<b>91,333</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Commercial paper financing:				
Proceeds from issuance	73,586	38,265		
Payments of principal	(5,287)	(2,612)		
State financing appropriations	39,451	39,173		
Build America Bonds federal interest subsidies	9,120	6,456		
Capital gifts and grants	21,515	23,567		
Proceeds from debt issuance	-	4,794		
Proceeds from the sale of capital assets	93	139		
Purchase of capital assets	(192,724)	(145,051)		
Repayments on other borrowings	(233)	(3,351)		
Scheduled principal paid on debt and capital leases	(41,658)	(34,787)		
Interest paid on debt and capital leases	(105,975)	(103,561)		
<b>Net cash used by capital and related financing activities</b>	<b>(202,112)</b>	<b>(176,968)</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sale & maturities of investments			443,166	225,197
Other investments	95,401	93,121		
Purchases of investments			(424,481)	(250,375)
Investment income, net of investment expenses	36,485	42,503	8,160	11,025
<b>Net cash provided (used) by investing activities</b>	<b>131,886</b>	<b>135,624</b>	<b>26,845</b>	<b>(14,153)</b>
<b>Net increase in cash and cash equivalents</b>	<b>89,474</b>	<b>168,010</b>	<b>(2,218)</b>	<b>2,109</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>577,324</b>	<b>409,314</b>	<b>8,388</b>	<b>6,279</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 666,798</b>	<b>\$ 577,324</b>	<b>\$ 6,170</b>	<b>\$ 8,388</b>

\* See accompanying Notes to Financial Statements

## UNIVERSITY OF CALIFORNIA, BERKELEY

**STATEMENTS OF CASH FLOWS** (continued)

Years Ended June 30, 2020 and 2019 (In Thousands of Dollars)

	CAMPUS *		FOUNDATION	
	2020	2019	2020	2019
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>				
Operating loss	\$ (1,159,806)	\$ (1,003,947)	\$ (51,709)	\$ (81,146)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation and amortization expense	235,160	235,967		
Noncash gifts			(19,887)	(7,880)
Allowance for uncollectible accounts	(1,649)	1,466	1,511	(2,064)
Loss on impairment of capital assets	1,950	890		
Change in assets and liabilities:				
Accounts and pledges receivables	(27,320)	(7,843)	1,447	20,805
Notes and mortgages receivable	108	(1,569)		
Inventories	(85)	(539)		
Other assets	376	6,548	1,628	(623)
Accounts payable	(13,147)	4,189	(2,743)	3,093
Accrued salaries	2,357	(41,846)		
Employee benefits	(1,069)	(8,638)		
Unearned revenue	35,806	25,165	(6,088)	419
Net pension liability	212,878	180,940		
Net retiree health benefits liability	53,744	37,306		
Other liabilities	(13,411)	7,460	(5,674)	(7,675)
<b>Net cash used by operating activities</b>	<b>\$ (674,108)</b>	<b>\$ (564,451)</b>	<b>\$ (81,515)</b>	<b>\$ (75,071)</b>
<b>SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION</b>				
Capital assets acquired through capital leases	\$ 2,396	\$ 631		
Capital assets acquired with a liability at year-end	4,462	6,372		
Gifts of capital assets	45,570	5,591		
Other noncash gifts			\$ 27,522	\$ 24,715

\* See accompanying Notes to Financial Statements

## **ORGANIZATION**

Founded in 1868, the University of California, Berkeley (Berkeley) is a campus of the University of California (University) statewide university system. The University is administered by The Regents of the University of California (The Regents). Under the formation documents of the University, administrative authority with respect to Berkeley is vested in the President of the University. 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 the University 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 the University 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. In accordance with the Governmental Accounting Standards Board (GASB), Foundation activity is disclosed in Berkeley's financial statements in a separate column; 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 GASB.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest costs would no longer be capitalized as part of the asset's historical cost upon implementation of this new standard. Berkeley implemented this standard as of July 1, 2019.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests — An Amendment of GASB Statements No. 14 and No. 61* and this change was implemented as of July 1, 2019. The Statement defines a majority equity interest in a legally separate organization and clarifies the accounting and financial reporting for majority equity interests, classified as either investments or component units, in the financial statements. Implementation of Statement No. 90 had no impact on the financial statements.

The significant accounting policies of Berkeley are as follows:

### **Cash and cash equivalents**

Berkeley, like all University 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 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 STIP, and all Berkeley deposits into STIP are considered demand deposits. Interest income is reported as non-operating revenue in the statements of revenues, expenses and changes in net position.

Additional information on cash and investments can be obtained from the University's 2019-2020 Annual Financial Report.

