



UNIVERSITY OF CALIFORNIA, BERKELEY

**Annual Financial Report
2007-08**

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Fiscal Year 2007-08

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University of California-Berkeley

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

The objective of Management's Discussion and Analysis (MDA) 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, 2008, with selected comparative information for the year ended June 30, 2007. 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 (2007, 2008) 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 are presented separately from Berkeley's and are not covered in this discussion and analysis.

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.universityofcalifornia.edu/finreports/>.

During 2008, Berkeley adopted GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. 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. Berkeley recognized \$20.4 million of OPEB cost in 2008 and \$18.0 million in 2007. The related unfunded liabilities are recorded in UC's annual financial reports.

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 2008, and there was no effect in 2007.

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, 2008, Berkeley's assets were \$3.7 billion, liabilities were \$0.5 billion and net assets were nearly \$3.2 billion.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

The major components of Berkeley's assets, liabilities, and net assets, as of 2008 and 2007, are as follows (in thousands of dollars):

	2008	2007	\$ CHANGE	% CHANGE
Assets				
Cash and cash equivalents	\$977,279	\$846,564	130,715	15%
Investment held by trustees	30,770	78,246	(47,476)	(61%)
Accounts receivable, net	130,582	123,897	6,685	5%
Capital assets, net	2,491,439	2,294,248	197,191	9%
Other assets	94,550	97,023	(2,473)	(3%)
Total assets	3,724,620	3,439,978	284,642	8%
Liabilities				
Accounts payable	84,694	92,106	(7,412)	(8%)
Accrued salaries and benefits	101,727	39,649	62,078	157%
Deferred revenue	164,960	117,656	47,304	40%
Debt	96,793	118,564	(21,771)	(18%)
Other liabilities	95,141	85,860	9,281	11%
Total liabilities	543,315	453,835	89,480	20%
Net Assets				
Invested in capital assets, net of related debt	2,423,462	2,235,668	187,794	8%
Restricted expendable	332,269	349,735	(17,466)	(5%)
Unrestricted	425,574	400,740	24,834	6%
Total net assets	\$3,181,305	\$2,986,143	195,162	7%

Berkeley's Assets

Berkeley's total assets grew \$284.6 million to \$3.7 billion at the end of 2008. \$197.2 million of the increase was attributable to capital assets, and another \$130.7 million of the increase was from cash and cash equivalents. Partially offsetting the increases was a decrease of \$47.5 million 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 \$294.3 million to \$4.3 billion in 2008. The increase consisted of capital additions of \$334.0 million, partially offset by \$39.7 million of the original cost of equipment and buildings disposed of during the year. During 2008, capitalized costs included \$236.1 million for construction projects for new buildings or improvements to existing buildings, such as the University Village apartments, the Doe Library seismic improvements, the East Asian Library, the Underhill parking facility, and the 3300 Regatta Avenue property acquisition; \$36.5 million for new equipment; \$37.9 million for libraries and collections; \$20.2 million for land; and \$3.3 million for infrastructure. About \$32.6 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 attributable to the demolition of the old Warren Hall building during the year totaled \$7.1 million.

Accumulated depreciation increased \$97.1 million to \$1.8 billion in 2008. Depreciation expense for the year was \$132.4 million, and the accumulated depreciation on assets sold or disposed of during the year was \$35.3 million. Disposals were for equipment that was fully depreciated or had reached the end of its useful life or for buildings that were demolished.

Berkeley's cash and cash equivalents are managed at the UC system-wide level. The change in the balances between 2008 and 2007 of \$130.7 million is discussed in the section "Berkeley's Cash Flows" of this MDA.

Investments held by trustees for future capital projects decreased from \$78.2 million at 2007 to \$30.8 million at 2008. The state of California retained on deposit certain proceeds from the sale of lease-revenue bonds to be used for capital projects. During 2007, 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

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MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

decreased \$31.0 million during 2008 to \$29.8 million due to funding withdrawals for the project. Another \$16.4 million reduction was associated with a deposit held by an escrow company at 2007 for the purchase of the 3300 Regatta Avenue property; the transaction was completed in 2008.

Berkeley's Liabilities

Berkeley's total liabilities increased \$89.5 million, or 20%, to \$543.3 million at 2008.

Accrued salaries and benefits increased from \$39.6 million at 2007 to \$101.7 million at 2008, an increase of \$62.1 million. The increase was primarily caused by different processing dates for the monthly June payroll for the two years. In 2008, employees were paid on July 1. In 2007, employees were paid on June 29 as July 1 fell on a weekend.

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 \$47.3 million to \$164.9 million in 2008. \$37.8 million of the increase was from conditional gifts or grants for a new biomedical and health sciences facility. Another \$6.9 million was from advance payments on other restricted contracts or grants. The remaining \$2.6 million increase was from student fees for summer sessions and the fall 2008 semester.

Campus specific debt decreased by \$21.8 million to \$96.8 million in 2008. A bank loan for the Stanley Hall project with a \$30.0 million balance at 2007 was paid off in 2008. On the other hand, a new mortgage of \$11.0 million was acquired for purchasing the property at 3300 Regatta Avenue in 2008. Other debt obligations, such as capital leases, changed slightly.

Changes in accounts payable and other liabilities were relatively insignificant.

