

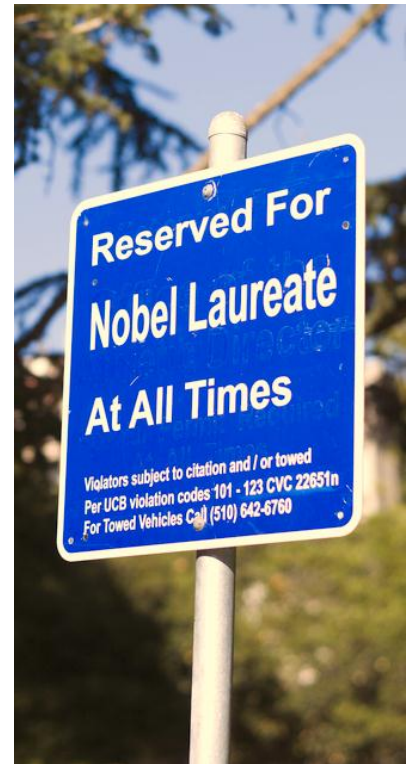
UC Berkeley: 2011-2012 Financial Report

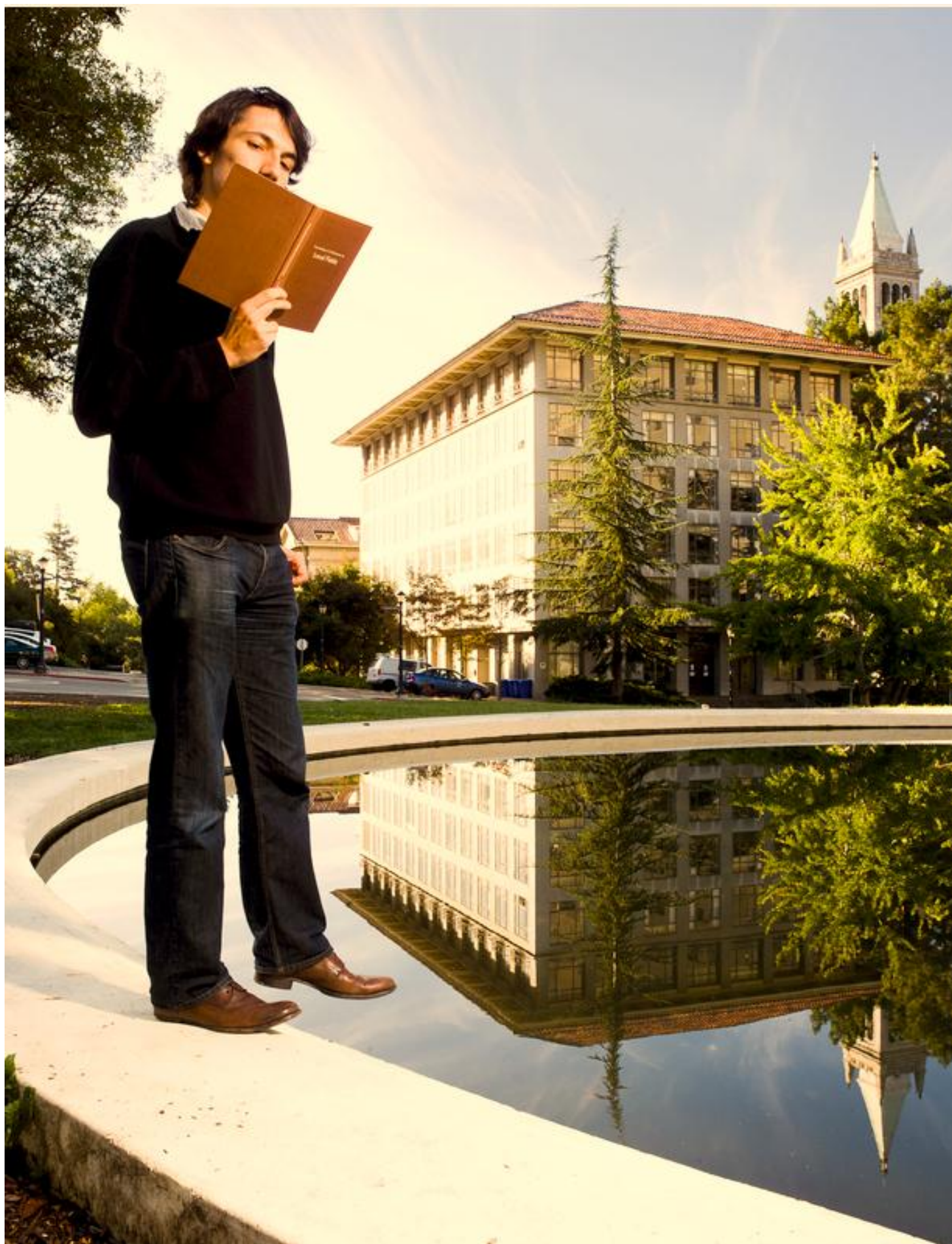


We Are Berkeley

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CAMPUS FACTS

| | 2003-04 | 2006-07 | 2009-10 | 2010-11 | 2011-12 |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Applicant Headcount | | | | | |
| Freshmen | 36,976 | 41,750 | 48,674 | 50,393 | 52,966 |
| Transfer | 10,037 | 10,644 | 13,293 | 15,120 | 16,018 |
| Masters | 20,340 | 17,492 | 21,467 | 22,190 | 21,302 |
| Doctoral | 16,076 | 14,127 | 15,580 | 16,245 | 16,428 |
| Total | 47,013 | 52,394 | 61,967 | 65,513 | 68,984 |
| Fall Enrollment | | | | | |
| Undergraduate | 23,206 | 23,863 | 25,530 | 25,540 | 25,885 |
| % female | 54% | 54% | 53% | 53% | 53% |
| % underrepresented | 15% | 15% | 16% | 16% | 16% |
| Graduate | 9,870 | 10,070 | 10,313 | 10,298 | 10,257 |
| % female | 46% | 46% | 45% | 45% | 45% |
| % underrepresented | 10% | 10% | 11% | 11% | 11% |
| Total | 33,076 | 33,933 | 35,843 | 35,838 | 36,142 |
| Primary Courses Offered | | | | | |
| Lower Division | 1,913 | 2,349 | 2,332 | 2,404 | 2,565 |
| Upper Division | 2,801 | 3,552 | 3,376 | 3,391 | 3,471 |
| Graduate | 3,461 | 3,774 | 3,806 | 3,901 | 3,819 |
| Total | 8,175 | 9,675 | 9,514 | 9,696 | 9,855 |
| Degrees Awarded | | | | | |
| Bachelor | 6,648 | 6,629 | 7,086 | 7,466 | 7,526 |
| Master/Professional | 2,292 | 2,346 | 2,411 | 2,480 | 2,541 |
| Doctoral | 770 | 895 | 877 | 905 | 887 |
| Total | 9,710 | 9,870 | 10,374 | 10,851 | 10,954 |
| Graduation Rates | | | | | |
| Freshmen (6 Years) | 86% | 89% | 90% | 91% | 91% |
| Transfers (4 Years) | 86% | 87% | 89% | 90% | 91% |
| Workforce (October census) | | | | | |
| Ladder-rank Faculty | 1,539 | 1,521 | 1,570 | 1,531 | 1,494 |
| Other Faculty & Staff | 12,440 | 12,689 | 13,023 | 12,730 | 12,641 |
| Student Titles | 9,264 | 9,531 | 9,514 | 9,512 | 9,679 |
| Total | 23,243 | 23,741 | 24,107 | 23,773 | 23,814 |

*Note: faculty counts are 1,509 in 2012-13.



Berkeley creates 100 new endowed faculty chairs two years ahead of schedule.

“The success of the Hewlett Challenge makes me very confident about the future of our great university,” said Chancellor Robert Birgeneau.”

Berkeley Wall of Fame



Eric Schmidt M.S. '79, Ph.D. '82

Change Makers. Risk Takers.
Boundary Breakers.

If Berkeley was its own country, it would be sixth in the world for the number of gold medals earned in the 2012 summer Olympic Games, tying with France and Germany.



John Wilton,
Vice Chancellor, Administration & Finance

“We are challenging all units to think critically about their own strategic plans in the context of the community’s interconnectedness. Our accomplishments stem from and must nourish our common good.”

UC Berkeley continues to be recognized as one of the world’s leading academic powerhouses – public or private – as well as a university with a long legacy of redefining higher education and changing lives through innovation and public service. We care about preserving the stature and uniqueness of this institution, and of keeping access and excellence strong. This is a campus community that prides itself on always striving to reach further, in the pursuit of excellence, and campus leaders have anticipated and carefully analyzed the issues and challenges that Berkeley is confronting and will face in the years to come. We currently are engaged in several serious and far-reaching reforms.

During the last decade, there has been a significant reordering of Berkeley’s revenue sources due to significant cuts in State appropriations. Only about 12% of our total budget comes from this source now, far less than our other major sources of revenue. And, while the recent passage of Proposition 30 provides welcome relief, it is far from a panacea. However, despite these cuts, Berkeley has

remained true to its mission and public purpose, as evidenced by the most recent data on the social and economic composition of our student body. To ensure that we can continue to do so requires we undertake further reforms. As a consequence, we are continually searching for ways to realize efficiency gains and grow existing and new sources of revenue. Operational Excellence (OE) has yielded significant savings from its initial projects, including a reduction in administrative staff, streamlining in procurement (BearBuy), the Energy Management Initiative and CalPlanning financial planning and analysis tool. Other projects yet to be implemented are expected to yield positive results. Campus Shared Services, which is simplifying and standardizing common administrative tasks and processes across campus, is important in this regard, as is the revamp of student services.