### **Investments**

Investments are measured and reported at fair value. Berkeley's investments consist of investments in the University's Total Return Investment Pool (TRIP) and General Endowment Pool (GEP). Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Investment in nonexchange traded debt and equity investments are valued using inputs provided by independent pricing services or by brokers/dealers who actively trade in these markets. Certain securities may be valued on a basis of a price provided by a single source.

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

### **Accounts receivable, net**

Accounts receivable, net of allowance for uncollectible amounts, include reimbursements due from 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 net present value of expected cash flows. Conditional pledges, including all pledges of endowments and intentions to pledge, are recognized as receivables and revenues when the specified conditions are 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 the University'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 more than 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. Capital leases are recorded at the estimated 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 more than \$5,000 and a useful life of more than one year is capitalized. Incremental costs, including salaries and employee benefits, causally 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.

---

University of California, Berkeley  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
YEARS ENDED JUNE 30, 2020 AND 2019

---

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:

	<b>YEARS</b>
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.

Prior to implementing GASB Statement No. 89, interest on borrowings to finance facilities was 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 service concession arrangements with third parties for student housing and certain other faculty and student services. Under these arrangements, Berkeley enters ground leases with third parties at minimal or no cost, and gives the third party the right to construct, operate and maintain a facility, primarily for the benefit of students and faculty at competitive rates. Rate increases for use of the facilities are subject to certain constraints and ownership of the facilities reverts to Berkeley upon expiration of the ground lease. The facilities are reported as capital assets by Berkeley when placed in service, and a corresponding deferred inflow of resources is reported. Berkeley has not provided guarantees on financing obtained by the third parties under these arrangements.

#### **Unearned revenue**

Unearned revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue billed in advance of the event, such as tuition.

#### **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.

#### **Bond premium**

The bond premium received in the issuance of long-term debt is amortized as a reduction to interest expense over the term of the related long-term debt.

#### **Self-insurance programs**

The University is self-insured or insured through a wholly owned captive insurance company for medical malpractice,

worker's compensation, employee health care and general liability claims. These risks are subject to various claims and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded on a systemwide basis when it is probable a loss has occurred, and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred, but not reported. The estimated liabilities are based upon an independent actuarial determination of the present value of the anticipated future payments. Each campus funds the self-insurance liability through predetermined rates applied to payroll and other expenses. These amounts are reflected as operating expenses in Berkeley's statement of revenue, expenses, and changes in net position. Berkeley's financial statements do not reflect any liabilities for self-insurance claims, as these estimated liabilities are recorded on a systemwide basis.

### **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, because 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, 2020 and 2019 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 because of additional information that refines the estimates. Actual asset retirement obligation costs may vary from these estimates because 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 and payments received or to be received from service concession arrangements 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.

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, direct government grants from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), 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.

In 2020, Berkeley received grants under certain provisions of the CARES Act, reported as nonoperating revenues, to minimize the impacts of lost revenues and increased expenses related to COVID-19. Berkeley received grants under the Higher Education Emergency Relief Fund to provide emergency financial aid to students and to mitigate the impacts of lost revenue.

Capital gifts and grants are classified as other changes in net position.

### **Student tuition and fees**

Substantially all the student tuition and fees provide for current operations of Berkeley.

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.

---

University of California, Berkeley  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
YEARS ENDED JUNE 30, 2020 AND 2019

---

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)*

	2020	2019
Student tuition and fees	\$ 214,988	\$ 204,746
Auxiliary enterprises	32,016	34,581
<b>Scholarship allowances</b>	<b>\$ 247,004</b>	<b>\$ 239,327</b>

### **State appropriations**

The state of California provides appropriations to the University on an annual basis. State educational appropriations are recognized as nonoperating revenue; however, the related expenses for educational 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 the University's federal cognizant agency, the U.S. Department of Health and Human Services.

For the year ended June 30, 2020, the facilities and administrative cost recovery totaled \$127.1 million, which consisted of \$85.5 million from federally sponsored programs and \$41.6 million from other sponsors. 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.

### **Net pension liability**

The University of California Retirement Plan (UCRP) provides retirement benefits to Berkeley's retired employees. Berkeley is required to contribute to UCRP at a rate set by The Regents. Net pension liability includes Berkeley's share of the University's net pension liability for UCRP. Berkeley's share of net pension liability, deferred inflows of resources, deferred outflows of resources and pension expense have been determined based upon their proportionate share of covered compensation for the fiscal year. The fiduciary net position and changes in the fiduciary net position of UCRP have been measured consistent with the accounting policies used by the Plan. For purposes of measuring UCRP's fiduciary net position, investments are reported at fair value and benefit payments are recognized when due and payable in accordance with the benefit terms.