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 2008, totaling nearly \$3.2 billion, increased \$195 million, or 7%, 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 over \$2.2 billion in 2007 to over \$2.4 billion in 2008. The increase of \$187.8 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 \$332.3 million at 2008 decreased \$17.5 million or 5% from 2007. 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 \$25.4 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 \$7.9 million in 2008, while changes in other fund groups were insignificant.

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 \$425.6 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

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. 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.

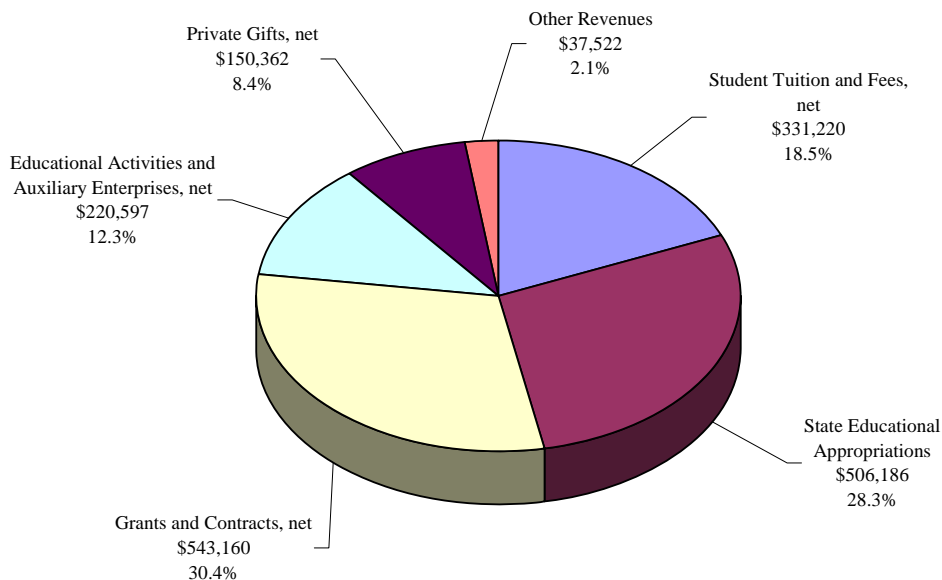
A summarized comparison of the operating results for 2008 and 2007, arranged in a format that matches the revenue supporting the core activities of Berkeley with the expenses associated with core activities, is as follows (in thousands of dollars):

	YEAR ENDED JUNE 30, 2008			YEAR ENDED JUNE 30, 2007			\$ Change	% Change
	Operating	Nonoperating	Total	Operating	Nonoperating	Total		
REVENUES								
Student tuition and fees, net	\$331,220		\$331,220	\$309,924		\$309,924	\$21,296	7%
State educational appropriations		\$506,186	506,186		\$475,242	475,242	30,944	7%
Grants and contracts, net	543,160		543,160	513,654		513,654	29,506	6%
Educational activities and auxiliary enterprises, net	220,597		220,597	200,788		200,788	19,809	10%
Private gifts, net		150,362	150,362		147,744	147,744	2,618	2%
Other revenues	18,463	19,059	37,522	15,522	18,264	33,786	3,736	11%
Revenues supporting core activities	1,113,440	675,607	1,789,047	1,039,888	641,250	1,681,138	107,909	6%
EXPENSES								
Salaries and benefits	1,136,462		1,136,462	1,038,325		1,038,325	98,137	9%
Scholarships and fellowships	75,736		75,736	76,757		76,757	(1,021)	(1%)
Utilities	35,927		35,927	34,238		34,238	1,689	5%
Supplies and materials	133,494		133,494	123,279		123,279	10,215	8%
Depreciation and amortization	132,408		132,408	130,868		130,868	1,540	1%
Other expenses	287,819	2,361	290,180	282,060		282,060	8,120	3%
Expenses associated with core activities	1,801,846	2,361	1,804,207	1,685,527	-	1,685,527	118,680	7%
Income (loss) from core activities	(\$688,406)	\$673,246	(15,160)	(\$645,639)	\$641,250	(4,389)	(10,771)	N/A
OTHER NONOPERATING ACTIVITIES								
Gain (loss) on disposal of capital assets, net of proceeds			(4,650)			35,460	(40,110)	N/A
Income (loss) before other changes in net assets			(19,810)			31,071	(50,881)	N/A
OTHER CHANGES IN NET ASSETS								
State capital appropriations			20,243			14,836	5,407	36%
Capital gifts and grants, net			68,887			26,037	42,850	N/A
Intercampus transfers			125,842			51,038	74,804	N/A
Increase in net assets			195,162			122,982	72,180	59%
NET ASSETS								
Beginning of year			2,986,143			2,863,161	122,982	4%
End of year			\$3,181,305			\$2,986,143	\$195,162	7%



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MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

Categories of both operating and nonoperating revenues that support Berkeley's core activities in 2008 are as follows (in thousands of dollars):





Revenues to support Berkeley's core activities, including those classified as nonoperating revenues, were \$1.8 billion in 2008. These diversified sources of revenue increased in 2008 by \$107.9 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. The percentage of each revenue category of the total revenue of Berkeley's core activities remained approximately the same as in 2007.

