



UNIVERSITY OF CALIFORNIA, BERKELEY

Annual Financial Report
2006-07

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Fiscal Year 2006-07

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University of California-Berkeley

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

The objective of Management's Discussion and Analysis is to help readers of the University of California, Berkeley's financial statements better understand the financial position and operating activities for the fiscal year ended June 30, 2007, with selected comparative information for the year ended June 30, 2006. Certain revisions in classification for comparability have been made to the prior year information in order to correspond to the current year presentation. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes to the financial statements. Unless otherwise indicated, years (2006, 2007) in this discussion refer to the fiscal year ended June 30.

The University of California, Berkeley's financial report communicates financial information for the University of California Berkeley campus (Berkeley) through three primary financial statements and notes to the financial statements. The three financial statements present the financial position, changes in the financial position and cash flows for Berkeley. The notes provide additional information that is essential to a full understanding of the financial statements.

The financial statements for the University of California, Berkeley Foundation (Foundation) are presented separately from Berkeley's and are not covered in this discussion and analysis. Complete Foundation financial statements for the years ended June 30, 2007 and 2006 may be obtained by contacting the Berkeley office of the Vice Chancellor-University Relations or Treasurer of the Foundation at 2080 Addison Street #4200, Berkeley, CA 94720-4200, (510) 642-1212.

THE UNIVERSITY OF CALIFORNIA-BERKELEY

Berkeley is the oldest of the ten campuses of the University of California (UC), a public, state-supported institution. It is dedicated to excellence in teaching, research, and public service. Berkeley offers undergraduate, graduate and professional education and is one of the world's leading research universities.

Berkeley's financial statements are prepared from the official UC records and accounts for the campus. These records and accounts are maintained in accordance with UC policies and relevant accounting principles generally accepted in the United States of America established by the Governmental Accounting Standards Board (GASB). Berkeley's financial statements have not been individually audited, but rather are audited as part of the UC financial statement audit. The audited, consolidated financial statements of UC are available at:
<http://www.ucop.edu/ucophome/busfin/reports.html>

During 2007, Berkeley adopted GASB Statement No. 48, Sales and Pledges of Receivables and Intra-Entity Transfers of Assets. Statement No. 48 establishes criteria to ascertain whether certain transactions should be recorded as sales or collateralized borrowings. The implementation of this Statement had no effect on Berkeley's net assets or changes in net assets in 2007, and there was no effect in 2006.

BERKELEY'S FINANCIAL POSITION

The statement of net assets presents the financial position at the end of each year. The difference between assets and liabilities is net assets, representing a measure of the current financial condition. Berkeley's statement of net assets displays all of the assets, liabilities, and net assets reflected in Berkeley's accounts. However, certain significant assets, liabilities, and net assets, such as system-wide investments, self-insurance liabilities, revenue bond debt, and endowment funds, are not reflected in Berkeley's campus-level accounts. Therefore, Berkeley's statement of net assets does not reflect a picture of the campus' financial position on a stand-alone basis but rather as a campus within the UC system. At June 30, 2007, Berkeley's assets were \$3.4 billion, liabilities were \$0.4 billion and net assets were nearly \$3.0 billion.

University of California-Berkeley

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

The major components of Berkeley's assets, liabilities, and net assets, as of 2007 and 2006, are as follows (in thousands of dollars):

	2007	2006	\$ CHANGE	% CHANGE
Assets				
Cash and cash equivalents	\$846,564	\$821,564	25,000	3%
Investment held by trustees	78,246	684	77,562	N/A
Accounts receivable, net	123,897	119,020	4,877	4%
Capital assets, net	2,294,248	2,139,486	154,762	7%
Other assets	97,023	94,271	2,752	3%
Total assets	3,439,978	3,175,025	264,953	8%
Liabilities				
Accounts payable	92,106	52,819	39,287	74%
Accrued salaries and benefits	39,649	39,704	(55)	(0%)
Deferred revenue	117,656	105,373	12,283	12%
Debt	118,564	40,608	77,956	N/A
Other liabilities	85,860	73,360	12,500	17%
Total liabilities	453,835	311,864	141,971	46%
Net Assets				
Invested in capital assets, net of related debt	2,235,668	2,098,878	136,790	7%
Restricted expendable	349,735	394,571	(44,836)	(11%)
Unrestricted	400,740	369,712	31,028	8%
Total net assets	\$2,986,143	\$2,863,161	122,982	4%

Berkeley's Assets

Berkeley's total assets grew \$265.0 million to \$3.4 billion at the end of 2007. \$154.8 million of the increase was attributable to capital assets; and \$77.6 million of the increase was from investments held by trustees. Changes in other asset categories were relatively insignificant.

Capital assets include land, infrastructure, buildings and improvements, equipment, libraries, collections and construction in progress. The required spending for capital assets continued to provide the facilities necessary to accommodate current and future academic, research, and student support needs. The original cost of all capital assets increased by \$227.9 million to \$4.0 billion in 2007. The increase consisted of capital additions of \$295.4 million, partially offset by \$67.5 million of the original cost of equipment and buildings disposed of during the year. During 2007, capitalized costs included \$223.9 million for construction projects for new buildings or improvements to existing buildings, such as Stanley Hall, LeConte Hall, the Early Childhood Education Center and the Unit III Dining Common Renovation, \$28.0 million for new equipment, \$35.0 million for libraries and collections, \$6.7 million for land, and \$1.8 million for infrastructure. About \$45.5 million of the disposed assets was for equipment that was fully depreciated or had reached the end of its useful life or was traded in for new equipment, while disposed buildings from sales or demolition during the year totaled \$22.0 million.

Accumulated depreciation increased \$73.1 million to \$1.7 billion in 2007. Depreciation expense for the year was \$130.9 million, and the accumulated depreciation on assets sold or disposed of during the year was \$57.7 million. Disposals were for equipment that was fully depreciated or had reached the end of its useful life or for buildings that were sold.

Investments held by trustees for future capital projects increased from \$0.7 million at 2006 to \$78.2 million at 2007. The state of California retained on deposit certain proceeds from the sale of lease-revenue bonds to be used for capital projects. In September, 2006, the State Public Works Board (SPWB) sold \$79.9 million in State of California Lease Revenue Bonds 2006 Series E to finance construction of Berkeley's Davis Hall North Replacement Building. The fair value of the amount held was \$60.8 million as of June 30, 2007. Another \$17.4 million was primarily a deposit held by an escrow company for the purchase of real property that was completed in July, 2007.

University of California-Berkeley

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

Berkeley's Liabilities

Berkeley's total liabilities increased \$142.0M, or 46%, to \$453.8M at 2007.

Accounts payable changed significantly from \$52.8 million at 2006 to \$92.1 million at 2007, an increase of \$39.3 million. A change of methodology in reviewing and accruing disbursement activities subsequent to the end of the fiscal year resulted in \$26 million more accrued liabilities in 2007 than in 2006. In addition, there were more construction activities at the end of 2007 than 2006, resulting in \$13.2 million additional liabilities for construction projects.

Accrued salaries and benefits did not change significantly between 2006 and 2007, remaining at approximately \$40.0M.

Deferred revenue includes student tuition and fees and housing and dining fees billed in advance of an academic term and amounts received from grant and contract sponsors that have not been earned under the terms of the agreements. Deferred revenue increased \$12.3 million to \$117.7 million in 2007. \$5.6 million of the increase was due to more advance payments received for new awards in private contracts and grants. Auxiliary enterprises had \$4.4 million more deferred revenue in 2007, attributable to football ticket sales, conferences, and housing and dining services. A \$2.3 million increase in deferred student fees was primarily from summer sessions as the enrollment grew significantly and the course fees increased 7% in 2007.