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

### **Retiree health benefits and liability**

The University provides retiree health benefits to Berkeley's retired employees. The University established the University of California Retiree Health Benefit Trust (UCRHBT) to allow certain University locations and affiliates, including Berkeley, to share the risks, rewards, and costs of providing for retiree health benefits and to accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. Contributions from Berkeley to the UCRHBT are effectively made

to a single-employer health plan administered by the University as a cost-sharing plan. Berkeley is required to contribute at a rate assessed each year by the University.

Net retiree health benefits liability includes Berkeley's share of the University's net retiree health benefits liability for UCRHBT. Berkeley's share of net retiree health benefits liability, deferred inflows of resources, deferred outflows of resources and retiree health benefits expense have been determined based upon their proportionate share of UCRP's covered compensation for the fiscal year. The fiduciary net position and changes in net position of UCRHBT have been measured consistent with the accounting policies used by the trust. For purposes of measuring UCRHBT's fiduciary net position, investments are reported at fair value and benefit payments are recognized when due and payable in accordance with the benefit terms.

#### **Pension payable to University**

Additional deposits in UCRP have been made using University resources 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 the University, are being repaid by Berkeley, plus accrued interest, through 2042 with a supplemental pension assessment. Berkeley's share of the internal loan has been determined based upon the proportionate share of covered compensation for the fiscal year. Supplemental pension assessments are reported as pension expense. Additional deposits in UCRP by the University, and changes in Berkeley's share of the internal loans, are reported as other employee benefits.

#### **Transactions with the University**

Certain revenues and expenses are allocated from the University 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**

The University 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. The University is also exempt from federal income tax under IRC Section 115(a) as a state institution. In addition, the University is exempt from state income taxes imposed under the California Revenue and Taxation Code.

#### **Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported 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, 2020. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or an equivalent arrangement that meets specific criteria. Berkeley is evaluating the effect Statement No. 84 will have on its financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases*, effective for Berkeley's fiscal year beginning July 1, 2021. This Statement establishes a single approach to accounting for and reporting leases based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Limited exceptions to the single approach guidance are provided for short-term leases, defined as lasting a maximum of twelve months at inception, including any options to extend, financed purchases, leases of assets that are investments and certain regulated leases. Berkeley is evaluating the effect Statement No. 87 will have on its financial statements.

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

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

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

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for Berkeley's fiscal year beginning July 1, 2023. The Statement requires for these arrangements to be recorded as a right-to-use intangible asset and a corresponding subscription liability. Berkeley is evaluating the effect that Statement No. 96 will have on its financial statements.

### **NOTE 1: CASH AND CASH EQUIVALENTS**

The University maintains centralized management for substantially all its cash and cash equivalents. Berkeley's cash and cash equivalents consists of cash in demand deposit accounts and deposits into STIP.

Cash in Berkeley's demand deposit accounts is minimized by sweeping available cash balances into the University's investment accounts daily. On June 30, 2020 and 2019, the carrying amount of Berkeley's demand deposits, generally held in nationally recognized banking institutions, was \$5.6 million and \$4.4 million, respectively. Berkeley's deposits in demand deposit accounts are uninsured and uncollateralized.

A portion of Berkeley's cash is deposited by the University into 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. On June 30, 2020 and 2019, the carrying amount of Berkeley's STIP was \$660.9 million and \$572.7 million, respectively.

**NOTE 2: INVESTMENTS**

The Regents, as the governing Board of the University, are responsible for the oversight of the University’s investments and establishes investment policy, which is carried out by the University’s Chief Investment Officer. Berkeley’s investments consist of investments in TRIP, GEP, and other investment pools managed by the University’s Chief Investment Officer.

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 \$1,145.5 million and \$1,148.7 million on June 30, 2020 and 2019, 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 \$2,800.1 million and \$2,759.9 million at June 30, 2020 and 2019, 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’s investments can be found in its 2019-2020 Annual Financial Report.

**NOTE 3: ACCOUNTS RECEIVABLE**

Accounts receivable and the allowance for uncollectible accounts at June 30, 2020 and 2019 are as follows:

*(in thousands of dollars)*

	<b>STATE &amp; FEDERAL GOVERNMENT</b>	<b>LOCAL GOVT &amp; PRIVATE GRANTS &amp; CONTRACTS</b>	<b>OTHER</b>	<b>TOTAL</b>
At June 30, 2020				
Accounts receivable	\$ 112,761	\$ 108,044	\$ 38,435	\$ 259,240
Allowance for uncollectible accounts		(16,582)	(14,337)	(30,919)
<b>Accounts receivable, net</b>	<b>\$ 112,761</b>	<b>\$ 91,462</b>	<b>\$ 24,098</b>	<b>\$ 228,321</b>
At June 30, 2019				
Accounts receivable	\$ 120,804	\$ 66,195	\$ 39,150	\$ 226,149
Allowance for uncollectible accounts		(17,676)	(15,041)	(32,717)
<b>Accounts receivable, net</b>	<b>\$ 120,804</b>	<b>\$ 48,519</b>	<b>\$ 24,109</b>	<b>\$ 193,432</b>