2008		\$331,220
2007		\$309,924

Student tuition and fees revenue, net of scholarship allowances, grew \$21.3 million in 2008 to \$331.2 million. Gross student tuition and fees increased \$35.4 million, or 8.7%. The increase was primarily due to an 8% increase in the educational fee charged to most students, a 5% increase in non-resident tuition for undergraduate students, and rate increases for other fees, such as registration fees and summer sessions fees. The enrollment for undergraduate students and graduate students grew 3% and 2%, respectively, in 2008. Scholarship allowances increased \$14.1 million, or 14%, reflecting a greater proportion of aid used to pay tuition and fees. 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 students with financial need.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

2008		\$506,186
2007		\$475,242

Educational appropriations from the state of California that were allocated to Berkeley from the Office of the President of the University of California increased \$30.9 million, or 6.5%, to \$506.2 million in 2008. The increase reflected the state of California's increased fiscal year 2008 funding to the University of California, which was 6.4% above the fiscal year 2007 level. The increase was for basic budget support and student enrollment growth.

2008		\$543,160
2007		\$513,654

Grants and contracts revenue from federal, state, private and local government, including facilities and administration cost recovery, increased \$29.5 million, or 6%, to \$543.2 million in 2008. 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 2008, federal, state and local government contracts and grants remained approximately the same as in 2007. The bulk of the increase, \$28.9 million, was from private contracts and grants, including \$15.9 million from British Petroleum (BP) for the newly established Energy Biosciences Institute (EBI).

2008		\$220,597
2007		\$200,788

Revenue from *educational activities and auxiliary enterprises* increased \$19.8 million, or 10%, from 2007. The increase was from a wide variety of activities with rate increases, including workshop and conference fees, royalties and license fees, food sales and services and athletic ticket sales.

2008		\$150,362
2007		\$147,744

Private gifts, mainly restricted as to use, increased only \$2.6 million, or 2%, in 2008 as the economy tightened. Gifts may be made to Berkeley through UC or the Foundation. Berkeley continues to be aggressive in developing private gifts. It launched The Campaign for Berkeley, a landmark multi-year fundraising campaign to raise \$3 billion. In addition to private gifts for operating purposes, gifts are also received for capital purposes - recorded as capital gifts and grants - and for permanent endowments. The latter are recorded on UC's books.

2008		\$37,522
2007		\$33,786

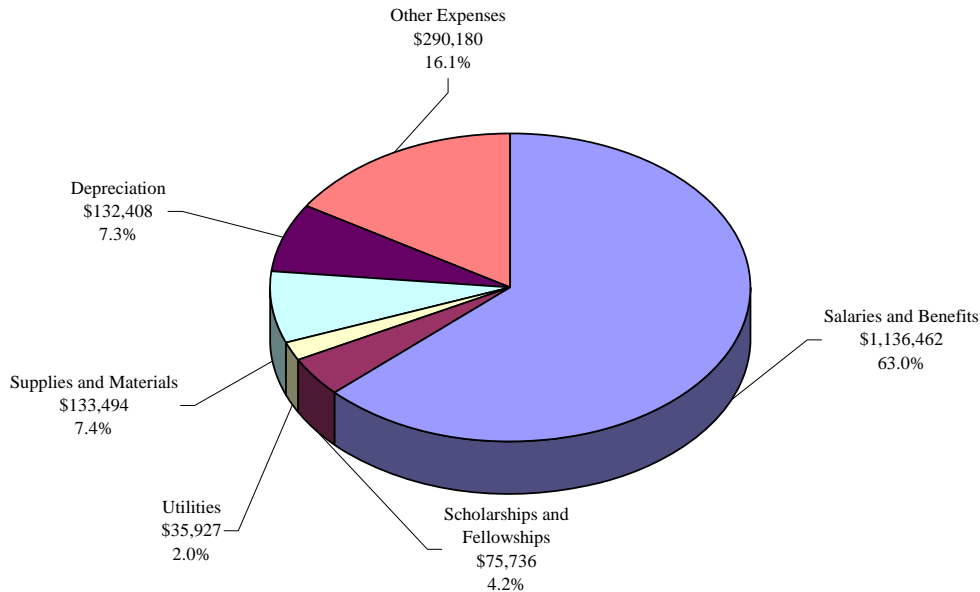
Other revenues for 2008 of \$37.5 million, including \$19.0 million of state financing appropriations reported as nonoperating revenue and \$18.5 million of other revenue, increased \$3.7 million from \$33.8 million in 2007. The state of California financing appropriation, which increased slightly in 2008, 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 \$2.7 million in other operating revenues was attributable to increased rental income from newly acquired properties.

Categories of expenses related to Berkeley's core activities in 2008 are as follows (in thousands of dollars):



Similar to its revenues to support core activities, Berkeley's expenses associated with core activities for 2008, including those classified as nonoperating expense, totaled \$1.8 billion. Berkeley's expenses associated with core activities increased \$118.7 million, or 7%, from 2007. About 63% of Berkeley's core expenses in 2008 were related to salaries and benefits, compared to 62% in 2007. The percentage of the other expense categories of Berkeley's total expenses related to core activities remained approximately the same as in 2007.