We are also pursuing several important net revenue-generating initiatives. This work is predicated on the simple notion that an additional dollar of net revenue generated is just as important as a dollar saved. As a result, we are adding a new role to the OE program office of helping campus units generate additional revenue to provide more resources to support their individual core missions. (We will highlight these revenue generation efforts later in this report.)

Moving Berkeley to a sustainable financial model requires we take a more holistic approach to understanding our financial dynamics. We are challenging all units to think critically about their own strategic plans in the context of the community’s interconnectedness. Our accomplishments stem from and must nourish our common good: the breadth and depth of academic programs, the interdisciplinary nature of research and teaching, stellar students and faculty engaged in the world; research discoveries that benefit society, and a dedicated campus community of faculty, students, staff, alumni and sponsors.

We have asked every academic and administrative unit on campus to reexamine its revenues and expenses by taking an “all funds” approach, breaking away from the more siloed approach of the past. There is no permanent budget; there is only one budget that changes constantly. Consequently, we need to pro-actively consider trade-offs when making decisions and not let resources be allocated by default because “that’s the way we have always done it”. And, we need to track performance and adapt where necessary. We cannot predict the future, but we can build the tool kit and the capacity to more efficiently respond.

Finally, to succeed we need to develop a working culture that makes this critical change possible. This cannot be accomplished with a series of slogans that we put on the wall and forget about. It must be a change in the way we work and how we interact with each other. In the pages that follow, you will learn about the results of CultureCal, a campus-wide brainstorming effort to identify operating principles for all units, and what we want it to mean when we say “We Are Berkeley”.



Erin Gore,

Associate Vice Chancellor, Chief Financial Officer (CFO)

“Having a more in depth understanding of our campus finances, at the department level, will enable us to make better strategic decisions that support our university’s vision and improve our financial position across campus.”

Graduation ceremonies are a time to celebrate and reflect on the past. Last spring, Chancellor Birgeneau congratulated 2012 graduates, calling them [“change-makers, risk-takers and boundary-breakers.”](#) Commencement speaker Eric Schmidt, Google’s executive chairman, encouraged the graduates to [“find a way to say YES to things.”](#) He described how every generation enters history that, up to a point, already has been written, but that each of us also has the chance to change that history for the better.

While we may not play “Pomp and Circumstance” in the Office of the CFO, our annual report provides us with time to celebrate accomplishments of another year, to reflect on our financial condition, and to identify ways we can make things better. We may live in a time of volatile state support, but the campus community has come together to innovate and keep Berkeley great.

We have also asked Berkeley to step up and say yes to new initiatives that will help us build a stable financial model. Our investment in common good curriculum – critical courses that typically are overenrolled – is one example of how we are making strategic financial decisions in support of access and excellence. In this case, we directed additional revenue to support the academic experience of our students, and this year with the launch of our Cal Answers curriculum project, we provide the campus information so we can further improve how we deliver courses to our students.

At Berkeley, we have a lot to be proud of: the accomplishments of our students and faculty, our athletes and researchers, our campus leaders and staff. In the Office of the CFO, we also are proud to reflect on the past year, which included the production of Berkeley’s first budget plan, a major collaborative effort across the campus leveraging CalPlanning, Berkeley’s new financial planning and analysis tool. In addition, this annual report represents our first effort to produce a more complete and accurate balance sheet, providing further insight into our financial position.

Over the next year, we will expand our CalPlanning user base to build out the budget from the divisional to the departmental level. One critical enabler of the expansion will be the ability to plan for our workforce expenses at the employee level through the implementation of Position Management. For the first time, the campus will have a way to iteratively model their detailed plans and see the impact of scenarios ripple across their projected budget in real time. Having a more in-depth understanding of our campus finances, at the department level, will enable us to make better strategic decisions that support our university’s vision and improve our financial position across campus. Another major initiative where we will seek unit support will be the launch of Campus Shared Services, which will help Berkeley realize critical savings and efficiency gains.

We are working hard at Berkeley to make strategic decisions that conserve and align resources with critical campus goals and demonstrate why public education and our campus are so critical to California and the world.

CAMPUS HIGHLIGHTS

The year 2012 included Chancellor Robert Birgeneau's announcement in March that he would step down and Chancellor-designate Nicholas Dirk's introduction to the Berkeley campus in November. We are grateful for the many accomplishments and the momentum achieved under Chancellor Birgeneau, and we celebrate the leadership aspirations of our incoming chancellor to uphold and champion Berkeley as one of the world's greatest universities and its outstanding public mission, one completely in concert with Berkeley's research and scholarly excellence.

This comprehensive excellence is embodied in the breadth and depth of the work being done by faculty, students, staff and sponsors who are here to make a difference in society and to give back through teaching, research and public service. As the honeycomb graphic on the next page illustrates, we are an interconnected community, and our successes build upon one another and result in a uniquely vital environment. Together, we continue to excel.

In May of this year, the Simons Foundation chose Berkeley (the only public university among the finalists) for the launch of a \$60 million center for theoretical computing science. Co-founders Marilyn and Jim Simons said, "The competition to host the new institute was very keen, attracting many of America's very best universities, but Berkeley's proposal, combining outstanding leadership, an excellent site, great scientific ambience, and a substantial campus commitment, topped the list." This win is but one example of successful collaboration within the campus community.

Another collective success is the 2012-13 UC Berkeley Budget Plan. With the launch of CalPlanning, outreach teams and finance staff implemented an all-funds, all-units operating budget that provides a comprehensive view of total revenues and expenses and better manages reserves in response to the call for innovations to control costs and develop new sources of revenue. The severity and impact of cross-campus budget cuts are diminished, anxieties are lessened, and the university enjoys better resilience from a stronger financial base.

Pride in working at Berkeley is a common campus theme, as evidenced through employee support of recent continuous improvement efforts. From CultureCal, a multi-week brainstorming event that engaged campus-wide participation in a very active and interactive community discussion, the five Operating Principles listed at the right emerged. These principles will become a seamless aspect of Berkeley culture over time, and will guide employees to new levels of performance that match our academic excellence.

We aspire to preserve the university's position among the world's very best institutions of higher education. And together, we will succeed.

We Are Berkeley

We include and excel, together

We cultivate trust, treat one another with respect and assume good intentions. We actively include different perspectives and work cooperatively within and across departments. We thrive when we celebrate diversity in our community and our common commitment to equity, inclusion and equal access to all.

We imagine and innovate

We develop sustainable solutions that help us meet campus goals. We are willing to take intelligent risks, make mistakes and learn from our experience.

We simplify

We reduce unnecessary steps and make it easier to get things done. Our solutions are common where they can be, custom when it counts.

We are accountable to each other

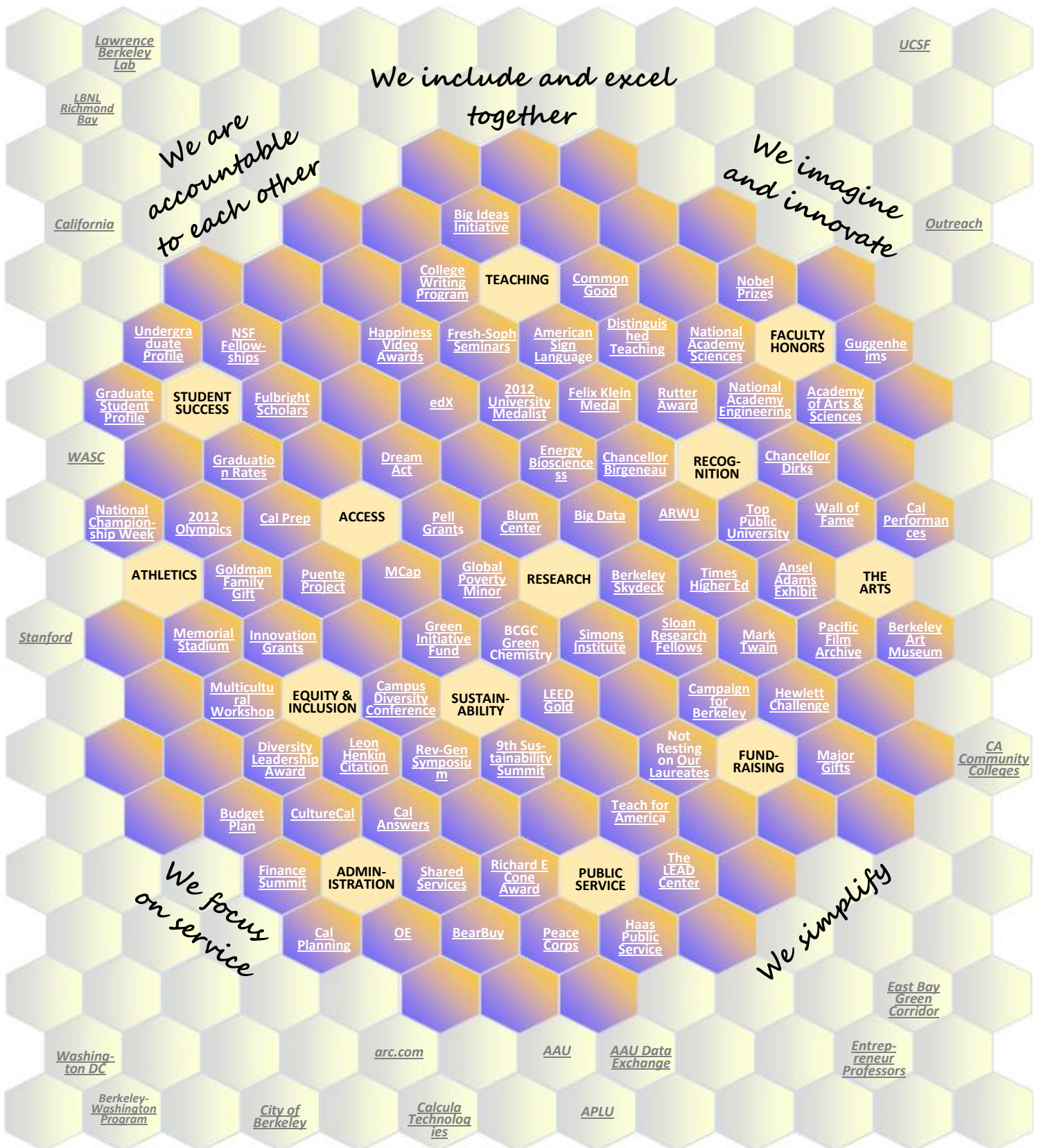
We measure supervisor, individual and team performance, make transparent decisions, and follow through on commitments. We recognize excellence, and give constructive feedback at all levels to help us improve.