Campus specific debt increased significantly by \$78.0 million to \$118.6 million in 2007. Capital lease obligations grew \$70.4 million in 2007 due primarily to the issuance of the state's lease revenue bonds to finance construction of Berkeley's Davis Hall North Replacement Building. A bank loan acquired in 2006 for financing the Stanley Hall project increased by \$6.1 million in 2007 as costs were drawn down, and a new bank loan of \$1.5 million was obtained for the student life safety program construction project.

Other liabilities, including accrued vacation, federal refundable loans, and other miscellaneous liabilities, increased \$12.5 million in 2007. \$5.2 million of the change was from unamortized bond premium associated with the state lease revenue bonds. Another \$5.0 million of the increase was for accrued settlement charges and unbilled utilities.

Berkeley's Net Assets

Net assets represent the residual interest in Berkeley's assets after all liabilities are deducted. Berkeley's net assets at the end of 2007, totaling nearly \$3.0 billion, increased \$123 million, or 4%, during the year. Berkeley's net assets are reported in three major categories: invested in capital assets, restricted expendable, and unrestricted.

The portion of net assets invested in capital assets, net of accumulated depreciation, grew slightly from close to \$2.1 billion in 2006 to over \$2.2 billion in 2007. The increase of \$137 million, mostly in buildings and improvements, represents Berkeley's continuing investment in its physical facilities and accounted for the majority of Berkeley's overall increase in its net assets.

Restricted expendable net assets of \$349.7 million at 2007 decreased \$44.8 million or 11% from 2006. These net assets are subject to externally imposed restrictions governing their use. They may be spent only in accordance with the external restrictions placed upon them and may include support received from gifts, appropriations, grants or contracts for specific programs or capital projects, or other third party receipts. There was a decrease of \$65.9 million in the restricted funds for capital projects due primarily to transfers of completed capital projects to buildings and other assets in invested in capital assets. Restricted gift funds for operational purposes grew \$18.3 million in 2007. In addition, the restricted funds for debt service and endowment income grew \$4.2 million, while loan funds decreased \$1.3 million in 2007.

Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although Berkeley's unrestricted net assets of \$400.7 million are not subject to externally imposed restrictions, these net assets are typically allocated for academic and research initiatives or programs, for capital purposes, or other purposes.

BERKELEY'S RESULTS OF OPERATIONS

The statement of revenues, expenses and changes in net assets is a presentation of Berkeley's operating results for the year. It indicates whether the financial condition has improved or deteriorated. In accordance with GASB requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of Berkeley are mandated to be recorded as nonoperating revenues, including state educational appropriations and private gifts.

University of California-Berkeley

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

Berkeley's statement of revenues, expenses, and changes in net assets includes interest and insurance costs associated with the systemwide liabilities omitted from Berkeley's statement of net assets.

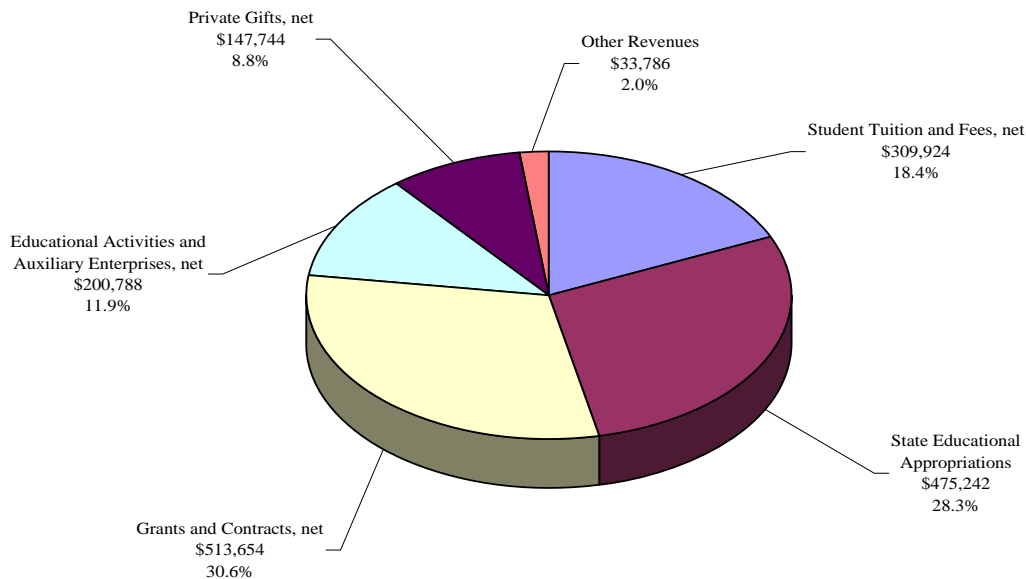
A summarized comparison of the operating results for 2007 and 2006, arranged in a format that matches the revenue supporting the core activities of Berkeley with the expenses associated with core activities, is as follows (in thousands of dollars):

	YEAR ENDED JUNE 30, 2007			YEAR ENDED JUNE 30, 2006			\$ Change	% Change
	Operating	Nonoperating	Total	Operating	Nonoperating	Total		
REVENUES								
Student tuition and fees, net	\$309,924		\$309,924	\$292,482		\$292,482	\$17,442	6%
State educational appropriations		\$475,242	475,242		\$437,662	437,662	37,580	9%
Grants and contracts, net	513,654		513,654	510,562		510,562	3,092	1%
Educational activities and auxiliary enterprises, net	200,788		200,788	192,376		192,376	8,412	4%
Private gifts, net		147,744	147,744		134,751	134,751	12,993	10%
Other revenues	15,522	18,264	33,786	9,333	19,917	29,250	4,536	16%
Revenues supporting core activities	1,039,888	641,250	1,681,138	1,004,753	592,330	1,597,083	84,055	5%
EXPENSES								
Salaries and benefits	1,038,325		1,038,325	997,030		997,030	41,295	4%
Scholarships and fellowships	76,757		76,757	65,577		65,577	11,180	17%
Utilities	34,238		34,238	37,289		37,289	(3,051)	(8%)
Supplies and materials	123,279		123,279	114,255		114,255	9,024	8%
Depreciation and amortization	130,868		130,868	123,195		123,195	7,673	6%
Other expenses	282,060		282,060	251,488		251,488	30,572	12%
Expenses associated with core activities	1,685,527	-	1,685,527	1,588,834	-	1,588,834	96,693	6%
Income (loss) from core activities	(\$645,639)	\$641,250	(4,389)	(\$584,081)	\$592,330	8,249	(12,638)	N/A
OTHER NONOPERATING ACTIVITIES								
Gain (loss) on disposal of capital assets, net of proceeds			35,460			(3,182)	38,642	N/A
Income (loss) before other changes in net assets			31,071			5,067	26,004	N/A
OTHER CHANGES IN NET ASSETS								
State capital appropriations			14,836			9,837	4,999	51%
Capital gifts and grants, net			26,037			42,262	(16,225)	(38%)
Inter-campus transfers			51,038			61,693	(10,655)	(17%)
Increase in net assets			122,982			118,859	4,123	3%
NET ASSETS								
Beginning of year			2,863,161			2,744,302	118,859	4%
End of year			\$2,986,143			\$2,863,161	\$122,982	4%



University of California-Berkeley

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

Categories of both operating and nonoperating revenues that support Berkeley's core activities in 2007 are as follows (in thousands of dollars):





Revenues to support Berkeley's core activities, including those classified as nonoperating revenues, were nearly \$1.7 billion in 2007. These diversified sources of revenue increased in 2007 by \$84 million. State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of Berkeley. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country. Gifts to Berkeley allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Other significant revenues are from educational activities and auxiliary enterprises such as student housing, food service operations and parking.