Salaries and benefits of \$1,136.4 million in 2008 (\$932.2 million of salaries and wages and \$204.2 million of benefits) grew by \$98.1 million, an increase of 9%. There were approximately 14,400 full time equivalent employees at Berkeley at 2008, an increase of 4% from 2007. Combined salaries and wages for both academic and administrative staff increased \$74.1 million, or 9%, from 2007. Total benefit costs increased \$24.0 million, or 13%. Health insurance costs continued to grow and increased \$7.5 million, or 12%, from 2007. All other benefit costs, including employer taxes, graduate student fee remission, and dental insurance, also increased.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

2008		\$75,736
2007		\$76,757

Scholarships and fellowships, representing payments of financial aid made directly to students and reported as an operating expense, totaled \$75.7 million in 2008, \$1.0 million less than 2007. However, scholarship allowances, also a form of scholarship and fellowship cost, increased in 2008 \$17.2 million to \$142.4 million. 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 \$202.0 million in 2007 to \$218.2 million in 2008, an increase of \$16.2 million, or more than 8%.

2008		\$35,927
2007		\$34,238

Utility costs increased by \$1.7 million, or 5%, to \$35.9 million in 2008, due primarily to increases in electrical rates.

2008		\$133,494
2007		\$123,279

Supplies and materials costs of \$133.5 million in 2008 increased \$10.2 million, or 8%, from 2007. Most of the increase was due to inflation on the costs for laboratory instruments and general supplies to support expanded research activity and student enrollment.

2008		\$132,408
2007		\$130,868

Depreciation expense increased \$1.5 million to \$132.4 million in 2008, reflecting the increase in capital assets.

2008		\$290,180
2007		\$282,060

Other expenses, including other nonoperating expenses, increased \$8.1 million, or 3%, to \$290.2 million in 2008. In 2008, there were increases across a variety of expense categories, including rent, computing, travel, and royalties. Also in 2008, interest expense increased as debt was incurred on facilities used in operations.

In accordance with the GASB's reporting standards, operating losses were \$688.4 million. However, these operating losses were substantially offset by \$673.2 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 \$15.2 million less than the associated expenses in 2008. In 2007, there was a net loss of \$4.4 million from core activities. Net losses from core activities for a year are funded by net income carry forwards from previous years.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

Other Nonoperating Activities

Berkeley recorded a \$4.7 million loss on disposals of capital assets in 2008, compared to a \$35.5 million gain in 2007. The loss in 2008 was from a building demolition and the disposal of equipment. The significant gain in 2007 was due to several real estate sales. Those proceeds will be used for funding future capital asset transactions.

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 \$5.4 million in 2008. The increase was for several building seismic improvement projects, including Doe Library and Campbell Hall.

Capital gifts and grants totaled \$68.9 million in 2008, increasing \$42.9 million from 2007. Most of the increase was associated with the Health Sciences Initiative to provide faculty and students with two state-of-the-art facilities that encourage cross-disciplinary research in human health.

Transfers of funds, primarily between Berkeley and UC's Office of the President, were a \$125.8 million addition to Berkeley's net assets in 2008, compared to a \$51.0 million addition in 2007, an increase of \$74.8 million. \$48.4 million of the increase was from the discontinuance of transferring the net operating income from Berkeley's housing and dining operations to the Office of the President. Another \$21.8 million of the increase was from debt financing for various capital projects. The remaining \$4.6 million net increase resulted from transfers from the Office of the President of endowment and short-term investment pool earnings and other operating funding, offset by transfers from Berkeley of recovered indirect costs and debt service payments.

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 2008 and 2007 is as follows (in thousands of dollars):

	2008	2007	Change
Cash received from operations	\$1,125,871	\$1,061,853	\$64,018
Cash payments for operations	(1,605,676)	(1,536,411)	(69,265)
Net cash used by operating activities	(479,805)	(474,558)	(5,247)
Net cash provided by noncapital financing activities	654,536	627,523	27,013
Net cash used by capital and related financing activities	(169,858)	(179,003)	9,145
Net cash provided by transfers, net	125,842	51,038	74,804
Net increase in cash	130,715	25,000	105,715
Cash and cash equivalents, beginning of the year	846,564	821,564	25,000
Cash and cash equivalents, end of the year	\$977,279	\$846,564	\$130,715

Berkeley's cash and cash equivalents increased \$130.7 million from \$846.6 million in 2007 to \$977.3 million in 2008. Nearly \$479.8 million of cash was used for operating activities in 2008, offset by \$654.5 million provided by noncapital financing activities, resulting in \$174.7 million of cash before capital financing or transfer 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 operating activities.

Cash of \$169.9 million and \$179.0 million in 2008 and 2007, respectively, was used for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments, partially offset by sources that include

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MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

state and federal capital appropriations, gifts for capital purposes and new external financing. During 2008, purchases of capital assets and debt service payments were greater than those in 2007 by \$72.4 million, while appropriations, gifts and proceeds from debt and capital asset sales increased \$81.5 million.

Cash from transfers between Berkeley and UC's Office of the President or other campuses totaled a net \$125.8 million addition to Berkeley's net assets in 2008, compared to a \$51.0 million addition in 2007. Funds that were received at Berkeley, primarily transfers from the Office of the President, included net income reserves from Berkeley's housing and dining operations, 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 and Berkeley's share of debt service payments.