We focus on service

We provided timely, excellent service to students, faculty, alumni and other stakeholders. We emphasize service over bureaucracy whenever possible.

Campus stories proclaim a year of success...

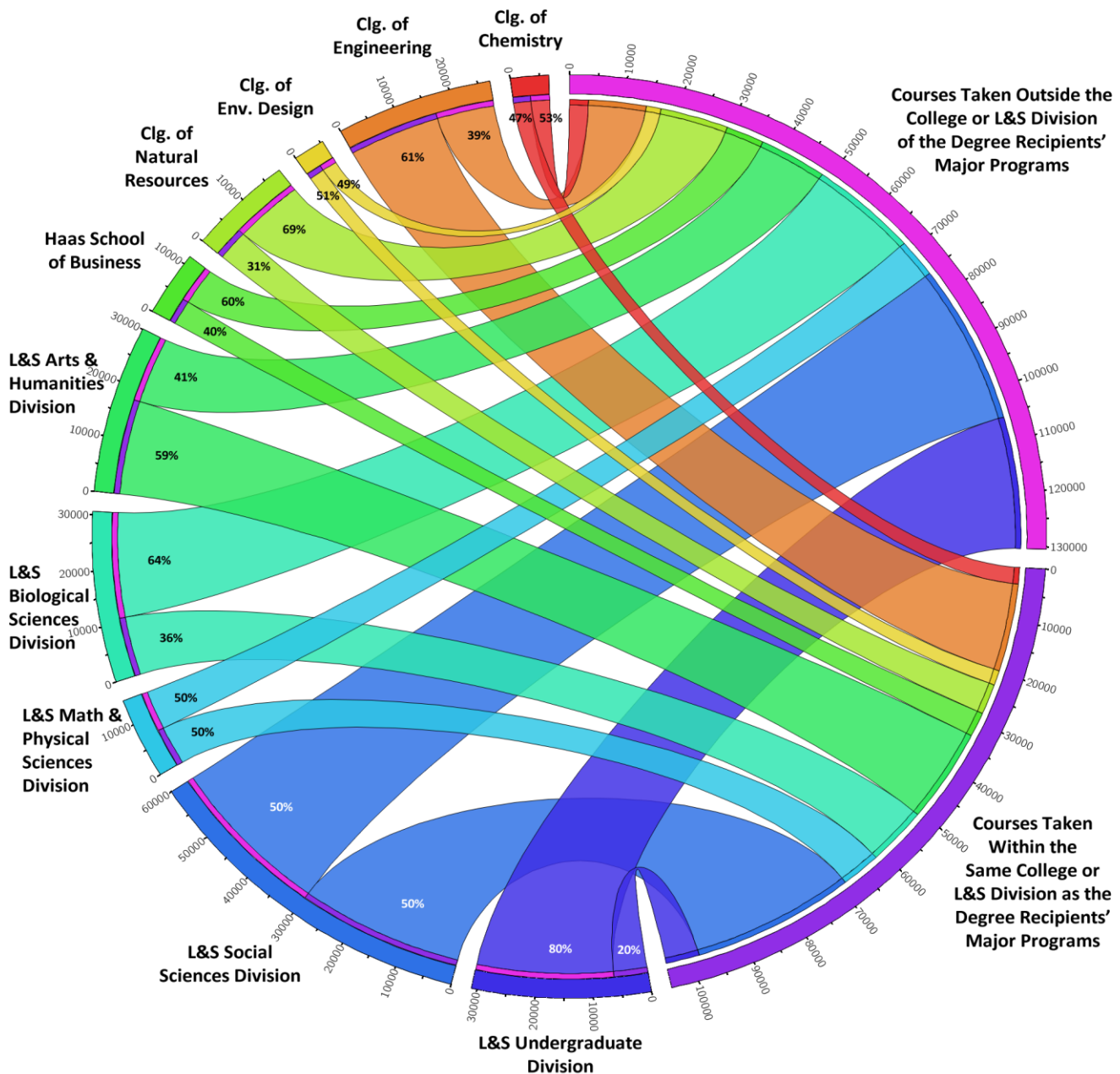
UC Berkeley is an active community of faculty, students, staff, alumni and sponsors sharing ideas and solving problems for the common good of the university and beyond. Encompassed within the operating principles generated by our members, this diagram illustrates the interconnected nature of activity among major hubs on the Berkeley campus. Each cell contains a link to a web page that provides more information on a particular story.



■ FINANCIAL STRATEGIES SUPPORTING THE COMMON GOOD

Improved financial management is what enables Berkeley to make strategic financial decisions in support of access and excellence. Berkeley's decision to direct additional tuition revenue back into the curriculum is one example. Through the common good curriculum initiative, which adds vital courses that are typically overenrolled, Berkeley over the last two years has seen a cumulative increase of 4,684 student enrollments in math and science entry level courses, with 5,822 enrollments in lab and discussion sections; and 3,222 additional enrollments in reading and composition courses. This funding also resulted in 31 additional foreign language courses, including Berkeley's first American Sign Language course. And this is just the tip of the iceberg when we think of common good.

Berkeley students are eager to experience the depth and breadth of what our campus has to offer, in part through the diversity of our curriculum. The graphic of 2011-12 bachelor's degree recipients shows the portion of courses taken outside of their college or division, and indicates that our students went well beyond satisfying their major requirements. As a total graduating class, 54% of the courses taken were not in their college or division. This figure would be even higher if we looked outside the individual department rather than the college or division. Now, our academic units can more clearly see our interdependence and develop strategies to meet their individual unit goals as well as common-good goals. A Cal Answers' curriculum project will help provide that decision support.





■ FINANCIAL HIGHLIGHTS

UC Berkeley's net position decreased by \$10 million to \$4.57 billion in 2011-12. Total revenue supporting core activities decreased by \$67m to \$2.27 billion, and total expenses associated with core activities increased by \$132m to \$2.29 billion in large part due to salaries and employee benefits and scholarship and fellowship expenses. Specific changes in revenues and expenses are described in the Operating Performance section.

We are continuing our effort to provide a more complete and transparent view of campus finances, building upon our initial report, the 2012-13 UC Berkeley Budget Plan. In that document, published in August 2012, we presented the first all-funds view of our resources. In this report, we move closer to a stand-alone balance sheet and provide metrics that incorporate a more comprehensive view of our financial position. We are now able to view Berkeley's endowments, debts, and investments directly, and have estimated the impact of liabilities associated with pension and other post-employment benefits (OPEB) which will be fully-incorporated in future publications. The resulting analysis presented here, shows results within a range that include reported numbers and the estimated impact of these liabilities.

Our aim in creating a more complete and accurate balance sheet is to improve our review and analysis of campus finances from one solely focusing on trends in revenue or expense categories, to an assessment of our financial position based on financial ratios and metrics. We are reviewing NACUBO's and other higher education ratios and will continue developing and refining the measures we use in future reports. The ratios in this report will be a component of review in the upcoming Western Association of Schools & Colleges (WASC) accreditation effort.