2007		\$309,924
2006		\$292,482

Student tuition and fees revenue, net of scholarship allowances, grew \$17.4 million in 2007 to \$309.9 million. Gross student tuition and fees increased \$21.2 million, or 5.5%. The increase was primarily due to an increase in health insurance fees for undergraduate and graduate students; a new campus recreational sports fee; increases to certain professional school, extension and summer session student fees; and increases to nonresident fees of 5.0%. Resident undergraduate and graduate registration fees were not increased in 2007 as the state of California increased its educational appropriations to the University of California. The enrollment for undergraduate students grew 2% while the enrollment of graduate students remained virtually the same in 2007. Scholarship allowances were \$97.6 million in 2007 and \$93.8 million in 2006, an increase of \$3.8 million. Consistent with past practices, a significant percentage of the revenue generated from tuition and fees was used for financial aid to mitigate the impact on needy students.

University of California-Berkeley

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

2007		\$475,242
2006		\$437,662

Educational appropriations from the state of California that were allocated to Berkeley from the Office of the President of the University of California increased \$37.6 million, or nearly 9%, to \$475.2 million in 2007. The increase reflected the state of California's increased fiscal year 2007 funding to the University of California, which was 8.2% above the fiscal year 2006 level. This was the second year of increases after several years of reductions from the state that began in 2003.

2007		\$513,654
2006		\$510,562

Grants and contracts revenue from federal, state, private and local government, including facilities and administration cost recovery remained stable, increasing slightly by \$3.1 million, or less than 1%, to \$513.6 million in 2007. Federal grant and contract revenue represents support from a variety of agencies: Department of Health and Human Services, National Science Foundation, National Aeronautics and Space Administration (NASA) and Department of Education. In 2007, federal grants, state contracts, local government and private grants and contracts all increased slightly. However, most of the increases were offset by a decrease of revenue in federal contracts mainly due to the continued transition of a major project, NASA's Time History of Events and Macroscale Interactions during Substorms (THEMIS), which in 2007 phased into operation from the testing and analysis phase in 2006.

2007		\$200,788
2006		\$192,376

Revenue from *educational activities and auxiliary enterprises* increased \$8.4 million, or 4%, from 2006. The increase was primarily from rate increases for residence and food services and increases of football ticket sales and facility rental fees.

2007		\$147,744
2006		\$134,751

Private gifts, mainly restricted as to use, increased \$13.0 million, or 10%, to \$147.7 million in 2007. Gifts may be made to Berkeley through UC or the Foundation. UC continues to be aggressive in developing private revenue sources. The increase in gift revenues was due to several large donations for various campus departments or projects, including the Ann and Gordon Getty Health Sciences Campaign, the Bancroft Centennial Fund to support programs and facility needs of the Bancroft Library, and the Berkeley Art Museum.

2007		\$33,786
2006		\$29,250

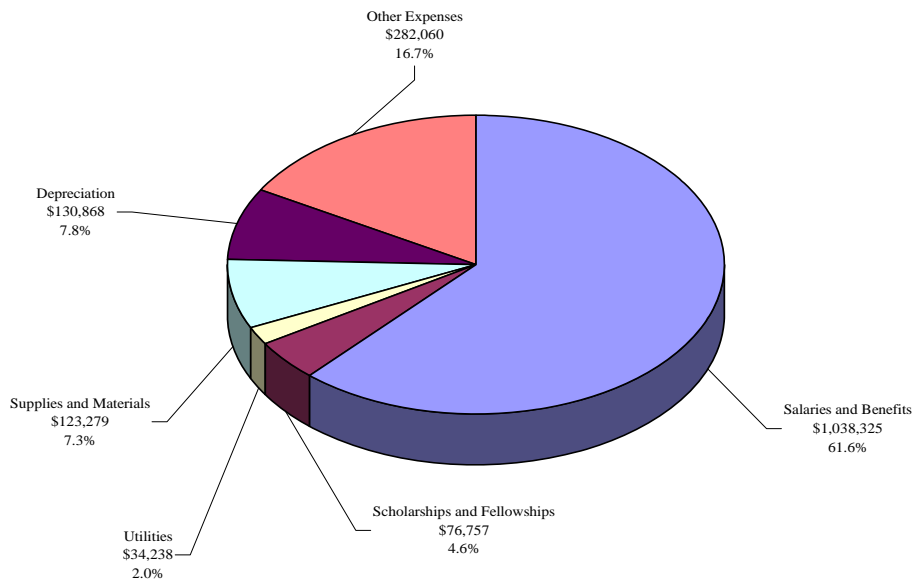
Other revenues for 2007 of \$33.8 million, including \$17.6 million of state financing appropriations reported as nonoperating revenue and \$16.2 million of other revenue, increased \$4.5 million from \$29.3 million in 2006. The state of California financing appropriation, which declined slightly in 2007, is directly related to the required rental payments under lease-

University of California-Berkeley

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

purchase agreements with the state of California and deferred maintenance projects. An increase of \$6.6 million in other operating revenues was from salary and benefits reimbursement arrangements with the International House and other third parties. Offsetting the increases was a \$2.2 million decrease in nonoperating revenues due to a legal settlement received in 2006.

Categories of expenses related to Berkeley's core activities in 2007 are as follows (in thousands of dollars):



Similar to its revenues to support core activities, Berkeley's expenses associated with core activities for 2007, including those classified as nonoperating expense, were near \$1.7 billion. Berkeley's expenses associated with core activities increased \$96.7 million, or 6%, from 2006. About 62% of Berkeley's operating expenses in 2007 was related to salaries and benefits, compared to 63% in 2006.



Salaries and benefits of \$1,038.3 million in 2007 (\$858.1 million of salaries and wages and \$180.2 million of benefits) grew by \$41.3 million, an increase of 4%. There were approximately 13,800 full time equivalent employees at Berkeley at 2007, an increase of about 1.5% from 2006. Combined salaries and wages for both academic and administrative staff increased \$50.2 million, or 6%, from 2006. Total benefit costs decreased \$8.9 million, or 5%. Although health insurance costs continued to grow and increased \$7.0 million from 2006, other benefit categories decreased. Workers' compensation insurance expenses decreased \$7.2 million due primarily to a refund of \$5.9 million from the University-managed self-insured program. In addition, the Incentive Award Program expenses decreased \$6.7 million in 2007 as estimated individual awards and development costs were adjusted. The remaining decrease was mainly due to minor declines in fee remissions, accrued compensated absences and senior management supplement program costs.

University of California-Berkeley

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)



Scholarships and fellowships, representing payments of financial aid made directly to students and reported as an operating expense, totaled \$76.8 million in 2007, \$11.2 million more than 2006. Scholarship allowances, also a form of scholarship and fellowship cost, increased in 2007 \$4.5 million to \$125.2 million. However, scholarship allowances are reported as an offset to revenue, not as an operating expense. On a combined basis, as Berkeley continues its commitment to provide financial support for needy students, financial aid in all forms grew from \$186.3 million in 2006 to \$202.0 million in 2007, an increase of \$15.7 million, or more than 8%.



Utility costs declined by \$3.1 million to \$34.2 million in 2007 due mainly to lower rates on electricity from changing to a different utility provider.