UNIVERSITY OF CALIFORNIA, BERKELEY
STATEMENTS OF NET ASSETS (unaudited)
 AT JUNE 30, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	2008	2007
ASSETS		
Cash and cash equivalents (Note 1)	\$977,279	\$846,564
Investments held by trustees (Note 2)	1,108	699
Accounts receivable, net (Note 3)	130,582	123,897
Pledges receivable, net (Note 4)	31,847	30,482
Current portion of notes and mortgages receivable, net (Note 5)	5,912	5,910
Inventories	5,045	4,888
Other current assets	2,075	2,679
Current assets	1,153,848	1,015,119
Investments held by trustees (Note 2)	29,662	77,547
Pledges receivable, net (Note 4)	23,953	27,932
Notes and mortgages receivables, net (Note 5)	24,583	23,948
Capital assets, net (Note 6)	2,491,439	2,294,248
Other noncurrent assets	1,135	1,184
Noncurrent assets	2,570,772	2,424,859
Total assets	3,724,620	3,439,978
LIABILITIES		
Accounts payable	84,694	92,106
Accrued salaries and benefits	101,727	39,649
Deferred revenue	164,960	117,656
Current portion of long-term debt (Note 7)	2,800	33,586
Other current liabilities (Note 8)	57,562	55,776
Current liabilities	411,743	338,773
Federal refundable loans	22,769	22,503
Long-term debt (Note 7)	93,993	84,978
Other noncurrent liabilities (Note 8)	14,810	7,581
Noncurrent liabilities	131,572	115,062
Total liabilities	543,315	453,835
NET ASSETS		
Invested in capital assets, net of related debt	2,423,462	2,235,668
Restricted expendable	332,269	349,735
Unrestricted	425,574	400,740
Total net assets	\$3,181,305	\$2,986,143

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

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

YEARS ENDED JUNE 30, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	2008	2007
OPERATING REVENUES		
Student tuition and fees, net	\$331,220	\$309,924
Grants and contracts, net:		
Federal	328,760	328,772
State	75,262	75,861
Private	133,230	104,298
Local	5,908	4,723
Educational activities, net	72,883	63,802
Auxiliary enterprises, net	147,714	136,986
Other operating revenues, net	18,463	15,522
Total operating revenues	1,113,440	1,039,888
OPERATING EXPENSES		
Salaries and wages	932,217	858,101
Benefits	204,245	180,224
Scholarships and fellowships	75,736	76,757
Utilities	35,927	34,238
Supplies and materials	133,494	123,279
Depreciation and amortization (Note 6)	132,408	130,868
Other operating expenses	287,819	282,060
Total operating expenses	1,801,846	1,685,527
Operating loss	(688,406)	(645,639)
NONOPERATING REVENUES (EXPENSES)		
State educational appropriations	506,186	475,242
State financing appropriations	19,059	17,640
Private gifts, net	150,362	147,744
Gain (loss) on disposal of capital assets	(4,650)	35,460
Other nonoperating revenues (expenses)	(2,361)	624
Net nonoperating revenues	668,596	676,710
Income (loss) before other changes in net assets	(19,810)	31,071
OTHER CHANGES IN NET ASSETS		
State capital appropriations	20,243	14,836
Capital gifts and grants, net	68,887	26,037
Transfers (Note 10)	125,842	51,038
Increase in net assets	195,162	122,982
Net assets, beginning of year	2,986,143	2,863,161
Net assets, end of year	\$3,181,305	\$2,986,143

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF CASH FLOWS (unaudited)

YEARS ENDED JUNE 30, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$329,143	\$310,395
Grants and contracts	548,618	517,550
Educational activities	71,208	63,982
Auxiliary enterprises	144,900	141,962
Collection of loans from students and employees	3,796	6,080
Payments to employees	(868,835)	(868,108)
Payments for benefits	(204,078)	(171,183)
Payments to suppliers and utilities	(453,191)	(415,305)
Payments for scholarships and fellowships	(75,492)	(76,506)
Loans issued to students and employees	(4,080)	(5,309)
Other receipts	28,206	21,884
Net cash used by operating activities	(479,805)	(474,558)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State educational appropriations	506,538	474,705
Gifts received for other than capital purposes	147,112	147,423
Student direct lending receipts	122,439	113,819
Student direct lending payments	(122,439)	(113,819)
Other receipts	886	5,395
Net cash provided by noncapital financing activities	654,536	627,523
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State capital appropriations	35,828	15,538
State financing appropriations	17,928	18,957
Capital gifts and grants	84,763	19,340
Proceeds from debt	61,193	22,457
Proceeds from the sale of capital assets	84	41,986
Purchase of capital assets	(314,076)	(293,071)
Principal paid on debt and capital leases	(53,176)	(3,419)
Interest paid on debt and capital leases	(2,402)	(791)
Net cash used by capital and related financing activities	(169,858)	(179,003)
CASH FLOWS FROM TRANSFERS		
	125,842	51,038
Net increase (decrease) in cash	130,715	25,000
Cash and cash equivalents, beginning of year	846,564	821,564
Cash and cash equivalents, end of year	\$977,279	\$846,564

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF CASH FLOWS (continued)