COMPOSITE FINANCIAL INDEX

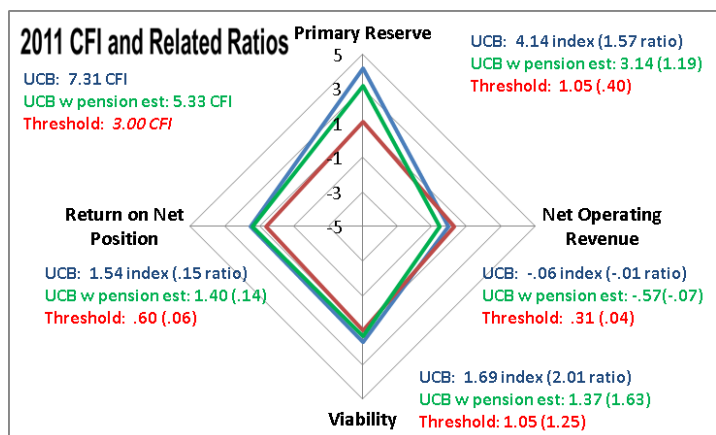
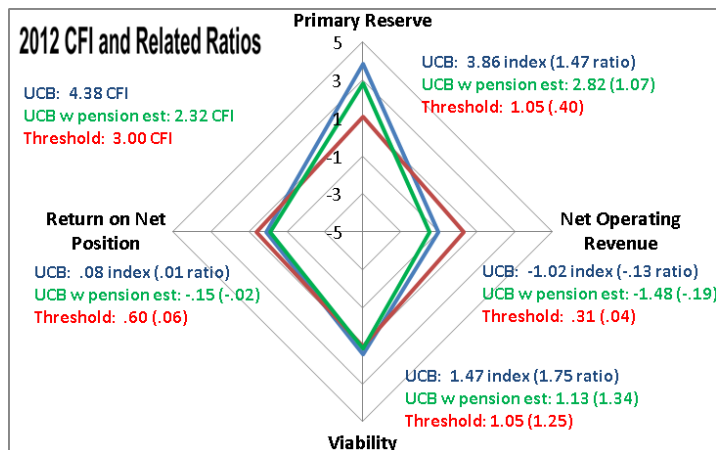
The Composite Financial Index (CFI) is a weighted average of four financial ratios using reported numbers in the Statement of Net Position (SNP) and Statement of Revenues Expenses and Changes in Net Position (SRECNP). The National Association of College and University Business Officers (NACUBO) provides a threshold value for the CFI of 3.0. Each of the components is described below with its ratio threshold value:

- **Primary Reserve** is a snapshot of financial strength and flexibility. It compares expendable net position to total expenses. T-value: .4
- **Net Operating Revenue** compares operating activities to operating revenues and state education support. It measures whether an institution is living within available resources. T-value: .04
- **Return on Net Position** compares change in net position and measures the financial position over time. T-value: .06

- **Viability** compares expendable net position to long term debt and measures whether operations are sufficient to support the debt issued. T-value: 1.25

NACUBO recommends reviewing CFI metrics and ratios over time and analyzing them in the context of other associated activities and plans to achieve the overall health of the institution.

The charts that follow show a range of CFI indices and ratio values for FY2011 and FY2012. The first value is based on SNA and SRECNP reported numbers, and the second estimates the potential impact of including liabilities associated with pension and OPEB. We expect our real results to fall somewhere in the middle of these values.



Overall, Berkeley's CFI index has dropped from 7.31 to 4.38 (or 5.33 to 2.32 when we consider pension liabilities), a figure above the threshold level of 3. Both CFI values suggest that Berkeley should direct institutional resources to advance strategic goals, and given the decrease in this metric, should also emphasize the need to support revenue growth and watch expense growth.

CURRENT RESERVE LEVELS PROVIDE FLEXIBILITY

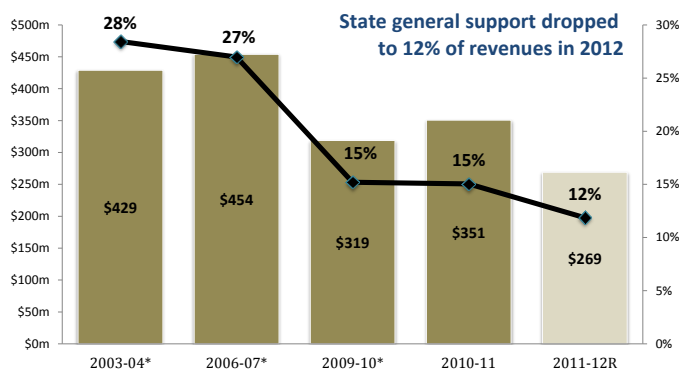
Berkeley's primary reserve ratio has dropped from 1.57 to 1.47 (1.19 to 1.07 when pension liability estimates are included). All values remain above established threshold

levels, but below our private peers, whose values range from 3.5 to 8.0. Berkeley's reserves provided a source of flexibility and stable funding to avoid across-the-board cuts had Proposition 30 failed. More importantly, we were able to direct the use of reserves toward investments in revenue-generating and cost-saving efforts. This plan is reflected in our MDA view of revenues and expenses associated with core activities showing an in-year loss of \$28 million compared to prior year income of \$171 million.

In addition, CalPlanning (Berkeley's budget tool) has provided our campus greater visibility into all funds and reserves within a department or division. Prior to requesting new funds, we can now advocate the use of reserves to advance strategic directions that will support unit goals, create future efficiencies, generate revenue and support faculty, students, and staff. In short, we are now able to view and plan for use of our resources to meet short and long-term goals.

NEGATIVE NET OPERATING REVENUES REINFORCE IMPORTANCE OF CAMPUS FINANCIAL STRATEGIES

State general support has continued to drop in both dollars and as a percentage of UC Berkeley's total revenues.



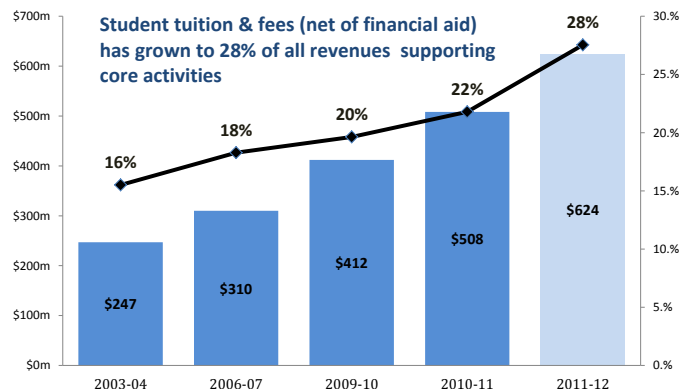
*Prior to 2010-11, state general support includes Berkeley campus-generated Indirect Cost Recovery of about \$22m each year. The new Funding Streams agreement with UC Office of the President keeps Berkeley-generated funds on campus.

Yet, when looked through the lens of operating resources, this is not a complete picture of Berkeley. One measure of Berkeley's ability to manage current resources is the Net Operating Ratio, a calculation of total operating expenses against total operating revenues and state support. While this ratio excludes some important sources of revenue to campus (private gifts and investment income, for example), reviewing it gives us insight into our operating performance over time. This figure has decreased from the prior year from -.01 to -.13 (or from -.07 to -.19 when pension liabilities are considered) due to last year's one-time monetization of patent revenue that realized \$87.5m additional revenue in that year. At the same time increased benefits and scholarship and fellowship expenses are driving our increased expenses.

Salary and benefits make up our largest operating expense, and in 2011-12 this number grew by 7%. We are projecting that the benefit costs – currently 24% of this expense – will continue to increase over the next five years, due primarily to

health care and retirement pension cost increases. Absent pension reform or additional revenue growth, benefit costs in about five years will account for a major share of a projected funding gap of around \$150 million.

Student tuition and fees accounts for nearly 28% of total revenues supporting core activities in 2011-12. Nearly one-third of all tuition and fee revenue collected is returned as financial aid. Berkeley introduced the first public university needs-based aid program directed at students from middle income families last year and began making Middle Class Access Plan (MCAP) awards this academic year.



According to NACUBO, a small deficit in net operating revenues may be relatively unimportant, if the institution is financially strong, aware of the causes of this deficit and has an active plan in place to address this deficit. Our financial strategies section of this report lays out our plan.

DECREASING RETURN ON NET POSITION CONFIRMS IMPORTANCE OF CURRENT STRATEGIC GOALS AND FINANCIAL STRATEGIES

The threshold for the return on net position is .06. Berkeley has gone from .15 to .01 (or .14 to -.02) and the two-year average for our range in values is around that threshold level. However, this declining ratio again reinforces the importance of using reserves in support of strategic goals and implementing campus financial strategies.

DECREASING VIABILITY RATIO HIGHLIGHTS IMPORTANCE OF DEBT MANAGEMENT ACTIVITIES

Declines in expendable net assets, coupled with a growth in long term debt have led to the decrease in the viability ratio from 2.01 to 1.75 (or 1.63 to -.07). While still above the threshold of 1.25, it is below the ratio of many of our private peers that range from 3 to just over 5, even when their pension liabilities are included. Therefore, it would be prudent to review activities associated with long-term debt to ensure that they are used to advance Berkeley's mission and evaluate ways to control expected costs in order to reduce debt.

■ CAPITAL INVESTMENT AND DEBT

Over the last decade, the state legislature has needed to slow its use of debt for capital projects which has impacted the University of California. Ten years ago, the state government was the primary source of capital funds for the University, and those funds could only be spent on capital investment. Today, the environment is far more complex. While the future of state university capital funding remains uncertain at best, the most likely scenario is one in which the state makes a single yearly contribution to the University's operating budget, and the University and each campus then determine how much of their budgets should be directed toward the construction, operation, maintenance, and renewal of facilities.