Supplies and materials costs of \$123.3 million in 2007 increased \$9.0 million, or 8%, from 2006. About \$5.2 million of the increase was due to inflationary pressure on costs for laboratory instruments and higher costs for general supplies necessary to support expanded research activity. In addition, deferred maintenance expenses increased \$3.8 million as more funding was available.



Depreciation expense increased \$7.7 million to \$130.9 million in 2007, reflecting the increase in capital assets.



Other expenses increased significantly by \$30.6 million, or 12%, to \$282.1 million in 2007. In 2007, there were increases generally across a variety of expense categories, including travel, rent, computing, legal and consulting services. \$18.7 million more in operating expenses was accrued than the prior year from the revised methodology in reviewing and accruing disbursements activity subsequent to fiscal year-end.

In accordance with the GASB's reporting standards, operating losses were \$645.6 million. However, these operating losses were substantially offset by \$641.3 million of net revenue and expenses that are required by the GASB to be classified as nonoperating, but clearly support operating activities. Therefore, revenue to support core activities was \$4.4 million less than the associated expenses in 2007. In 2006, there was net income of \$8.2 million from core activities. Income from core

University of California-Berkeley

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

activities is restricted by either legal or fiduciary obligations, allocated for academic and research initiatives or programs, necessary for debt service, or required for capital purposes.

Other Nonoperating Activities

Berkeley recorded a \$35.5 million gain on disposals of capital assets in 2007, compared to a \$3.2 million loss in 2006. These net proceeds will be used to fund future capital asset transactions. Several real estate transactions that took place in 2007 provided a \$37.5 million gain in 2007. Offsetting the real estate gains were losses from disposals of equipment.

Other Changes in Net Assets

Similar to other nonoperating activities discussed above, other changes in net assets are generally not available to be used to support Berkeley's operating expenses in the current year.

State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital asset. State capital appropriations increased \$5.0 million in 2007 mainly due to an increase of \$12.0 million for the Department of Energy library project, offset by a \$7.0 million decrease in LeConte Hall and Stanley Hall project appropriations because of completion of those projects.

Capital gifts and grants totaled \$26.0 million in 2007, decreasing \$16.2 million from 2006. There were fewer contributions received for various capital projects, including the Center for Information Technology Research in the Interest of Society (CITRIS) capital projects, the Stanley Hall Replacement Building, the East Asian Library Building, and the Early Childhood Education Center.

Transfers of funds, primarily between Berkeley and UC's Office of the President, were a \$51.0 million addition to Berkeley's net assets in 2007, compared to a \$61.7 million addition in 2006, a decrease of \$10.7 million. The decrease was mostly the result of reductions in the allocations of state general support (\$6.0 million) and federal overhead funds (\$2.6 million) to Berkeley from Office of the President and increased transfers of student residential services net income (\$5.4 million) from Berkeley to Office of the President in compliance with debt payment requirements. These decreases were offset by increases in short-term investment pool earnings and endowment income transferred from Office of the President to Berkeley.

BERKELEY'S CASH FLOWS

The statement of cash flows presents the significant sources and uses of cash (composed of cash in demand deposit accounts and Berkeley's cash equivalents).

A summary comparison of cash flows for 2007 and 2006 is as follows (in thousands of dollars):

	2007	2006	Change
Cash received from operations	\$1,061,853	\$995,839	\$66,014
Cash payments for operations	(1,536,411)	(1,499,186)	(37,225)
Net cash used by operating activities	(474,558)	(503,347)	28,789
Net cash provided by noncapital financing activities	627,523	564,126	63,397
Net cash used by capital and related financing activities	(179,003)	(116,774)	(62,229)
Net cash provided by transfers, net	51,038	61,693	(10,655)
Net increase in cash	25,000	5,698	19,302
Cash and cash equivalents, beginning of the year	821,564	815,866	5,698
Cash and cash equivalents, end of the year	\$846,564	\$821,564	\$25,000

Berkeley's cash and cash equivalents increased \$25.0 million from \$821.6 million in 2006 to \$846.6 million in 2007. Nearly \$474.6 million of cash was used for operating activities, offset by \$627.5 million of cash provided by noncapital financing activities. Noncapital financing activities, as defined by the GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operational activities.

University of California-Berkeley
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

Cash of \$179.0 million was used for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments of long-term debts, partially offset by sources that include state and federal capital appropriations, gifts for capital purposes and new external financing.

Cash from transfers between Berkeley and UC's Office of the President or other campuses totaled a net \$51.0 million addition to Berkeley's net assets in 2007, compared to a \$61.7 million addition in 2006. Funds that were received at Berkeley, primarily transfers from the Office of the President, included capital project funding, endowment income, earnings from the short-term investment pool and other operating funding. Funds that were transferred from Berkeley to the Office of the President included recovered indirect costs, net income from Residential and Student Service Programs for future debt payment requirements, and Berkeley's share of debt service payments.



BERKELEY, CALIFORNIA 94720-1108

ASSOCIATE VICE CHANCELLOR-FINANCE
AND CONTROLLER
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The financial statements listed in the accompanying table of contents on page 1, which collectively comprise the financial statements of the University of California, Berkeley (Berkeley), present the financial position of Berkeley at June 30, 2007 and 2006 and the changes in financial position and cash flows of Berkeley for the years then ended in conformity with the University of California accounting policies and the related accounting principles generally accepted in the United States of America. These financial statements are the responsibility of management.

The Berkeley financial statements are not individually audited, but rather are audited as part of the consolidated Annual Financial Report of the University of California by the certified public accounting firm of PricewaterhouseCoopers LLP, whose report is transmitted to The Regents.

John Ellis
Associate Vice Chancellor-Finance and Controller

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF NET ASSETS (unaudited)

AT JUNE 30, 2007 AND 2006 (IN THOUSANDS OF DOLLARS)

	2007	2006
ASSETS		
Cash and cash equivalents (Note 1)	\$846,564	\$821,564
Investments held by trustees (Note 2)	699	684
Accounts receivable, net (Note 3)	123,897	119,020
Pledges receivable, net (Note 4)	30,482	13,721
Current portion of notes and mortgages receivable, net (Note 5)	5,910	5,043
Inventories	4,888	4,757
Other current assets	2,679	1,794
Current assets	1,015,119	966,583
Investments held by trustees (Note 2)	77,547	
Pledges receivable, net (Note 4)	27,932	40,942
Notes and mortgages receivables, net (Note 5)	23,948	25,332
Capital assets, net (Note 6)	2,294,248	2,139,486
Other noncurrent assets	1,184	2,682
Noncurrent assets	2,424,859	2,208,442
Total assets	3,439,978	3,175,025
LIABILITIES		
Accounts payable	92,106	52,819
Accrued salaries and benefits	39,649	39,704
Deferred revenue	117,656	105,373
Current portion of long-term debt (Note 7)	33,586	27,270
Other current liabilities (Note 8)	55,776	46,453
Current liabilities	338,773	271,619
Federal refundable loans	22,503	22,420
Long-term debt (Note 7)	84,978	13,338
Other noncurrent liabilities (Note 8)	7,581	4,487
Noncurrent liabilities	115,062	40,245
Total liabilities	453,835	311,864
NET ASSETS		
Invested in capital assets, net of related debt	2,235,668	2,098,878
Restricted expendable	349,735	394,571
Unrestricted	400,740	369,712
Total net assets	\$2,986,143	\$2,863,161

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

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

YEARS ENDED JUNE 30, 2007 AND 2006 (IN THOUSANDS OF DOLLARS)