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

University of California, Berkeley  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
YEARS ENDED JUNE 30, 2020 AND 2019

Uncollectible accounts have (increased)/decreased the following revenues for the years ended June 30:

*(in thousands of dollars)*

	<b>2020</b>	<b>2019</b>
Student tuition and fees	\$ (264)	\$ 1,232
Educational activities	2	48
Auxiliary enterprises	(292)	176
Other operating revenues	363	115
<b>Total</b>	<b>\$ (191)</b>	<b>\$ 1,571</b>

**NOTE 4: PLEDGES RECEIVABLE**

The composition of pledges receivable at June 30, 2020 and 2019 is summarized as follows:

*(in thousands of dollars)*

	<b>2020</b>	<b>2019</b>
Total pledges receivable outstanding	\$ 30,782	\$ 28,070
Less: Unamortized discount to present value	(520)	(742)
Allowance for uncollectible pledges	(6,369)	(6,491)
<b>Total pledges receivable, net</b>	<b>23,893</b>	<b>20,837</b>
Less: Current portion of pledges receivable	(8,372)	(5,633)
<b>Noncurrent portion of pledges receivable</b>	<b>\$ 15,521</b>	<b>\$ 15,204</b>

Future receipts under pledge agreements for each of the five fiscal years after June 30, 2020 and thereafter are as follows:

*(in thousands of dollars)*

Year Ending June 30	
2021	\$ 14,072
2022	8,193
2023	7,343
2024	587
2025	587
<b>Total payments on pledges receivable</b>	<b>\$ 30,782</b>

Adjustments to the allowance for uncollectible pledges for Berkeley have increased the following revenues for the years ended June 30, 2020 and 2019:

*(in thousands of dollars)*

	<b>2020</b>	<b>2019</b>
Private gifts	\$ 172	\$ 2,634

University of California, Berkeley  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
YEARS ENDED JUNE 30, 2020 AND 2019

**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)*

	CURRENT	NONCURRENT		TOTAL
		NOTES	MORTGAGES	
At June 30, 2020				
Notes and mortgages receivable	\$ 5,192	\$ 18,587	\$ 297	\$ 18,884
Allowance for uncollectible amounts	(186)	(2,700)		(2,700)
<b>Notes and mortgages receivable, net</b>	<b>\$ 5,006</b>	<b>\$ 15,887</b>	<b>\$ 297</b>	<b>\$ 16,184</b>
At June 30, 2019				
Notes and mortgages receivable	\$ 5,841	\$ 19,682	\$ 306	\$ 19,988
Allowance for uncollectible amounts	(233)	(2,504)		(2,504)
<b>Notes and mortgages receivable, net</b>	<b>\$ 5,608</b>	<b>\$ 17,178</b>	<b>\$ 306</b>	<b>\$ 17,484</b>

**NOTE 6: INVESTMENTS HELD BY TRUSTEES**

The University has entered into agreements with trustees to maintain trusts for the University's self-insurance programs, long-term debt requirements, capital projects, and certain other requirements. In addition, the State of California (the State) retains on deposit, certain proceeds from the sale of lease-revenue bonds to be used for capital projects. For both June 30, 2020, and 2019, the investments and deposits held by trustees included amounts held by the State and amounts held by the University on behalf of Berkeley for capital related projects. The fair value of these deposits was \$1.0 million and \$3.2 million at June 30, 2020 and 2019 respectively.

University of California, Berkeley  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
YEARS ENDED JUNE 30, 2020 AND 2019