YEARS ENDED JUNE 30, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	2008	2007
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	(\$688,406)	(\$645,639)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization expense	132,408	130,868
Allowance for doubtful accounts	(1,371)	424
Change in assets and liabilities:		
Receivables	(6,161)	(1,572)
Investment held by trustees	(394)	0
Inventories	(157)	(131)
Other assets	297	1,153
Accounts payable	1,003	22,482
Accrued salaries and benefits	62,078	(55)
Deferred revenue	11,535	11,652
Other liabilities	9,363	6,260
Net cash used by operating activities	(\$479,805)	(\$474,558)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION		
Capital assets acquired through capital leases	\$1,753	\$2,434
Capital assets acquired with a liability at year-end	17,467	27,334
Investments held by trustees	(31,167)	60,829
State financing appropriations	1,131	(1,317)
Gifts of capital assets	8,639	3,266
Gain/(loss) on disposal of capital assets	(4,650)	35,460
Debt service for lease-revenue bonds	(3,887)	(1,825)

See accompanying Notes to Financial Statements

University of California, Berkeley

Notes to Financial Statements (unaudited)

Years Ended June 30, 2008 and 2007

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.

During 2008, Berkeley adopted GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. 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. Berkeley recognized \$20.4 million of OPEB cost in 2008 and \$18.0 million in 2007. The related unfunded liabilities are recorded in UC's annual financial reports.

GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, was adopted during the year ended June 30, 2007. 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 2008 and 2007 qualifying as sales of receivables or collateralized borrowing.

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.

University of California, Berkeley

Notes to Financial Statements (unaudited)

Years Ended June 30, 2008 and 2007

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.

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.

University of California, Berkeley

Notes to Financial Statements (unaudited)

Years Ended June 30, 2008 and 2007

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.

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

University of California, Berkeley

Notes to Financial Statements (unaudited)

Years Ended June 30, 2008 and 2007

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, 2008, the facilities and administrative cost recovery totaled \$86.1 million, \$62.3 million from federally sponsored programs and \$23.8 million from other sponsors. 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.

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.

Scholarship allowances in the following amounts are recorded as an offset to revenues for the years ended June 30, 2008 and 2007 (in thousands of dollars):

	2008	2007
Student tuition and fees	\$111,683	\$97,569
Auxiliary enterprises	30,753	27,669
Scholarship allowances	\$142,436	\$125,238

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.

New accounting pronouncements

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 that Statement No. 49 will have on Berkeley's financial statements.

In June 2007, the GASB issued Statement No. 51, Accounting and Financial Reporting for Intangible Assets, effective for Berkeley's fiscal year beginning July 1, 2009. This Statement requires capitalization of identifiable intangible assets in the statement of net assets and provides guidance for amortization of intangible assets unless they are considered to have an indefinite useful life. Management is evaluating the effect that Statement No. 51 will have on Berkeley's financial statements.

University of California, Berkeley

Notes to Financial Statements (unaudited)

Years Ended June 30, 2008 and 2007

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, 2008 and 2007, the amount of Berkeley's demand deposits, held in nationally recognized banking institutions, was \$1.1 million and \$2.0 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, 2008 and 2007 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, 2008 and 2007 was \$976.1 million and \$844.6 million, respectively. Earnings from STIP distributed to Berkeley from the Office of the President was \$42.6 million in 2008 and \$34.3 million in 2007.

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 \$30.8 million and \$78.2 million at June 30, 2008 and 2007, respectively.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for uncollectible amounts at June 30, 2008 and 2007 are as follows (in thousands of dollars):

	STATE & FEDERAL GOVERNMENT	LOCAL GOVT & PRIVATE GRANTS & CONTRACTS	AUXILIARY & SERVICE ENTERPRISES	FEES & OTHER	TOTAL
At June 30, 2008					
Accounts receivable	\$74,073	\$37,630	\$3,190	\$21,858	\$136,751
Allowance for uncollectible amounts	(1,038)	(715)	(756)	(3,660)	(6,169)
Accounts receivable, net	\$73,035	\$36,915	\$2,434	\$18,198	\$130,582
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

University of California, Berkeley

Notes to Financial Statements (unaudited)

Years Ended June 30, 2008 and 2007

Adjustments to the allowance for doubtful accounts have either increased or (decreased) the following revenues for the years ended June 30, 2008 and 2007 (in thousands of dollars):

	2008	2007
Student tuition and fees	(\$321)	(\$311)
Grants and contracts:		
Federal	-	(151)
State	-	(1)
Private	-	(655)
Local	-	-
Educational activities	(81)	50
Auxiliary enterprises	32	(525)
Other operating revenues	43	(60)

NOTE 4: PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2008 and 2007 is summarized as follows (in thousand of dollars):

	2008	2007
Total pledges receivable outstanding	\$62,281	\$63,767
Less: Unamortized discount to present value	(2,837)	(2,896)
Allowance for uncollectible pledges	(3,644)	(2,457)
Total pledges receivable, net	55,800	58,414
Less: Current portion of pledges receivable	(31,847)	(30,482)
Noncurrent portion of pledges receivable	\$23,953	\$27,932

Future pledge payments for each of the five fiscal years subsequent to June 30, 2008 and thereafter are as follows (in thousands of dollars):