	2007	2006
OPERATING REVENUES		
Student tuition and fees, net	\$309,924	\$292,482
Grants and contracts, net:		
Federal	328,772	334,154
State	75,861	72,651
Private	104,298	101,437
Local	4,723	2,320
Educational activities, net	63,802	61,283
Auxiliary enterprises, net	136,986	131,093
Other operating revenues, net	15,522	9,333
Total operating revenues	1,039,888	1,004,753
OPERATING EXPENSES		
Salaries and wages	858,101	807,888
Benefits	180,224	189,142
Scholarships and fellowships	76,757	65,577
Utilities	34,238	37,289
Supplies and materials	123,279	114,255
Depreciation and amortization (Note 6)	130,868	123,195
Other operating expenses	282,060	251,488
Total operating expenses	1,685,527	1,588,834
Operating loss	(645,639)	(584,081)
NONOPERATING REVENUES (EXPENSES)		
State educational appropriations	475,242	437,662
State financing appropriations	17,640	18,290
Private gifts, net	147,744	134,751
Gain (loss) on disposal of capital assets	35,460	(3,182)
Other nonoperating revenues	624	1,627
Net nonoperating revenues	676,710	589,148
Income before other changes in net assets	31,071	5,067
OTHER CHANGES IN NET ASSETS		
State capital appropriations	14,836	9,837
Capital gifts and grants, net	26,037	42,262
Transfers (Note 10)	51,038	61,693
Increase in net assets	122,982	118,859
Net assets, beginning of year	2,863,161	2,744,302
Net assets, end of year	\$2,986,143	\$2,863,161

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF CASH FLOWS (unaudited)

YEARS ENDED JUNE 30, 2007 AND 2006 (IN THOUSANDS OF DOLLARS)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$310,395	\$285,407
Grants and contracts	517,550	503,509
Educational activities	63,982	60,639
Auxiliary enterprises	141,962	131,989
Collection of loans from students and employees	6,080	6,092
Payments to employees	(868,108)	(841,340)
Payments for benefits	(171,183)	(187,623)
Payments to suppliers and utilities	(415,305)	(396,286)
Payments for scholarships and fellowships	(76,506)	(65,577)
Loans issued to students and employees	(5,309)	(8,360)
Other receipts	21,884	8,203
Net cash used by operating activities	(474,558)	(503,347)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State educational appropriations	474,705	437,662
Gifts received for other than capital purposes	147,423	123,694
Student direct lending receipts	113,819	110,885
Student direct lending payments	(113,819)	(110,885)
Other receipts	5,395	2,770
Net cash provided by noncapital financing activities	627,523	564,126
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	15,538	8,140
State financing appropriations	18,957	18,121
Capital gifts and grants	19,340	51,877
Proceeds from debt	22,457	34,743
Proceeds from the sale of capital assets	41,986	119
Purchase of capital assets	(293,071)	(227,188)
Principal paid on debt and capital leases	(3,419)	(3,256)
Interest paid on debt and capital leases	(791)	670
Net cash used by capital and related financing activities	(179,003)	(116,774)
CASH FLOWS FROM TRANSFERS		
	51,038	61,693
Net increase (decrease) in cash	25,000	5,698
Cash and cash equivalents, beginning of year	821,564	815,866
Cash and cash equivalents, end of year	\$846,564	\$821,564

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF CASH FLOWS (continued)

YEARS ENDED JUNE 30, 2007 AND 2006 (IN THOUSANDS OF DOLLARS)

	2007	2006
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	(\$645,639)	(\$584,081)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization expense	130,868	123,195
Allowance for doubtful accounts	424	(48)
Change in assets and liabilities:		
Receivables	(1,572)	(7,333)
Inventories	(131)	(553)
Other assets	1,153	3,256
Accounts payable	22,482	3,652
Accrued salaries and benefits	(55)	(33,389)
Deferred revenue	11,652	(6,153)
Other liabilities	6,260	(1,893)
Net cash used by operating activities	(\$474,558)	(\$503,347)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION		
Capital assets acquired through capital leases	\$2,434	\$2,356
Capital assets acquired with a liability at year-end	27,334	11,219
Investments held by trustees	60,829	
State financing appropriations	(1,317)	168
Gifts of capital assets	3,266	3,605
Gain/(loss) on disposal of capital assets	35,460	(3,182)
Debt service for lease-revenue bonds	(1,825)	(612)

See accompanying Notes to Financial Statements

University of California, Berkeley

Notes to Financial Statements (unaudited)

Years Ended June 30, 2007 and 2006

ORGANIZATION

Founded in 1868, the University of California, Berkeley (Berkeley) is the original campus of the ten-campus University of California (UC). UC is a public, state-supported institution administered by the corporation, "The Regents of the University of California" (The Regents), with a mission of teaching, research and public service. The Regents is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26 members of The Regents are appointed by the governor and approved by the State Senate. Various Berkeley programs and capital outlay projects are funded through appropriations from the state's annual Budget Act. Berkeley is subject to the bylaws, standing orders and policies established by The Regents and the Office of the President, the executive head of UC.

FINANCIAL REPORTING ENTITY

Berkeley's financial statements include the accounts of the campus only. Accounts for separate, but related organizations, such as the E. O. Lawrence Berkeley National Laboratory, associated student organizations, and booster and alumni organizations are not included in the reporting entity because Berkeley does not have fiduciary responsibility for these organizations or the organizations' balances and activities are insignificant compared to Berkeley's amounts.

The University of California, Berkeley Foundation (the "Foundation") is a legally separate not-for-profit organization dedicated to providing to Berkeley the financial benefits generated from its fundraising efforts and investment earnings. Condensed Foundation financial statement balances are presented in Note 12.

SIGNIFICANT ACCOUNTING POLICIES

Berkeley's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board (GASB) and all statements of the Financial Accounting Standards Board through November 30, 1989, using the economic resources measurement focus and the accrual basis of accounting. Berkeley's financial statements have not been individually audited but rather are audited as part of the UC financial statement audit.

The significant accounting policies of Berkeley are summarized below.

Cash and cash equivalents

Berkeley considers all balances in its demand deposit accounts and its deposits in UC's Short Term Investment Pool (STIP) to be cash for the purposes of the statements of net assets and statements of cash flows.

Berkeley's STIP balances are recorded at historical cost. Income earned on STIP is distributed by UC to Berkeley based on Berkeley's average investment in the pool.

Investments held by trustees

Investments held by trustees are primarily recorded at fair value.

Accounts receivable

Accounts receivable include reimbursements due from state and federal sponsors of externally funded research, local government and private grants and contracts, and amounts due from students for educational activities and services.

Pledges receivable

Unconditional pledges of private gifts to Berkeley in the future 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.

Notes and mortgages receivable

Loans to students are provided from federal student loan programs and from other sources. Home mortgage loans, primarily to faculty, are provided from the STIP and from other sources.

University of California, Berkeley

Notes to Financial Statements (unaudited)

Years Ended June 30, 2007 and 2006

Inventories

Inventories are valued at cost, typically determined under the weighted average method, which is not in excess of net realizable value.

Capital assets

Land, infrastructure, buildings and improvements, equipment, libraries and collections and special collections are recorded at cost at the date of acquisition, or estimated fair value at the date of donation in the case of gifts. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results. 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. 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. 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:

Infrastructure	25 years
Buildings and improvements	15-33 years
Equipment	2-20 years
Computer software	3-7 years
Library books and material	15 years

Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are also capitalized and depreciated.

Inexhaustible capital assets, such as land or special collections that are protected, preserved and held for public exhibition, education or research, including art, museum, scientific and rare book collections are not depreciated.

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned during the temporary investment of project related borrowings.

Deferred revenue

Deferred revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue billed in advance of the event, such as student tuition and fees and fees for housing and dining services.