**NOTE 7: CAPITAL ASSETS**

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

*(in thousands of dollars)*

	2018	ADDITIONS	DISPOSALS	2019	ADDITIONS	DISPOSALS	2020
<b>ORIGINAL COST</b>							
Land	\$ 119,968	\$ -		\$ 119,968	\$ 1,907		\$ 121,875
Infrastructure	74,953	1,847	-	76,800	67	-	76,867
Buildings and improvements	5,198,456	129,619	(14,855)	5,313,220	40,602	(120)	5,353,702
Equipment, software and intangibles	610,974	55,657	(23,119)	643,512	47,534	(11,086)	679,960
Libraries and collections	1,079,470	34,598	(2,985)	1,111,083	33,121	(55,979)	1,088,225
Special collections	150,678	4,636		155,314	45,851		201,165
Construction in progress	76,985	1,896		78,881	65,889		144,770
<b>Capital assets, at original cost</b>	<b>\$ 7,311,484</b>	<b>\$ 228,253</b>	<b>\$ (40,959)</b>	<b>\$ 7,498,778</b>	<b>\$ 234,971</b>	<b>\$ (67,185)</b>	<b>\$ 7,666,564</b>
	2018	DEPRECIATION AND AMORTIZATION	DISPOSALS	2019	DEPRECIATION AND AMORTIZATION	DISPOSALS	2020
<b>ACCUMULATED DEPRECIATION AND AMORTIZATION</b>							
Infrastructure	\$ 37,127	\$ 2,638		\$ 39,765	\$ 2,690		\$ 42,455
Buildings and improvements	2,066,794	158,866	(12,601)	2,213,059	158,365	(107)	2,371,317
Equipment, software and intangibles	429,881	43,276	(22,145)	451,012	42,253	(8,027)	485,238
Libraries and collections	819,873	31,187	(2,985)	848,075	31,851	(55,979)	823,947
<b>Accumulated depreciation and amortization</b>	<b>\$ 3,353,675</b>	<b>\$ 235,967</b>	<b>\$ (37,731)</b>	<b>\$ 3,551,911</b>	<b>\$ 235,159</b>	<b>\$ (64,113)</b>	<b>\$ 3,722,957</b>
<b>Capital assets, net</b>	<b>\$ 3,957,809</b>			<b>\$ 3,946,867</b>			<b>\$ 3,943,607</b>

For the years ended June 30, 2020 and 2019, service concession arrangements, reported as buildings and improvements, were \$207.0 million and \$206.7 million of original cost and \$10.8 million and \$7.0 million accumulated depreciation, respectively.

**NOTE 8: DEBT**

The University 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.

University of California, Berkeley  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
YEARS ENDED JUNE 30, 2020 AND 2019

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

*(in thousands of dollars)*

	INTEREST RATES	MATURITY YEARS	2020	2019
<b>INTERIM FINANCING:</b>				
Commercial paper	0% - 0.08%		\$326,008	\$247,251
<b>LONG-TERM FINANCING:</b>				
Revenue bonds:				
General revenue bonds	3.17% - 5.78%	2021-2112	1,528,461	1,559,080
Limited projects revenue bonds	4.05% - 6.04%	2021-2050	634,700	652,050
<b>Revenue bonds</b>			<b>2,163,161</b>	<b>2,211,130</b>
Capital lease obligations	0% - 3.48%	2021-2026	3,157	1,901
Other borrowings	0% - 0.05%	2021-2025	2,842	3,075
<b>Total outstanding debt</b>			<b>2,495,168</b>	<b>2,463,357</b>
Less: Commercial paper			(326,008)	(247,251)
Current portion of outstanding debt			(112,431)	(113,064)
<b>Noncurrent portion of outstanding debt</b>			<b>\$2,056,729</b>	<b>\$2,103,042</b>

Interest expense associated with financing projects during construction, net of any investment income earned on tax-exempt bond proceeds during construction, was capitalized up through June 30, 2019. Total interest expense was \$101.3 million and \$104.3 million for the years ended June 30, 2020 and 2019, respectively. Interest expense, net of investment income, totaling \$3.8 million was capitalized during the year ended June 30, 2019. The remaining \$100.5 million in 2019 is reported as interest expense in the statement of revenues, expenses and changes in net position.

University of California, Berkeley  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
YEARS ENDED JUNE 30, 2020 AND 2019

**Outstanding Debt Activity**

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

*(in thousands of dollars)*

	REVENUE BONDS	FINANCING OBLIGATIONS	OTHER BORROWINGS	TOTAL
Year ended June 30, 2020				
Long-term debt and financing obligations at June 30, 2019	\$ 2,211,130	\$ 1,901	\$ 3,075	\$ 2,216,106
New obligations		2,079		2,079
Refinancing or prepayment of outstanding debt			(185)	(185)
Scheduled principal payments	(47,969)	(823)	(48)	(48,840)
<b>Long-term debt and capital leases at June 30, 2020</b>	<b>2,163,161</b>	<b>3,157</b>	<b>2,842</b>	<b>2,169,160</b>
Less: Current portion	(108,830)	(873)	(2,728)	(112,431)
<b>Noncurrent portion at June 30, 2020</b>	<b>\$ 2,054,331</b>	<b>\$ 2,284</b>	<b>\$ 114</b>	<b>\$ 2,056,729</b>
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	4,794	338		5,132
Refinancing or prepayment of outstanding debt			(3,303)	(3,303)
Scheduled principal payments	(38,014)	(1,472)	(48)	(39,534)
<b>Long-term debt and capital leases at June 30, 2019</b>	<b>2,211,130</b>	<b>1,901</b>	<b>3,075</b>	<b>2,216,106</b>
Less: Current portion	(112,193)	(823)	(48)	(113,064)
<b>Noncurrent portion at June 30, 2019</b>	<b>\$ 2,098,937</b>	<b>\$ 1,078</b>	<b>\$ 3,027</b>	<b>\$ 2,103,042</b>

**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 the University. There is no encumbrance, mortgage or other pledge of property securing commercial paper, and the paper does not constitute general obligations of the University.