Year Ending June 30	
2009	\$34,721
2010	9,603
2011	8,951
2012	4,131
2013	2,506
2014 and thereafter	2,369
Total payments on pledges receivable	\$62,281

Adjustments to the allowance for doubtful accounts associated with pledges have increased or (decreased) the following revenues for the years ended June 30, 2008 and 2007 (in thousands of dollars):

	2008	2007
Private gifts	(\$1,435)	\$83
Capital gifts and grants	103	632
	(\$1,332)	\$715

University of California, Berkeley
Notes to Financial Statements (unaudited)
Years Ended June 30, 2008 and 2007

NOTE 5: NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2008 and 2007, along with the related allowances for uncollectible amounts, are as follows (in thousand of dollars):

	CURRENT	NONCURRENT		TOTAL
		NOTES	MORTGAGES	
At June 30, 2008				
Notes and mortgage receivable	\$5,981	\$24,346	\$2,365	\$26,711
Allowance for uncollectible amounts	(69)	(2,128)	-	(2,128)
Notes and mortgage receivable, net	\$5,912	\$22,218	\$2,365	\$24,583
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

NOTE 6: CAPITAL ASSETS

Berkeley's capital asset activity for the year ended June 30, 2008 and 2007 is as follows (in thousands of dollars):

	2006	ADDITIONS	DISPOSALS	2007	ADDITIONS	DISPOSALS	2008
ORIGINAL COST							
Land	\$41,271	\$6,720	(\$888)	\$47,103	\$20,254		\$67,357
Infrastructure	33,695	1,765		35,460	3,328		38,788
Buildings and improvements	2,294,093	65,869	(21,090)	2,338,872	260,165	(7,132)	2,591,905
Equipment	466,490	27,993	(45,490)	448,993	36,527	(32,648)	452,872
Libraries and collections	772,535	32,587		805,122	31,426		836,548
Special collections	81,639	2,445		84,084	6,451		90,535
Construction in progress	118,728	157,997		276,725	(24,107)		252,618
Capital assets, at original cost	\$3,808,451	\$295,376	(\$67,468)	\$4,036,359	\$334,044	(\$39,780)	\$4,330,623
ACCUMULATED DEPRECIATION AND AMORTIZATION							
	2006	DEPRECIATION AND AMORTIZATION	DISPOSALS	2007	DEPRECIATION AND AMORTIZATION	DISPOSALS	2008
Infrastructure	\$11,016	\$1,276		\$12,292	\$1,467	\$564	\$14,323
Buildings and improvements	756,309	72,333	(14,882)	813,760	75,701	(6,176)	883,285
Equipment	340,963	32,568	(42,840)	330,691	31,803	(29,723)	332,771
Libraries and collections	560,677	24,691		585,368	23,437		608,805
Accumulated depreciation and amortization	\$1,668,965	\$130,868	(\$57,722)	\$1,742,111	\$132,408	(\$35,335)	\$1,839,184
Capital assets, net	\$2,139,486			\$2,294,248			\$2,491,439

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, 2008 and 2007

Berkeley's outstanding debt at June 30, 2008 and 2007 is as follows (in thousands of dollars):

	INTEREST RATES	MATURITY YEARS	2008	2007
LONG-TERM FINANCING:				
Capital lease obligations	2.43-5.14%	2009-2032	\$ 85,067	\$ 86,864
Mortgages and other borrowings	8.80%	2009-2010	11,726	31,700
Total outstanding debt			96,793	118,564
Less: Current portion of outstanding debt			(2,800)	(33,586)
Noncurrent portion of outstanding debt			\$ 93,993	\$ 84,978

Interest expense totaling \$4.3 million and \$5.4 million was capitalized during the construction phase of the projects during the years ended June 30, 2008 and 2007, respectively.

Outstanding Debt Activity

The activity with respect to Berkeley's current and noncurrent debt for the years ended June 30, 2008 and 2007 is as follows (in thousands of dollars):

	CAPITAL LEASE OBLIGATIONS	OTHER BORROWINGS	TOTAL
<i>Year ended June 30, 2008</i>			
Current portion at June 2007	\$3,386	\$30,200	\$33,586
Reclassification from noncurrent	2,810	19,581	22,391
Principal payment	(3,551)	(49,626)	(53,177)
Current portion at June 30, 2008	\$2,645	\$155	\$2,800
Noncurrent portion at June 30, 2007	\$83,478	\$1,500	\$84,978
New obligations	1,754	29,652	31,406
Reclassification to current	(2,810)	(19,581)	(22,391)
Noncurrent portion at June 30, 2008	\$82,422	\$11,571	\$93,993
<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

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 associated only with Berkeley 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, 2008, and at June 30, 2007.

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, 2008 and

University of California, Berkeley

Notes to Financial Statements (unaudited)

Years Ended June 30, 2008 and 2007

2007 was \$17.6 million and \$16.2 million, respectively. The principal and interest debt service payments reported in Berkeley's financial statements as transfers for the years ended June 30, 2008 and 2007 were as follows (in thousands of dollars):

	2008	2007
Capital lease principal	\$8,601	\$8,508
Capital lease interest	9,572	7,847
Total	\$18,173	\$16,355

Capital leases entered into with other lessors, primarily for equipment, totaled \$5.2 million and \$7.0 million for the years ended June 30, 2008 and 2007, respectively.