Federal refundable loans

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

Net assets

Net assets are required to be classified for accounting and reporting purposes into the following categories:

Invested in capital assets, net of related debt

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

Restricted expendable

Berkeley classifies net assets resulting from transactions with purpose restrictions as restricted net assets until the specific resources are used for the required purpose. Net assets whose use by Berkeley is subject to externally-imposed restrictions that can be fulfilled by actions of Berkeley pursuant to those restrictions are classified as restricted expendable net assets. Net assets subject to externally-imposed restrictions that must be retained in perpetuity are classified as nonexpendable net assets. Such net assets (including permanent endowment funds) are recorded by UC and are not recorded in Berkeley's accounts.

University of California, Berkeley

Notes to Financial Statements (unaudited)

Years Ended June 30, 2007 and 2006

Unrestricted

Net assets that are neither externally restricted nor invested in capital assets, net of related debt, are classified as unrestricted net assets. Unrestricted net assets may be designated for specific purposes by management or the Regents. Substantially all unrestricted net assets are allocated for academic and research initiatives or programs, for capital programs, or for other purposes.

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

Revenues and expenses

Operating revenues include receipts from student tuition and fees, grants and contracts for specific operating activities, and sales and services from educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of Berkeley are presented in the statement of revenues, expenses and changes in net assets 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 and private gifts, since the GASB does not consider them to be related to the principal operating activities of Berkeley.

Nonoperating revenues and expenses include state educational appropriations (for the support of Berkeley's operating expenses), state financing appropriations, private gifts for other than capital purposes, and loss on the disposal of capital assets.

State capital appropriations and capital gifts and grants are classified as other changes in net assets.

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. Certain waivers of student tuition and fees considered to be scholarship allowances are recorded as an offset to revenue.

State appropriations

The state of California provides appropriations to UC on an annual basis. Berkeley's allocated share of state educational appropriations is recognized as nonoperating revenue; however, the related expenses are incurred to support either educational operations or other specific operating purposes. State financing appropriations provide for principal and interest payments associated with lease-purchase agreements with the State Public Works Board and are also reported as non-operating revenue. State appropriations for capital projects are recorded as revenue under other changes in net assets when related expenditures are incurred. Special state appropriations for AIDS, tobacco, and breast cancer research are reported as grant 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, 2007, the facilities and administrative cost recovery totaled \$77.4 million, \$59.2 million from federally sponsored programs and \$18.2 million from other sponsors. For the year ended June 30, 2006, the facilities and administrative cost recovery totaled \$77.0 million, \$59.8 million from federally sponsored programs and \$17.2 million from other sponsors.

Scholarship allowances

Berkeley recognizes certain scholarship allowances, including both financial aid and fee waivers, as the difference between the stated charge for tuition and fees, housing and dining charges, recreational center fees, etc. and the amount that is paid by the student, as well as third parties making payments 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, 2007 and 2006

Scholarship allowances in the following amounts are recorded as an offset to revenues for the years ended June 30, 2007 and 2006 (in thousands of dollars):

	2007	2006
Student tuition and fees	\$97,569	\$93,772
Auxiliary enterprises	27,669	26,995
Scholarship allowances	\$125,238	\$120,767

Compensated absences

Berkeley accrues annual leave, including employer-related costs, for employees at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked.

Endowment spending

Under provisions of California law, the Uniform 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

As a UC campus, Berkeley is qualified as a tax-exempt organization under the provisions of Section 501(c) (3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income.

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 expenditures 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.

Comparative information

Certain reclassifications have been made to the 2006 financial information in order to conform to the 2007 presentation.

New accounting pronouncements

In August 2004, the GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, effective for Berkeley's fiscal year beginning July 1, 2007. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. Currently, UC records retiree medical and dental costs as they are paid and does not recognize the liability in the financial statements. Management is currently evaluating the effect that Statement No. 45 will have on Berkeley's financial statements, although it is expected that there will be a significant increase in operating expenses as well as a significant decrease in unrestricted net assets.

In September 2006, the GASB issued Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, effective for Berkeley's fiscal year beginning July 1, 2007. However, management elected to adopt the statement early for the fiscal year beginning July 1, 2006. This statement establishes criteria to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. Berkeley had no transactions in fiscal year 2007 qualifying as sales of receivables or collateralized borrowing.

GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, issued in November 2006, addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, i.e., obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. These obligations will generally require the recognition and reporting of pollution remediation liabilities and, in certain instances, will result in recognition and reporting of capital asset transactions at the time those assets are acquired. GASB Statement No. 49 will be effective for Berkeley's fiscal year beginning July 1, 2008. Management is evaluating the effect Statement No. 49 will have on Berkeley's financial statements.

University of California, Berkeley

Notes to Financial Statements (unaudited)

Years Ended June 30, 2007 and 2006

NOTE 1: CASH AND CASH EQUIVALENTS

UC maintains centralized management for substantially all of its cash. Accounts are authorized at financial institutions that maintain a minimum credit quality rating of A from an independent bond rating agency. 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, 2007 and 2006, the amount of Berkeley's demand deposits, held in nationally recognized banking institutions, was \$2.0 million and \$1.7 million, respectively.

Berkeley does not have a significant exposure to foreign currency risk in demand deposit accounts. Accounts held in foreign countries maintain minimum operating balances with the intent to reduce potential foreign exchange risk while providing an adequate level of liquidity to meet the obligations of the academic programs established abroad. The equivalent U.S. dollar balances required to support research groups in foreign countries were insignificant at June 30, 2007 and 2006 respectively.

The Regents, as the governing Board, is responsible for the oversight of UC's investments and establishes investment policy, which is carried out by UC's Chief Investment Officer. Berkeley's share of investments is associated with the Short Term Investment Pool (STIP). The STIP allows participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities. Cash to provide for payroll, construction expenditures and other operating expenses for Berkeley is invested in the STIP. Investments authorized by the Regents for the STIP include fixed income securities with a maximum maturity of five and one-half years. In addition, the Regents has also authorized loans, primarily to faculty members residing in California, under UC's Mortgage Origination Program with terms up to 40 years. Berkeley's equity in UC's STIP at June 30, 2007 and 2006 was \$844.6 million and \$819.9 million, respectively. Earnings from STIP distributed to Berkeley from the Office of the President was \$34.3 million in 2007 and \$29.1 million in 2006.

NOTE 2: INVESTMENTS HELD BY TRUSTEES

Berkeley has entered into agreements with trustees to maintain trusts for certain capital projects. In addition, the state of California retains on deposit certain proceeds from the sale of lease-revenue bonds to be used for capital projects. The proceeds are deposited in a commingled U.S. bond fund managed by the State of California Treasurer's Office, as trustee, and distributed as the projects are constructed. In September, 2006, the State Public Works Board (SPWB) sold \$79.9 million in State of California Lease Revenue Bonds 2006 Series E to finance construction of Berkeley's Davis Hall North Replacement Building. The combined fair value of all of the investments and deposits held by trustees was \$78.2 million and \$0.7 million at June 30, 2007 and 2006, respectively.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for uncollectible amounts at June 30, 2007 and 2006 are as follows (in thousands of dollars):