**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 the University 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

University of California, Berkeley  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
YEARS ENDED JUNE 30, 2020 AND 2019

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.

**Subsequent Event**

In July 2020, General Revenue Bonds totaling \$2.6 billion, including \$826.2 million in tax-exempt bonds and \$1.8 billion in taxable bonds, were issued for working capital purposes and to finance and refinance acquisition, construction, improvement and renovation of certain facilities of the University. Berkeley's share, issued for working capital purposes totaled \$71.8 million. The bonds related to Berkeley mature at various dates through 2050.

**Capital Leases**

Berkeley's capital leases with other lessors, typically for equipment, totaled \$3.2 million and \$1.9 million for the years ended June 30, 2020 and 2019, respectively.

**Other University Borrowings**

Other borrowings of \$2.8 million and \$3.1 million at June 30, 2020 and 2019, respectively, from the University'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, 2020 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
2021	\$ 326,198	143,951	914	43	471,106	371,529	99,577
2022		135,314	628	43	135,985	38,187	97,798
2023		134,634	569	43	135,246	39,042	96,204
2024		143,002	473	21	143,496	48,946	94,550
2025		149,553	386	11	149,950	57,438	92,512
2026-2113		3,541,562	280	2,687	3,544,529	1,940,026	1,604,503
<b>Total future debt service</b>	<b>326,198</b>	<b>4,248,016</b>	<b>3,250</b>	<b>2,848</b>	<b>4,580,312</b>	<b>\$2,495,168</b>	<b>\$2,085,144</b>
Less: Interest component of future payments	(190)	(2,084,855)	(93)	(6)	(2,085,144)		
<b>Principal portion of future payments</b>	<b>\$326,008</b>	<b>\$2,163,161</b>	<b>\$3,157</b>	<b>\$2,842</b>	<b>\$2,495,168</b>		

University of California, Berkeley  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
 YEARS ENDED JUNE 30, 2020 AND 2019

Additional information on the University's debt can be obtained in its 2019-2020 Annual Financial Report.

**NOTE 9: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

The composition of deferred outflows and inflows of resources at June 30, 2020 and 2019 is summarized as follows:

*(in thousands of dollars)*

	SERVICE CONCESSION ARRANGEMENTS	NET PENSION LIABILITY	NET RETIREE HEALTH BENEFITS	DEBT REFUNDING	ASSET RETIREMENT OBLIGATION	TOTAL
At June 30, 2020						
Deferred outflows of resources		\$ 499,148	\$ 504,188	\$ 36,772	\$ 7,271	\$ 1,047,379
Deferred inflows of resources	\$ 196,253	82,725	673,563			952,541
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

**NOTE 10: THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)**

Most employees of Berkeley participate in the University of California Retirement System (UCRS) that is administered by the University. The UCRS consists of The University of California Retirement Plan (UCRP), a 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 2019-2020 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 the University, and its affiliates. Prior to July 1, 2016, membership in UCRP was required 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. Effective July 1, 2016, certain employees were given a choice to participate in UCRP or select a defined contribution plan option. 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 UCRP 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 University independent actuary annually determines the total funding policy contributions, the University is not required to contribute an amount equal to the total funding contribution. The actual contributions and the contribution rates of the University and employees are based on numerous factors, including the availability of funds to the University, the impact of employee contributions on the competitiveness of the University'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

University of California, Berkeley  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
 YEARS ENDED JUNE 30, 2020 AND 2019

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.

**Net Pension Liability to UCRP**

Berkeley's proportionate share of the net pension liability as of June 30, 2020 and 2019, is as follows:

<i>(in thousands of dollars)</i>				
	2020		2019	
Proportion of the net pension liability	7.6%		7.7%	
Proportionate share of net pension liability	\$	1,545,394	\$	1,332,610

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:

Inflation	2.5%
Investment rate of return	6.75
Projected salary increases	3.65 - 5.95
Cost-of-living adjustments	2.0

**Discount Rate**

The discount rate used to estimate the net pension liability as of June 30, 2020 and 2019 was 6.75%. 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, 2020 and 2019.