Today, in other words, each dollar spent to construct, operate, maintain, or renew a facility is one less dollar the campus has for student aid or faculty pay. The old paradigm of an 'operating budget' and a 'capital budget' has become obsolete. In reality, there is simply a 'campus budget', and the need for capital investment must be weighed against the many other demands on campus resources. The CFO and her Space and Capital Resources team have recently initiated several transformative changes in resource management and investment decision making to respond to this new environment. These initiatives, several of which are listed below, are driven by the broader goals to:

- create investment plans based on strategic campus objectives,
- leverage the impact of campus funds with external funds and partnerships,
- optimize the use of each campus resource, including land, space, and revenue.

Recent initiatives include:

Re-envision the ten-year capital plan. In the past, our capital investment plans were little more than a 'wish list' of new projects, largely dependent on the prospect of state funds. The most recent ten year plan prepared by Space and Capital Resources, for FY 12-22, reflects two fundamental shifts: to prioritize discretionary campus funds for reinvestment in existing core instructional and research facilities, and to expand the use of partnerships with departments, donors, and the private sector in constructing new facilities.

Commit to adequate and sustained reinvestment in existing buildings and infrastructure. The ten-year capital plan now includes a target investment of \$30 million per year in the renewal of existing buildings and infrastructure to ensure they continue to meet the performance demands of 21st century instruction and research. A standing Capital Renewal Committee has been formed to recommend a program of renewal to the Capital Projects Committee each fiscal year.

The first such program, for \$28.5 million in FY 12-13, is now authorized and underway. A third component of a comprehensive investment strategy, focused on the maintenance of spaces, is a key area of work for the upcoming year.

Integrate capital investment into the campus budget process. As noted above, it is no longer relevant to speak of the 'operating' and 'capital' budgets as two distinct things. Not only are the initial costs of construction increasingly financed with campus equity or debt, but new facilities also require campus funds for operations, maintenance, and renewal. As part of the budget process, each control unit is now required to include a statement of capital investment priorities, to inform both the annual updates to the capital plan and the allocations from the Capital Bank.

Restructure the Capital Bank. The 'capital bank' is an annual allocation of campus funds, managed by the Capital Projects Committee, to address in-year capital investment needs, with an historic funding level of roughly \$15 million per year. In the past, the CPC would consider requests case-by-case as they arose, with no ability to compare and prioritize. This year, the practice is being transformed, both to group requests into two reviews per year to allow comparative evaluation, and to shift the Capital Bank to a 'partnership' model in which the cost of a project is shared by the campus and the sponsor.

Increase campus authority for project approval. As a direct result of Space and Capital Resources' initiative with the Office of the President, the \$5 million limit on the Chancellor's approval of capital investments is being increased to \$10 million, a major advance in expediting the delivery of renewal and renovation projects. Our next focus is on raising the threshold for administrative approval of minor capital projects, and the capitalization threshold for all projects.

Promote and demonstrate improved space utilization. Space is a resource, and improved utilization is significantly more economical than construction or acquisition of new space. Space and Capital Resources has not only developed and implemented new campus wide guideline metrics for space utilization, it has also demonstrated these principles in the reconfiguration of the CFO space: the new layout accommodates twice as many people in the same space as the old layout and serves as an example for other units. These principles are now being deployed across campus to solve other space related challenges and guide the work of the campus' space oversight committee, Space Assignment and Capital Improvements (SACI).

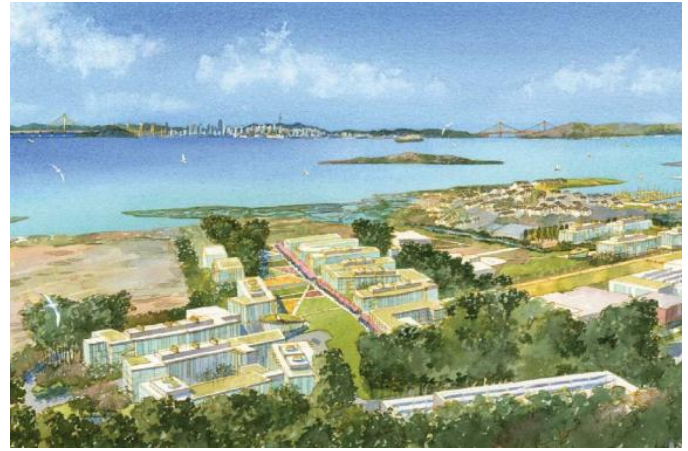
Encourage partnership delivery models to optimize resources and enhance donor confidence. The campus now routinely considers partnerships with donors and private sector firms as a potential delivery model in every major new project. Potential partnerships in the current ten-year capital plan include replacement of Tolman Hall, expansion and renovation of the Haas School of Business, expansion of Soda

Hall, and construction of the East Asian Studies Center. The latter three are envisioned as donor-developer projects, like the Blum Center, which are financed entirely with resources external to the university.



Improve classroom utilization. In order to accommodate the need for additional general assignment classrooms, Space and Capital Resources, in collaboration with the Office of the Registrar, developed a program that upgrades departmental space for use as general assignment classrooms and provides financial incentives to departments for this reassignment of their space. Through this innovative program, we are able to meet our teaching needs within our current footprint, avoiding costly new construction while promoting an ethos of shared responsibility for this campus-wide mission.

Establish Richmond Field Station as the preferred site for Berkeley Lab Second Campus. Space and Capital Resources led the team of developers and campus representatives in preparing the proposal to the Lawrence Berkeley National Laboratory (LBNL) and, subsequently, a draft Memorandum of Understanding outlining the future relationship of LBNL and UC Berkeley in building out the new campus. The plan not only accommodates LBNL's long-term objectives, and provides a critical economic stimulus for Richmond, but also provides Berkeley with capacity for program expansion and synergetic third-party development.



Use financial modeling to shape capital investments. Using financial models during the initial stages of capital planning, Space and Capital Resources is helping to ensure our investment plans are bound by what we can afford, with full consideration of both initial and ongoing costs. Using an all-funds approach, our modeling not only provides a comprehensive view of expenses over time, but also helps project sponsors visualize alternative strategies, understand the tradeoffs of costs and benefits, and align their objectives with projected revenues and competing needs.

CAPITAL DEBT

Lastly, Space and Capital Resources is working closely with UCOP Capital Markets on all debt issuance. Anticipated repayment sources are identified (e.g., General Revenues for Berkeley), including specific fund sources (e.g., facilities and administrative cost recovery, athletics revenue).

For externally financed projects, Berkeley must summarize in its Debt Affordability Model the following over a ten year horizon:

- a. Debt service to operations ratio (i.e., annual debt service divided by total operating expenses) of no greater than 6% and either
- b. Campuswide debt service coverage (i.e., sum of operating income, depreciation and interest divided by annual debt service) of no less than 1.75x or
- c. Expendable resources to debt ratio (i.e., expendable financial resources divided by total debt outstanding) of no less than 1.0x. Expendable financial resources include unrestricted net assets plus temporarily restricted net assets minus net investment in plant).

■ FINANCIAL STRATEGIES

The continued volatility of traditional revenues streams, the uncertainty associated with the passage of Proposition 30 and the coupling of tuition increases with state funding, reinforce the importance of Berkeley continuing efforts to become financially sustainable. As operating and capital budgets become ever more entwined, we need to continue to improve our decision support systems to allow us to make tradeoffs that support our strategic goals. As we make financial decisions, we do so knowing that every dollar saved can be used to keep tuition down or directed to improve the educational experience of our students.

Over the last year, Berkeley implemented CalPlanning, launched outreach teams to partner with unit staff on how to use this tool, produced our first all-funds budget plan, and held our second leadership finance summit, along with our first revenue generation symposium. We have challenged the campus to optimize the use of campus resources, including reconfiguring existing space to reduce rental needs. It has been hard work, but we are beginning to see the benefits and we need to reach further. By continuing to challenge convention, we can shape the future to help Berkeley reimagine the world.



Campus finance staff participating in a Financial Planning and Analysis Outreach workshop.

The strategies highlighted below will help improve our financial strength and capacity to meet strategic goals.

WORKFORCE MANAGEMENT EFFORTS

Salary and benefit costs are the largest portion of and contributor to growth for operating expenses. Additional improvements in CalPlanning include the introduction of Employee-Position level compensation planning which will support units in their ability to plan for staffing costs across all funds.

Associate Vice Chancellor and Chief Financial Officer Erin Gore highlighted the importance of this change, stating, "Having the ability for departments to better integrate their positions, which represent a significant portion of our budget

spend, will give us to better insight into this major expense driver."

With this information, units can make strategic decisions about current and future staffing levels by having greater visibility into their entire workforce. Units will be able to evaluate staffing options and model alternatives like: having a smaller workforce with higher pay, improving staffing allocations to changing programmatic activities; and assessing risks and opportunities associated with change in workforce.

The implementation of Campus Shared Services (CSS) represents another critical workforce management effort. CSS is intended to help achieve savings through streamlining financial, human resource, technology and research administration operations. The goal is to create a high-quality, reliable administrative infrastructure for all departments on campus, allowing unit staff to focus on meeting strategic goals, instead of administrative functions.