	STATE & FEDERAL GOVERNMENT	LOCAL GOVT & PRIVATE GRANTS/CONTRACTS	AUXILIARY & SERVICE ENTERPRISES	FEES & OTHER	TOTAL
At June 30, 2007					
Accounts receivable	\$81,455	\$29,033	\$3,603	\$16,709	\$130,800
Allowance for uncollectible amounts	(1,055)	(752)	(923)	(4,173)	(6,903)
Accounts receivable, net	\$80,400	\$28,281	\$2,680	\$12,536	\$123,897
At June 30, 2006					
Accounts receivable	\$79,874	\$25,428	\$3,929	\$16,093	\$125,324
Allowance for uncollectible amounts	(760)	(821)	(612)	(4,111)	(6,304)
Accounts receivable, net	\$79,114	\$24,607	\$3,317	\$11,982	\$119,020

University of California, Berkeley

Notes to Financial Statements (unaudited)

Years Ended June 30, 2007 and 2006

Adjustments to the allowance for doubtful accounts have either increased or (decreased) the following revenues for the years ended June 30, 2007 and 2006 (in thousands of dollars):

	2007	2006
Student tuition and fees	(\$311)	(\$2,169)
Grants and contracts:		
Federal	(151)	(20)
State	(1)	(83)
Private	(655)	(180)
Local		(7)
Educational activities	50	(211)
Auxiliary enterprises	(525)	(129)
Other operating revenues	(60)	2,495

NOTE 4: PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2007 and 2006 is summarized as follows (in thousand of dollars):

	2007	2006
Total pledges receivable outstanding	\$63,767	\$82,451
Less: Unamortized discount to present value	(2,896)	(3,212)
Allowance for uncollectible pledges	(2,457)	(24,576)
Total pledges receivable, net	58,414	54,663
Less: Current portion of pledges receivable	(30,482)	(13,721)
Noncurrent portion of pledges receivable	\$27,932	\$40,942

Future pledge payments for each of the five fiscal years subsequent to June 30, 2007 and thereafter are as follows (in thousands of dollars):

Year Ending June 30	
2008	\$32,310
2009	14,632
2010	6,431
2011	6,744
2012	1,550
2013 and thereafter	2,100
Total payments on pledges receivable	\$63,767

Adjustments to the allowance for doubtful accounts associated with pledges have increased the following revenues for the years ended June 30, 2007 and 2006 (in thousands of dollars):

	2007	2006
Private gifts	\$83	\$718
Capital gifts and grants	632	4,895

University of California, Berkeley
Notes to Financial Statements (unaudited)
Years Ended June 30, 2007 and 2006

NOTE 5: NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2007 and 2006, along with the related allowances for uncollectible amounts, are as follows (in thousand of dollars):

	CURRENT	NONCURRENT		TOTAL
		NOTES	MORTGAGES	
At June 30, 2007				
Notes and mortgage receivable	\$6,119	\$23,844	\$2,730	\$26,574
Allowance for uncollectible amounts	(209)	(2,626)		(2,626)
Notes and mortgage receivable, net	\$5,910	\$21,218	\$2,730	\$23,948
At June 30, 2006				
Notes and mortgage receivable	\$5,265	\$24,516	\$3,603	\$28,119
Allowance for uncollectible amounts	(222)	(2,787)		(2,787)
Notes and mortgage receivable, net	\$5,043	\$21,729	\$3,603	\$25,332

NOTE 6: CAPITAL ASSETS

Berkeley's capital asset activity for the year ended June 30, 2007 and 2006 is as follows (in thousands of dollars):

	2005	ADDITIONS	DISPOSALS	2006	ADDITIONS	DISPOSALS	2007
ORIGINAL COST							
Land	\$40,084	\$1,187	\$0	\$41,271	\$6,720	(\$888)	\$47,103
Infrastructure	31,331	2,415	(51)	33,695	1,765		35,460
Buildings and improvements	2,052,924	244,436	(3,267)	2,294,093	65,869	(21,090)	2,338,872
Equipment	463,479	37,951	(34,940)	466,490	27,993	(45,490)	448,993
Libraries and collections	745,692	26,843		772,535	32,587		805,122
Special collections	80,319	1,628	(308)	81,639	2,445		84,084
Construction in progress	220,524	(101,796)		118,728	157,997		276,725
Capital assets, at original cost	\$3,634,353	\$212,664	(\$38,566)	\$3,808,451	\$295,376	(\$67,468)	\$4,036,359
ACCUMULATED DEPRECIATION AND AMORTIZATION							
	2005	DEPRECIATION AND AMORTIZATION	DISPOSALS	2006	DEPRECIATION AND AMORTIZATION	DISPOSALS	2007
Infrastructure	\$9,678	\$1,249	\$89	\$11,016	\$1,276		\$12,292
Buildings and improvements	694,581	63,871	(2,143)	756,309	72,333	(14,882)	813,760
Equipment	338,854	34,104	(31,995)	340,963	32,568	(42,840)	330,691
Libraries and collections	536,706	23,971		560,677	24,691		585,368
Accumulated depreciation and amortization	\$1,579,819	\$123,195	(\$34,049)	\$1,668,965	\$130,868	(\$57,722)	\$1,742,111
Capital assets, net	\$2,054,534			\$2,139,486			\$2,294,248

NOTE 7: DEBT

UC finances Berkeley's construction, renovation and acquisition of facilities and equipment through the issuance of debt obligations. Long-term financing includes capital lease obligations and other borrowings. Most long-term indebtedness for Berkeley's housing and food service operations is carried by UC rather than by Berkeley. Long-term indebtedness for Berkeley's parking operations, the Recreational Sports Facility, deferred maintenance and various other facilities is also carried by UC. Berkeley is assessed the required debt service related to its proportionate share of the systemwide debt by UC.

University of California, Berkeley

Notes to Financial Statements (unaudited)

Years Ended June 30, 2007 and 2006

Berkeley's outstanding debt at June 30, 2007 and 2006 is as follows (in thousands of dollars):

	INTEREST RATES	MATURITY YEARS	2007	2006
LONG-TERM FINANCING:				
Capital lease obligations	3.00-5.25%	2012-2032	\$86,864	\$16,508
Mortgages and other borrowings	5.83-6.07%	2009-2010	31,700	24,100
Total outstanding debt			118,564	40,608
Less: Current portion of outstanding debt			(33,586)	(27,270)
Noncurrent portion of outstanding debt			\$84,978	\$13,338

Interest expense totaling \$5.4 million and \$5.0 million was capitalized during the construction phase of the projects during the years ended June 30, 2007 and 2006, respectively.

Outstanding Debt Activity

The activity with respect to Berkeley's current and noncurrent debt for the years ended June 30, 2007 and 2006 is as follows (in thousands of dollars):

	CAPITAL LEASE OBLIGATIONS	OTHER BORROWINGS	TOTAL
<i>Year ended June 30, 2007</i>			
Current portion at June 2006	\$3,170	\$24,100	\$27,270
Reclassification from noncurrent	3,635	6,100	9,735
Principal payment	(3,419)	-	(3,419)
Current portion at June 30, 2007	\$3,386	\$30,200	\$33,586
Noncurrent portion at June 30, 2006	\$13,338	\$ -	\$13,338
New obligations	73,775	7,600	81,375
Reclassification to current	(3,635)	(6,100)	(9,735)
Noncurrent portion at June 30, 2007	\$83,478	\$1,500	\$84,978
<i>Year ended June 30, 2006</i>			
Current portion at June 2005	\$2,962	\$ -	\$2,962
Reclassification from noncurrent	3,464	24,100	27,564
Principal payment	(3,256)	-	(3,256)
Current portion at June 30, 2006	\$3,170	\$24,100	\$27,270
Noncurrent portion at June 30, 2005	\$26,484	\$ -	\$26,484
New obligations	(9,682)	24,100	14,418
Reclassification to current	(3,464)	(24,100)	(27,564)
Noncurrent portion at June 30, 2006	\$13,338	\$ -	\$13,338

Capital Leases

UC has entered into lease-purchase agreements with the State of California that are recorded as capital leases. The state sells lease revenue bonds to finance construction of certain state-owned buildings to be used by UC. During the construction phase, UC acts as agent for the state. Bond proceeds remain on deposit with the state, as trustee, until UC is reimbursed as the project is constructed.