**Sensitivity of the Net Pension Liability to the Discount Rate Assumption**

The following presents the June 30, 2020 net pension liability of Berkeley calculated using the June 30, 2020 discount rate assumption of 6.75 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

<i>(in thousands of dollars)</i>			
	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net pension liability - Berkeley	\$ 2,412,143	\$ 1,545,394	\$ 832,231

**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)*

	2020	2019
<b>Deferred Outflows of Resources:</b>		
Changes of assumptions or other inputs	\$ 317,388	\$ 448,446
Net difference between projected and actual earnings on pension plan investments	158,289	-
Difference between expected and actual experience	23,471	34,952
<b>Total Deferred Outflows of Resources</b>	<b>\$ 499,148</b>	<b>\$ 483,398</b>
<b>Deferred Inflows of Resources:</b>		
Changes in proportion and differences between Berkeley's contributions and proportionate share of contributions	\$ 65,279	\$ 76,653
Net difference between projected and actual earnings on pension plan investments	-	8,615
Difference between expected and actual experience	17,446	589
<b>Total Deferred Inflows of Resources</b>	<b>\$ 82,725</b>	<b>\$ 85,857</b>

Additional information on the retirement plans can be obtained from the 2019-2020 annual report of the University of California Retirement System.

**NOTE 11: RETIREE HEALTH BENEFIT COSTS AND OBLIGATIONS**

The University administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision, to eligible retirees (and their eligible family members) of the University and its affiliates, including Berkeley, through the University of California Retiree Health Benefit Program. The Regents has the authority to establish and amend the plan. While retiree health benefits are not a legal obligation of the University and can be cancelled or modified at any time, accounting standards require the University to recognize a net retiree health liability based on the current practices of providing retiree health benefits.

The University established the University of California Retiree Health Benefit Trust (UCRHBT or Trust) in order to allow certain University locations and affiliates that share the risks, rewards, and costs of providing for retiree health benefits to fund such benefits on a cost-sharing basis and accumulate funds on a tax-exempt basis under an arrangement segregated from the University assets. Campus contributions toward retiree health benefits are made to the Trust at rates determined by the University. The University receives retiree health contributions from retirees that are deducted from their UCRP benefit payments or are received from the retiree through direct pay. The University acts as a third-party administrator on behalf of the Trust and pays health care insurers and administrators amounts currently due under the Retiree Health Benefit Program for retirees. The Trust reimburses the University 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 University's maximum contribution if they retire before age 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least five years of service. Retirees employed by Berkeley after 1989 and prior to July 2013 become eligible for a percentage of the University's contribution starting at 50 percent of the maximum University 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 University's contribution based on age and years of service. Retirees are

University of California, Berkeley  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
 YEARS ENDED JUNE 30, 2020 AND 2019

eligible for the maximum University 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 University'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 University 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 \$2.60 and \$2.70 per \$100 of UCRP covered payroll effective July 1, 2019 and 2018, respectively.

**Net Retiree Health Benefits Liability**

Berkeley's proportionate share of the net retiree health benefits liability as of June 30, 2020 and 2019, is as follows:

<i>(in thousands of dollars)</i>	<b>2020</b>	<b>2019</b>
Proportion of the retiree health benefits liability	7.4%	7.8%
Proportionate share of retiree health benefits liability	\$ 1,706,807	\$ 1,496,425

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:

<i>(shown as percentage)</i>	<b>2020</b>	<b>2019</b>
Discount rate	2.2%	3.5%
Inflation	2.5	2.5
Investment rate of return	2.5	2.5
Projected salary increases	3.65 - 5.95	3.65 - 5.95
Health care cost trend rates	Initially ranges from 2.7 to 9.0 decreasing to an ultimate rate of 4.0 for 2076 and later years	Initially ranges from 4.4 to 9.4 decreasing to an ultimate rate of 4.0 for 2077 and later years

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used as of June 30, 2020 and 2019 were based upon the results of the most recent experience study covering the period of July 1, 2014 through June 30, 2018.

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

The following presents the June 30, 2020 net retiree health benefits liability of Berkeley calculated using the June 30, 2020 health care cost trend rate assumptions with initial trend ranging from 2.7 percent to 9.0 percent, as well as what the net retiree health benefits liability would be if it were calculated using a health care cost trend rate different than the current assumption:

*(in thousands of dollars)*

	1% Decrease (1.7% - 8.0%)	Current Trend Rate (2.7% - 9.0%)	1% Increase (3.7% - 10.0%)
Net retiree health benefits liability - Berkeley	\$ 1,382,891	\$ 1,706,807	\$ 2,144,449