OPERATIONAL STRATEGIC PLANS

Berkeley needs a dynamic, iterative, integrated strategic planning process, and we are providing the framework and tools to make it happen. Our budget process and quarterly review should start with a discussion of campus and strategic goals, an examination of available resources, tradeoffs and decisions on what to fund, followed by a review of quantitative and qualitative metrics to measure the impact of funding decisions. With applications like CalPlanning and Cal Answers, Berkeley will have the tools to support our strategic planning process.

Last year's budget process began this effort by asking campus control units to use CalPlanning data to highlight resource needs and to describe how they would be used to meet strategic goals. The result of this effort is the 2012-13 UC Berkeley Budget Plan, published in August 2012.

This year, CalPlanning will expand available reports and implement data entry enhancements to refine our budgets at the departmental level. In our November 2012 Finance Summit, units were encouraged to run their own local budget processes and leverage existing decision support through Cal Answers.



Campus leadership attending Berkeley's second Finance Summit

As units align resources with strategies, we reflect back on the honeycomb and curriculum diagram seen earlier in this report and remember our interdependencies. We need to support the common good, as we advance individual goals, if we are to keep Berkeley great.

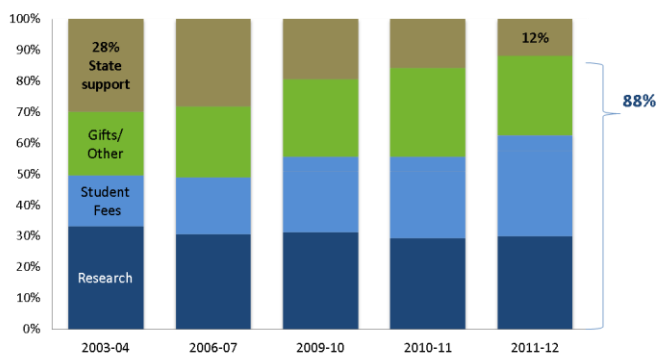
MID-TO-LONG RANGE FINANCIAL STRATEGY

Berkeley has a three-tier plan to achieve financial sustainability and support access and excellence.

To begin, we must continue efforts to **control expenses**. In addition to the campus-wide initiatives initiated through Operational Excellence, we need everyone to examine ways to trim expenses individually and within our units.

We must **grow revenues** to ensure we have the resources to support campus and unit strategic goals. As the chart highlights, we need to focus on the 88% where we have seen revenue growth and it cannot be focused solely on tuition and fees. Managed growth for student fees would allow parents, students and campuses to plan effectively. We recognize that our scholarships and fellowship expense will grow with any tuition and fees increases. See revenue growth initiatives in the next section of this report.

From 28% in 2004, to just under 12% in 2012, declining state support is being offset by increasing reliance on student tuition, gifts and research



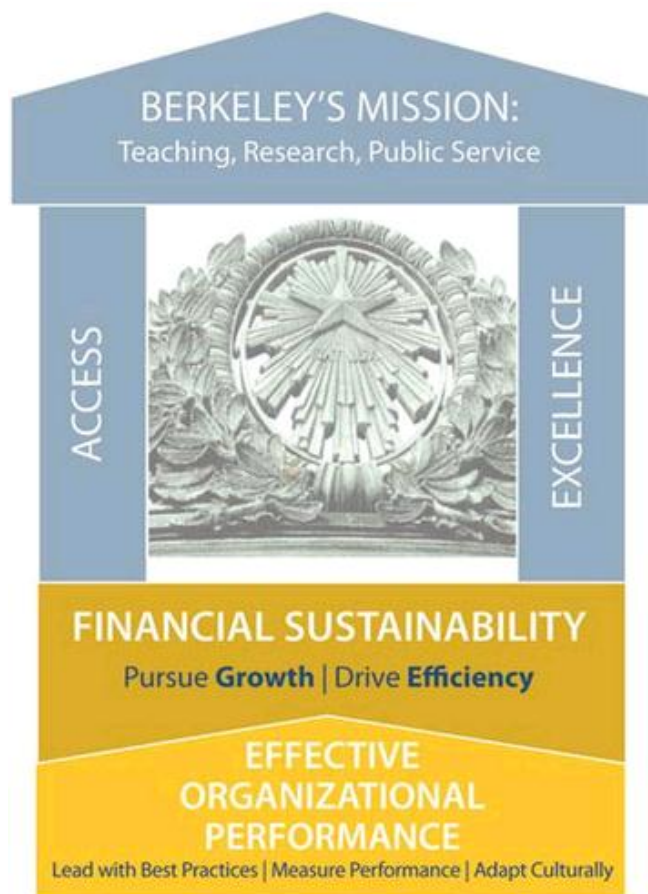
Another area of growth not highlighted specifically on this chart relates to Facilities and Administration (indirect) cost recovery, which is a major source of discretionary funds for capital investment and other campus priorities and is almost entirely predicated on our demonstrated use of facilities for research. We achieved a significant rate increase for the Berkeley campus, from 53.5% in FY 11-12 to 55.5% in FY 12-13, 56.5% in FY 13-15, and 57.0% in FY 15-16. However, many nonfederal contracts continue to have recovery rates considerably below this level, and our focus has now turned to implementing incentives and other measures to improve cost recovery for those contracts, and to support the ongoing reinvestment in discretionary funds.

Lastly, we must **optimize current resources**, which means reviewing our current expenses and ensuring they align and support strategic goals, as well as spending our most restricted funds first whenever possible. Doing so will provide flexibility for future initiatives or investments.

■ REVENUE GROWTH INITIATIVES

At Berkeley, we need to be able to respond to fundamental changes in order to continue supporting the twin pillars of access and excellence that support our mission of teaching, research, and public service.

We have developed a plan that involves work on various fronts. Our primary goals are to place UC Berkeley on a financially sustainable path while improving our organizational performance. One can not be achieved without the other.



Financial sustainability means both efficiency gains and growth. There are two ways to promote efficiency gains. First, every unit and every employee doing their part to **control expenses** in recognition that every dollar we save can we can redeploy to the highest need. Second, **optimizing current resources** by ensuring we put every dollar to work and we have the flexibility to pursue academic priorities by spending restricted funds first.

We have several significant long-term opportunities to **grow** and reshape our overall campus revenue picture. Those areas are fundraising, online education, and technology transfer, including the very long-term potential from the Richmond Bay site. Over the last year, we have been engaged in a process to understand these opportunities better and begin to address obstacles that stand in the way of reaching our potential in these areas.

Online education is a good example. Last year, we partnered with edX in what promises to be an impactful partnership to advance online education. At the same time, we created the Berkeley Resource Center for Online Education (BRCOE) and convened a group of campus and administrative leaders to define a set of guiding principles not as a "one size fits all" campus solution, but as a much-needed resource to support more rapid response to and more effective support of effort by our schools, colleges and departments.

In addition to these three campus-level revenue growth areas, we believe there are many other, targeted or more narrowly-defined revenue growth opportunities that collectively add up, and provide meaningful new sources of funding for individual units. In the past, many of these opportunities have languished due to a lack of a jump-starting mechanism or investment mindset. We believe there are untapped opportunities and creative and innovative potential on campus where a dollar invested today could yield multiple revenue dollars in the future.

In October, Berkeley held its first [Revenue Generation Symposium](#) and brought a diverse group of campus leaders to: (1) discuss revenue generating ideas that have worked here and at other public universities, (2), present concrete options for how we can pursue such ideas (3) make connections and network, and (4) identify new opportunities.

Four "case studies" were presented covering a wide range of activities, from an academic related service, through a more imaginative use of restaurant space, to how we sell tickets to athletic events. This diversity was no accident – the examples were chosen to illustrate the need for all of us to think about what we can do. One of the key takeaways from this symposium was the enormous benefits that can be derived from having our campus community come together to innovate and share best practices in a collaborative environment with a focussed goal. As College of Environmental Design Dean Jennifer Wolch said in her presentation, "I can't do this alone." Together, we most certainly can.



■ OPERATING PERFORMANCE

The following statement of revenues, expenses and changes in net position is a presentation of Berkeley's operating results. It indicates whether the campus' financial condition has improved or deteriorated. In accordance with Governmental Accounting Standards Board (GASB) requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of Berkeley are required to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income.

Cal Grants are funded by the State of California and administered by the California Student Aid Commission (CSAC). Although Cal Grants activities are not reported in Berkeley's statement of revenues, expenses and changes in net position, in accordance with GASB requirements, Cal Grants are included in this discussion as they are an important source of financial aid to Berkeley undergraduate students. Cal Grants amounts received from the CSAC and Cal Grants amounts disbursed to students are reflected under "Federal Pell Grants and Cal Grants" and "Scholarships and Fellowships," respectively.

Berkeley's statement of revenues, expenses and changes in net position includes funded UCRP and retiree health benefits expenses associated with system-wide liabilities omitted from Berkeley's statement of net position.