Upon completion, the buildings and equipment are leased to UC under terms and amounts that are sufficient to satisfy the state's lease revenue bond requirements with the understanding that the state will provide financing appropriations to UC to satisfy the annual lease requirements. At the conclusion of the lease term, ownership transfers to UC. Most of the capital lease obligations associated with the lease-purchase agreements with the state and financing construction projects at multiple campuses are carried by UC, and Berkeley is assessed for its share of the related debt service. However, capital lease obligations for which the state has not yet issued bonds are recorded by Berkeley. The capital lease obligations associated with the lease-purchase agreements with the State that are carried by Berkeley and reported in Berkeley's statement of net assets were \$79.9 million at June 30, 2007 and \$8.7 million at June 30, 2006.

University of California, Berkeley

Notes to Financial Statements (unaudited)

Years Ended June 30, 2007 and 2006

The state of California financing appropriation to Berkeley under the terms of the lease-purchase agreements, recorded as nonoperating revenue in the statement of revenues, expenses and changes in net assets, for the year ended June 30, 2007 and 2006 was \$16.2 million and \$16.8 million, respectively. The principal and interest reported in Berkeley's financial statements as transfers for the years ended June 30, 2007 and 2006 were as follows (in thousands of dollars):

	2007	2006
Capital lease principal	\$8,508	\$8,879
Capital lease interest	7,847	8,261
Total	\$16,355	\$17,140

Capital leases entered into with other lessors, primarily for equipment, totaled \$7.0 million and \$7.8 million for the years ended June 30, 2007 and 2006, respectively.

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to June 30, 2007 are as follows (in thousands of dollars):

Year Ending June 30	CAPITAL LEASES	OTHER BORROWINGS	TOTAL PAYMENT	PRINCIPAL	INTEREST
2008	\$3,614	\$31,356	\$34,970	\$33,586	\$1,384
2009	2,219	87	\$2,306	2,096	210
2010	1,116	1,536	\$2,652	2,566	86
2011	242		\$242	226	16
2012	227		\$227	220	7
Total future debt service	7,418	32,979	40,397	\$38,694	\$1,703
Less: Interest component of future payments	424	1,279	1,703		
Principal portion of future payments	\$6,994	\$31,700	\$38,694		

NOTE 8: OTHER LIABILITIES

Other current liabilities of \$55.8 million and \$46.5 million and non current liabilities of \$7.6 million and \$4.5 million at June 30, 2007 and 2006, respectively, consisted of compensated absences, deposits, accrued liabilities and funds held for others.

Berkeley participates in UC's self-insurance programs for medical malpractice, workers' compensation, employee health care and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded by UC 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 anticipated future payments. Berkeley is assessed for its share of the required insurance expense. Insurance expense of \$5.1 million and \$4.6 million was included in other operating expenses in the statement of revenues, expenses and changes in net assets for the years ended June 30, 2007 and 2006, respectively.

NOTE 9: ENDOWMENTS

Endowments are held and administered either by UC or by the Foundation. The financial activities for endowments are generally not included in Berkeley's financial statements until such times as expendable amounts are transferred to Berkeley. The endowment income transferred to Berkeley in the years ended June 30, 2007 and 2006 was \$68.3 million and \$66.6 million, respectively. These amounts were included in transfers in the statement of revenues, expenses and changes in net assets.

University of California, Berkeley

Notes to Financial Statements (unaudited)

Years Ended June 30, 2007 and 2006

NOTE 10: TRANSFERS

Transfers of funds from (to) UC's Office of the President or other UC campuses for the years ended June 30, 2007 and 2006 were as follows (in thousands dollars):

	2007	2006
Capital projects funding	\$70,550	\$70,629
Endowment income	68,315	66,641
Short-term investment pool earnings	34,325	29,081
Indirect cost recovery	(77,355)	(77,000)
Net revenue for bond programs	(38,197)	(32,830)
Debt service	(22,505)	(23,063)
Transfers of net capital assets	(1,239)	(1,166)
Other operating funding	17,144	29,401
Total transfers	\$51,038	\$61,693

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

Most Berkeley employees participate in the UCRS. The UCRS consists of the University of California Retirement Plan, a single employer, defined benefit plan funded with UC and employee contributions; the University of California Retirement Savings Program that includes three defined contribution plans with options to participate in internally and externally managed investment portfolios generally funded with employee non-elective and elective contributions; and the California Public Employees Retirement System (PERS) Voluntary Early Retirement Incentive Program (PERS-VERIP), a defined benefit plan for University employees who were members of PERS who elected early retirement. The Board of Regents is the trustee for all UCRS funds. Accordingly, these funds are separately identified in UC's annual financial report.

NOTE 12: CAMPUS FOUNDATION INFORMATION

Under UC policies approved by The Regents, Berkeley established a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and UC. Although an independent board governs the Foundation, its assets are dedicated for the benefit of Berkeley. During the years ended June 30, 2007 and 2006, gifts of \$82.4 million and \$66.4 million, respectively, were transferred to the Berkeley campus from the Foundation. These amounts were included in private gifts or capital gifts and grants in the statement of revenues, expenses and changes in net assets.

Condensed Foundation financial statement information for the years ended June 30, 2007 and 2006 is as follows (in thousands of dollars):

University of California, Berkeley
Notes to Financial Statements (unaudited)
Years Ended June 30, 2007 and 2006

	2007	2006
CONDENSED STATEMENT OF NET ASSETS		
Current assets	\$83,355	\$65,021
Noncurrent assets	1,071,411	919,707
Total assets	1,154,766	984,728
Current liabilities	11,070	10,156
Noncurrent liabilities	79,162	75,872
Total liabilities	90,232	86,028
Restricted	1,063,276	897,310
Unrestricted	1,258	1,390
Total net assets	\$1,064,534	\$898,700

**CONDENSED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS**

Operating revenues	\$71,387	\$80,549
Operating expenses	(86,515)	(69,537)
Operating income (loss)	(15,128)	11,012
Nonoperating income	146,357	96,868
Income before other changes in net assets	131,229	107,880
Permanent endowments	34,605	28,582
Increase in net assets	165,834	136,462
Net assets - beginning of year	898,700	762,238
Net assets - end of year	\$1,064,534	\$898,700

CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by:		
Operating activities	(\$12,991)	(\$2,091)
Noncapital financing activities	27,653	22,317
Investing activities	(14,554)	(19,544)
Net increase (decrease) in cash	108	682
Cash and cash equivalents - beginning of year	1,138	456
Cash and cash equivalents - end of year	\$1,246	\$1,138

NOTE 13: COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled \$347.8 million and \$339.3 million at June 30, 2007 and 2006, respectively.

Berkeley leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the year ended June 30, 2007 and 2006 were \$19.6 million and \$17.6 million, respectively. The terms of operating leases extend through the year ending 2017.

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):

University of California, Berkeley

Notes to Financial Statements (unaudited)

Years Ended June 30, 2007 and 2006

Year Ending June 30	Minimum Annual Lease Payments
2008	\$16,783
2009	15,493
2010	11,976
2011	7,132
2012	4,665
2013 and thereafter	5,049
Total	\$61,098

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 management believes that any liabilities arising from such audits will not have a material effect on Berkeley's financial position.

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