**Discount Rate**

The discount rate used to estimate the net retiree health benefits liability as of June 30, 2020 and 2019, was 2.2 and 3.5 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, 2020 net retiree health benefits liability of Berkeley calculated using the June 30, 2020 discount rate assumption of 2.2 percent, as well as what the net retiree health benefits liability would be if it were calculated using a discount rate different than the current assumption:

*(in thousands of dollars)*

	1% Decrease (1.2%)	Current Discount Rate (2.2%)	1% Increase (3.2%)
Net retiree health benefits liability - Berkeley	\$ 2,068,658	\$ 1,706,807	\$ 1,425,412

**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)*

	2020	2019
<b>Deferred Outflows of Resources:</b>		
Changes of assumptions or other inputs	\$ 499,953	\$ 291,080
Difference between expected and actual experience	4,003	5,018
Difference between projected and actual earnings on plan investments	232	251
Total Deferred Outflows of Resources	\$ 504,188	\$ 296,349
<b>Deferred Inflows of Resources:</b>		
Changes of assumptions or other inputs	\$ 172,352	\$ 216,104
Difference between expected and actual experience	279,133	230,892
Changes in proportion and differences between Berkeley's contributions and proportionate share of contributions	222,078	175,366
Total Deferred Inflows of Resources	\$ 673,563	\$ 622,362

University of California, Berkeley  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
YEARS ENDED JUNE 30, 2020 AND 2019

Additional information on the retiree health plans can be obtained from the University's 2019–2020 Annual Financial Report.

**NOTE 12: ENDOWMENTS AND GIFTS**

The value of endowments and gifts held and administered by the University but reflected in Berkeley's statements of net position at June 30, 2020 and 2019, is as follows:

*(in thousands of dollars)*

	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
<i>At June 30, 2020</i>				
Endowments	\$ 404,858	\$ 1,254,295	\$ 3,806	\$ 1,662,959
Funds functioning as endowments		1,226,438		1,226,438
Gifts		490,583	6,477	497,060
<b>Total endowments and gifts</b>	<b>\$ 404,858</b>	<b>\$ 2,971,316</b>	<b>\$ 10,283</b>	<b>\$ 3,386,457</b>
<i>At June 30, 2019</i>				
Endowments	\$ 392,908	\$ 1,233,100	\$ 1,216	\$ 1,627,224
Funds functioning as endowments		1,212,266		1,212,266
Gifts		439,924	9,197	449,121
<b>Total endowments and gifts</b>	<b>\$ 392,908</b>	<b>\$ 2,885,290</b>	<b>\$ 10,413</b>	<b>\$ 3,288,611</b>

The University's endowment income distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution provided by dividend and interest income and by capital gains may vary significantly from year to year. The University's policy is to retain the realized and unrealized appreciation with the endowment after the annual income distribution has been made. The net appreciation available to meet future spending needs is subject to the approval of The Regents and amounted to \$1,168.8 million and \$1,154.7 million at June 30, 2020 and 2019, 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 the University was \$96.1 million and \$92.3 million for the years ended June 30, 2020 and 2019, respectively.

**NOTE 13: COMMITMENTS AND CONTINGENCIES**

**Contractual Commitments**

Amounts committed but unexpended for construction projects totaled \$162.8 million at June 30, 2020.

Berkeley leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the year ended June 30, 2020 were \$35.7 million. The terms of operating leases extend through 2030.

---

University of California, Berkeley  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**  
YEARS ENDED JUNE 30, 2020 AND 2019

---

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)*

<b>Year Ending June 30</b>	<b>Minimum Annual Lease Payments</b>
2021	\$ 19,363
2022	13,328
2023	11,865
2024	11,392
2025	8,110
2026-2030	28,836
<b>Total</b>	<b>\$ 92,894</b>

### **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.

### **NOTE 14: RISKS AND UNCERTAINTIES**

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been declared a pandemic by the World Health Organization. The outbreak of the disease has affected travel, commerce and financial markets globally, in the United States and California, including cities and counties throughout the state. On March 4, 2020, the Governor declared a state of emergency to help the state prepare and respond to COVID-19, and on March 19, 2020, the Governor issued a statewide order, Executive Order N-33-20, directing all residents to heed current state public health directives to stay home or at their place of residence except as needed to maintain continuity of operations of critical infrastructure sectors during the COVID-19 response. Such orders and restrictions have resulted in business closures, work stoppages, slowdowns and delays, work-from-home policies, travel restrictions and cancellations of events. While there has been and will continue to be material financial impacts to Berkeley due to COVID-19 that will affect financial results for 2021 and potentially beyond, we believe we have sufficient liquidity to meet our operating and financial needs. However, given the difficulty in predicting the duration and severity of the coronavirus on the University, the economy and the financial markets, the ultimate impact may be material.