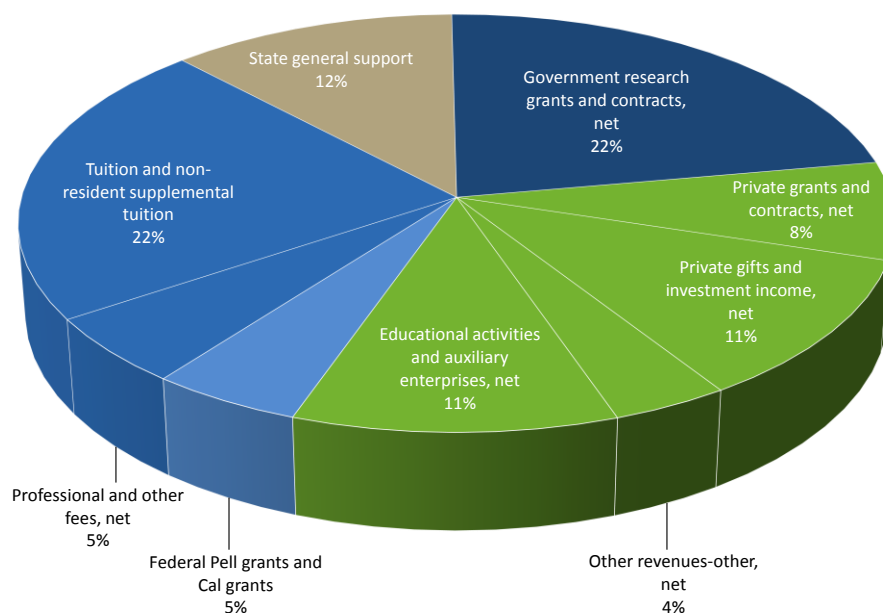
A summarized comparison of the operating results for 2011-12 and 2010-11, adjusted to reflect Cal Grants and arranged in a format that matches the revenue supporting the core activities of Berkeley with the expenses associated with core activities, is as follows:

(in thousands of dollars)

(in thousands of dollars)

| | YEAR ENDED JUNE 30, 2012 | | | YEAR ENDED JUNE 30, 2011 | | | \$ | % |
|---|--------------------------|--------------|-------------|--------------------------|--------------|-------------|-----------|--------|
| | Operating | Nonoperating | Total | Operating | Nonoperating | Total | Change | Change |
| REVENUES | | | | | | | | |
| Student tuition and fees: | | | | | | | | |
| Tuition and non-resident supplemental tuition | \$504,376 | | \$504,376 | \$413,894 | | \$413,894 | \$90,482 | 22% |
| Professional and other fees, net | 119,591 | | 119,591 | 94,259 | | 94,259 | 25,332 | 27% |
| State educational appropriations: | | | | | | | | |
| State general support | | \$268,991 | 268,991 | | \$350,887 | 350,887 | (81,896) | (23%) |
| Federal ARRA stimulus support | | | | | 19,174 | 19,174 | (19,174) | (100%) |
| Federal Pell grants and Cal grants | | 113,100 | 113,100 | | 113,259 | 113,259 | (159) | (0%) |
| Grants and contracts: | | | | | | | | |
| Government grants and contracts, net | 508,026 | | 508,026 | 513,454 | | 513,454 | (5,428) | (1%) |
| Private grants and contracts, net | 171,385 | | 171,385 | 177,389 | | 177,389 | (6,004) | (3%) |
| Private gifts and investment income, net | | 250,765 | 250,765 | | 254,945 | 254,945 | (4,180) | (2%) |
| Other revenues: | | | | | | | | |
| Educational activities and auxiliary enterprises, net | 242,016 | | 242,016 | 306,586 | | 306,586 | (64,570) | (21%) |
| Other, net | 57,364 | 30,020 | 87,384 | 57,251 | 31,085 | 88,336 | (952) | (1%) |
| Revenues supporting core activities | 1,602,758 | 662,876 | 2,265,634 | 1,562,833 | 769,350 | 2,332,183 | (66,549) | (3%) |
| EXPENSES | | | | | | | | |
| Salaries and employee benefits | 1,312,031 | | 1,312,031 | 1,223,132 | | 1,223,132 | 88,899 | 7% |
| Scholarships and fellowships | 212,994 | | 212,994 | 177,344 | | 177,344 | 35,650 | 20% |
| Utilities | 35,904 | | 35,904 | 35,091 | | 35,091 | 813 | 2% |
| Supplies and materials | 156,565 | | 156,565 | 141,234 | | 141,234 | 15,331 | 11% |
| Depreciation and amortization | 169,917 | | 169,917 | 153,714 | | 153,714 | 16,203 | 11% |
| Interest | | 64,419 | 64,419 | | 57,242 | 57,242 | 7,177 | 13% |
| Other expenses: | | | | | | | | |
| Subcontracts | 121,025 | | 121,025 | 133,671 | | 133,671 | (12,646) | (9%) |
| Travel | 41,044 | | 41,044 | 40,008 | | 40,008 | 1,036 | 3% |
| UCOP Assessment | 22,656 | | 22,656 | | | | 22,656 | N/A |
| Other | 156,572 | 563 | 157,135 | 198,673 | 1,503 | 200,176 | (43,041) | (22%) |
| Expenses associated with core activities | 2,228,708 | 64,982 | 2,293,690 | 2,102,867 | 58,745 | 2,161,612 | 132,078 | 6% |
| Income (loss) from core activities | (\$625,950) | \$597,894 | (28,056) | (\$540,034) | \$710,605 | 170,571 | (198,627) | N/A |
| OTHER NONOPERATING ACTIVITIES | | | | | | | | |
| Net appreciation (depreciation) | | | | | | | | |
| in fair value of investments | | | (79,764) | | | 270,285 | (350,049) | N/A |
| Income (loss) before other changes in net position | | | (107,820) | | | 440,856 | (548,676) | |
| OTHER CHANGES IN NET POSITION | | | | | | | | |
| State capital appropriations | | | 3,205 | | | 2,085 | 1,120 | 54% |
| Capital gifts and grants, net | | | 14,876 | | | 104,118 | (89,242) | (86%) |
| Other changes | | | 79,911 | | | (53,956) | 133,867 | N/A |
| Increase (decrease) in net position | | | (9,828) | | | 493,103 | (502,931) | N/A |
| NET POSITION | | | | | | | | |
| Beginning of year | | | 4,581,578 | | | 4,088,475 | 493,103 | 12% |
| End of year | | | \$4,571,750 | | | \$4,581,578 | (\$9,828) | (0%) |

Revenues to support Berkeley's core activities, including those classified as nonoperating revenues and Cal Grants, were \$2.3 billion in 2011-12. The percentage of each of the revenue components relative to total revenues supporting Berkeley's core activities is as follows:



Tuition and non-resident supplemental tuition revenue grew by \$90 million, or 22%, from \$414 million in 2010-11 to \$504 million in 2011-12. Tuition rate increases and growth in non-resident student enrollment were the primary contributing factors.

Although the changes in tuition and fee totals represent significant increases, Berkeley's tuition and fees were in line with other public flagship universities and lower than those of any of Berkeley's private peers.

| Tuition and Fees | 2010-11 | 2011-12 |
|----------------------|----------|----------|
| Undergraduate | | |
| Resident | \$10,940 | \$12,834 |
| Non-resident | \$33,819 | \$35,712 |
| Graduate | | |
| Resident | \$10,940 | \$12,835 |
| Non-resident | \$26,042 | \$27,937 |

Peer Undergraduate Tuition and Fees (2011-12)

| | Resident | Non-Resident |
|------------------|-----------------|-----------------|
| <i>Stanford</i> | \$40,926 | \$40,926 |
| <i>MIT</i> | \$40,732 | \$40,732 |
| <i>Yale</i> | \$40,500 | \$40,500 |
| <i>Harvard</i> | \$39,851 | \$39,851 |
| <i>Princeton</i> | \$37,855 | \$37,855 |
| Michigan | \$12,634 | \$37,782 |
| Berkeley | \$12,834 | \$35,712 |
| UCLA | \$12,686 | \$35,564 |
| Virginia | \$11,794 | \$33,782 |
| Texas | \$9,346 | \$31,102 |
| Illinois | \$14,414 | \$28,556 |
| Wisconsin | \$9,671 | \$25,421 |

Notes: Private institutions shown in italics. Mandatory tuition and fees do not include student health insurance. Data obtained from campus websites.

Professional degree supplemental tuition and other fees totaled \$120 million in 2011-12, an increase of \$25 million, or 27%, from 2010-11. Professional Degree Fees (PDF) varied by program, with one additional program charging PDF in 2011-12.