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to June 30, 2008 are as follows (in thousands of dollars):

Year Ending June 30	CAPITAL LEASES	OTHER BORROWINGS	TOTAL PAYMENT	PRINCIPAL	INTEREST
2009	\$2,816	\$1,195	\$4,011	\$2,801	\$1,210
2010	1,696	12,174	13,870	13,187	683
2011	668		668	638	30
2012	281		281	272	9
2013	27		27	26	1
Total future debt service	5,488	13,369	18,857	\$16,924	\$1,933
Less: Interest component of future payments	290	1,643	1,933		
Principal portion of future payments	\$5,198	\$11,726	\$16,924		

NOTE 8: OTHER LIABILITIES

Other current liabilities of \$57.6 million and \$55.8 million and noncurrent liabilities of \$14.8 million and \$7.6 million at June 30, 2008 and 2007, 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 \$5.7 million and \$5.1 million was included in other operating expenses in the statement of revenues, expenses and changes in net assets for the years ended June 30, 2008 and 2007, 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, 2008 and 2007 was \$67.0 million and \$68.3 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, 2008 and 2007

NOTE 10: TRANSFERS

Transfers of funds from (to) UC's Office of the President or other UC campuses for the years ended June 30, 2008 and 2007 were as follows (in thousands dollars):

	2008	2007
Capital projects funding	\$92,375	\$70,550
Endowment income	67,010	68,315
Short-term investment pool earnings	42,640	34,325
Indirect cost recovery	(86,103)	(77,355)
Net revenue for bond programs	10,223	(38,197)
Debt service	(23,812)	(22,505)
Transfers of net capital assets	1,981	(1,239)
Other operating funding	21,528	17,144
Total transfers	\$125,842	\$51,038

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, 2008 and 2007, gifts of \$122.4 million and \$82.4 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.

University of California, Berkeley
Notes to Financial Statements (unaudited)
Years Ended June 30, 2008 and 2007

Condensed Foundation financial statement information for the years ended June 30, 2008 and 2007 is as follows (in thousands of dollars):

	2008	2007
CONDENSED STATEMENT OF NET ASSETS		
Current assets	\$86,788	\$83,355
Noncurrent assets	1,060,881	1,071,411
Total assets	1,147,669	1,154,766
Current liabilities	25,095	11,070
Noncurrent liabilities	62,543	79,162
Total liabilities	87,638	90,232
Restricted	1,058,801	1,063,276
Unrestricted	1,230	1,258
Total net assets	\$1,060,031	\$1,064,534
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	\$86,620	\$71,387
Operating expenses	(124,364)	(86,515)
Operating (loss)	(37,744)	(15,128)
Nonoperating income (loss)	(22,086)	146,357
Income (loss) before other changes in net assets	(59,830)	131,229
Permanent endowments	55,327	34,605
Increase (decrease) in net assets	(4,503)	165,834
Net assets - beginning of year	1,064,534	898,700
Net assets - end of year	\$1,060,031	\$1,064,534
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	(\$31,308)	(\$12,991)
Noncapital financing activities	46,767	27,653
Investing activities	(11,898)	(14,554)
Net increase in cash	3,561	108
Cash and cash equivalents - beginning of year	1,246	1,138
Cash and cash equivalents - end of year	\$4,807	\$1,246

NOTE 13: COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled \$464.5 million and \$347.8 million at June 30, 2008 and 2007, respectively.

Berkeley leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the year ended June 30, 2008 and 2007 were \$21.1 million and \$19.6 million, respectively. The terms of operating leases extend through the year ending 2017.

University of California, Berkeley
Notes to Financial Statements (unaudited)
Years Ended June 30, 2008 and 2007

Future minimum payments on operating leases with an initial or remaining non-cancelable term in excess of one year are as follows (in thousands of dollars):

Year Ending June 30	Minimum Annual Lease Payments
2009	\$17,227
2010	13,588
2011	7,900
2012	5,449
2013	2,856
2014 and thereafter	2,851
Total	\$49,871

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.

UNIVERSITY OF CALIFORNIA, BERKELEY
CAMPUS AND FINANCIAL HIGHLIGHTS

For Fiscal Years Ended June 30

	<u>2008</u>	<u>2007</u>
Enrollment - Fall Semester		
Undergraduates	24,636	23,863
Graduates	10,317	10,070
All Students	34,953	33,933
Staff (Full-Time Equivalent) as of April		
Academic	5,535	5,291
Non-Academic	8,960	8,653
All Employees	14,495	13,944
Campus Land Area (Including adjacent properties)	6,675 acres	6,651 acres
Operating Expenses By Function (dollars in thousands)		
Instruction	\$ 545,003	\$ 500,334
Research	422,942	403,436
Public service	57,943	53,824
Academic support	118,383	101,598
Student services	117,375	98,905
Institutional support	127,396	129,530
Operation & maintenance of plant	75,589	62,645
Student financial aid	69,251	77,005
Auxiliary enterprises	118,293	104,647
Depreciation & amortization	132,408	130,868
Other	17,263	22,735
Total operating expenses	<u>\$ 1,801,846</u>	<u>\$ 1,685,527</u>