Professional Degree Fees (PDF)

| | 2010-11 | 2011-12 |
|---|----------|----------|
| ¹ J.D. - Juris Doctor | \$31,355 | \$35,148 |
| ¹ M.B.A. - Master of Business Administration | \$28,820 | \$31,430 |
| Masters of Engineering | -- | \$30,000 |
| Joint Medical Program with UCSF | \$17,531 | \$18,636 |
| O.D. - Doctor of Optometry | \$13,220 | \$14,674 |
| M.P.P. - Master of Public Policy | \$5,494 | \$7,290 |
| M.P.H. - Master of Public Health | \$6,317 | \$6,758 |
| Dr.P.H. - Doctor of Public Health | \$6,317 | \$6,758 |
| M.I.M.S. - Master of Information Mgt & Systems | \$6,000 | \$6,400 |
| *Environmental Design - 5 Master's programs | \$6,000 | \$6,000 |
| M.S.W. - Master of Social Work | \$4,000 | \$4,000 |

¹Non-residents paid a discounted PDF in these programs

*Master of Architecture, Master of City Planning, Master of Landscape Architecture, MLA & Environmental Planning, Master of Urban Design

Berkeley and the UC system maintained their commitment to college students from California's financially-disadvantaged families. In concert with student fee increases, Berkeley contained required levels of self-help (as defined by the federal Financial Aid formula) by directing campus-raised funds towards needs-based aid for undergraduates and earmarking one-third of fee increases toward student financial aid. Both of these measures help offset a recipient's total cost of attending (seen in the table below).

| Average cost to attend based on student budgets, 2011-12 | | | | |
|--|------------------------|-----------------|-----------------|--------------------------------|
| | Undergraduate Students | | | Graduate Students ² |
| | On Campus | Off Campus | w/Relatives | |
| Tuition & fees | \$12,834 | \$12,834 | \$12,834 | \$12,836 |
| Housing/utilities | 14,060 | \$40,732 | \$40,732 | \$40,732 |
| Food | 930 | \$40,500 | \$40,500 | \$40,500 |
| Books/supplies | 1,202 | \$39,851 | \$39,851 | \$39,851 |
| Personal | 1,388 | \$37,855 | \$37,855 | \$37,855 |
| Transportation | 594 | \$12,634 | \$37,782 | \$37,782 |
| Health insurance ¹ | 1,626 | \$12,834 | \$35,712 | \$35,712 |
| Total | \$32,634 | \$12,686 | \$35,564 | \$35,564 |
| Nonres. tuition & fees supplement | 22,878 | \$11,794 | \$33,782 | \$33,782 |
| Nonresident total | \$55,512 | \$9,346 | \$31,102 | \$31,102 |

¹Student Health Insurance Plan fee may be waived if proof of adequate coverage is presented.

²Graduate professional fees are additional and vary by program.

In 2011-12, Berkeley provided \$155 million in financial aid in the form of scholarship allowances that offset tuition and fees, compared to \$153 million in 2010-11, and \$144 million in 2009-10. Housing and dining scholarship allowance is similarly applied by the auxiliary enterprises toward the students' accounts. Amounts paid directly to students are reported as Scholarships and Fellowships expenses.

State general support allocated to Berkeley from the UC Office of the President was \$319 million in 2009-10, \$351 million in 2010-11 and \$269 million in 2011-12. State general support decreased in 2011-12 as the state continued to address its fiscal challenges.

Federal American Recovery and Reinvestment Act (ARRA) stimulus support, also allocated from the UC Office of the President as part of state educational appropriations, was \$88 million in 2009-10 and \$19 million in 2010-11. However, this program expired and Berkeley recognized no revenue in this category in 2011-12.

Federal Pell Grants and Cal Grants remained flat at \$113 million in 2011-12. As a response to state budget cuts and tuition increases at the state's two university systems, the Cal Grant program adjusted award monies to cover some of the student fee increases, resulting in a \$6 million increase in 2012. On the other hand, Pell Grants decreased \$6 million in 2011-12 attributable to the elimination of the year-round Pell Grants, which included summer study and allowed qualifying students to receive two Pell Grants in a single year.

Government grants and contracts from federal, state and local governments totaled \$508 million in 2011-12, a decrease of \$5 million, or 1%, from \$513 million in 2010-11. In 2011-12, the federal government provided 80% of the total government grant and contract operating revenues, and agencies of the state of California and local government supplied the rest. Federal grants and contracts for research and other academic activities grew \$3 million in 2011-12 from a variety of agencies, including the National Aeronautics and Space Administration, Intelligence Advanced Research Projects, Department of Health and Human Services, National Science Foundation and Department of Energy. State grants and contracts decreased \$9 million in 2011-12 from various state departments, including the California Energy Commission, California Office of Traffic Safety, California Governor's Office of Emergency Services and CalTrans. Grants and contracts from local governments increased \$1 million in 2011-12.

Private grants and contracts from industry and the non-profit sector decreased \$6 million, or 3%, from \$177 million in 2010-11 to \$171 million in 2011-12, reflecting a lag in this category to a slightly improving economy.

Private gifts and investment income totaled \$251 million in 2011-12, a decrease of \$4 million from 2010-11.

Private gifts, mainly restricted as to use, decreased \$3 million from \$183 million in 2010-11 to \$180 million in 2011-12. Gifts may be made to Berkeley through UC or the Foundation.

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 gifts received by UC for Berkeley were \$68 million and \$93 million in 2011-12 and 2010-11, respectively.

The gifts transferred from the Foundation to Berkeley increased \$22 million, from \$90 million in 2010-11 to \$112 million in 2011-12. Included in these gift amounts were the endowment payouts from the Foundation - \$37 million and \$36 million for 2011-12 and 2010-11, respectively. The endowment payout amounts relate to the payout rates approved by the Executive Committee of the Foundation for the preceding years (2010-11 and 2009-10) as the payouts are distributed to Berkeley in August of the following fiscal year. The Executive Committee of the Foundation approved a payout rate at 4.75% for 2010-11 and 2009-10.

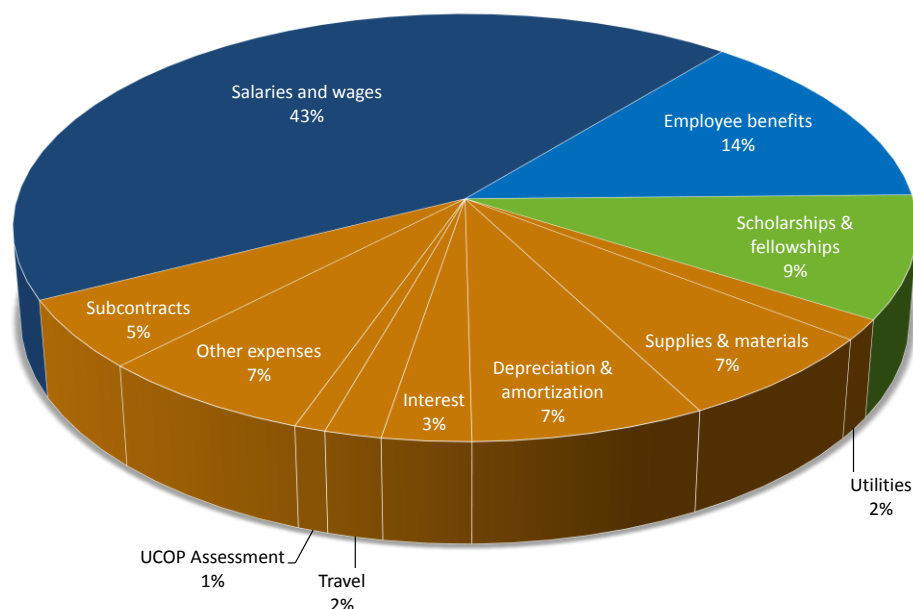
Investment income, totaling \$71 million and \$72 million in 2011-12 and 2010-11, respectively, includes expendable endowment income, dividend and interest from the total return investment pool (TRIP) and the short-term investment pool (STIP).

Educational activities and auxiliary enterprises totaled \$242 million in 2011-12, a decrease of \$65 million, or 21%, from 2010-11. The decrease was primarily attributable to a one-time royalty buy-out transaction in 2010-11.

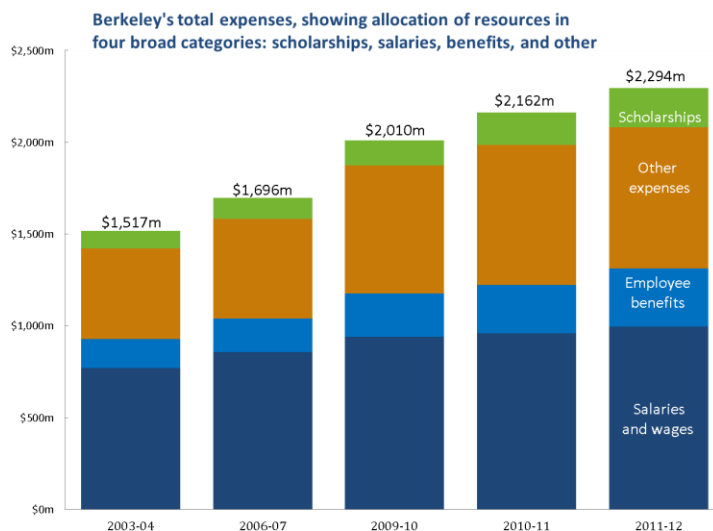
Other revenues for 2011-12 of \$87 million, including \$20 million of state financing appropriations, \$11 million of federal financing appropriations and \$56 million of other operating revenues, decreased \$1 million from 2010-11. The state of California financing appropriation, which decreased \$1 million in 2011-12, is directly related to the required rental payments under lease-purchase agreements with the state of California. The \$11 million of federal financing appropriation,

which increased \$1 million from 2010-11, was from the Build America Bonds Subsidy, a program authorizing state and local governments to issue Build America Bonds as part of the American Recovery and Reinvestment Act of 2009 (ARRA), which provided a federal subsidy to cover a portion of the interest costs of these bonds. Lastly, a \$1 million decrease in other operating revenues was primarily from various departmental revenue generating activities.

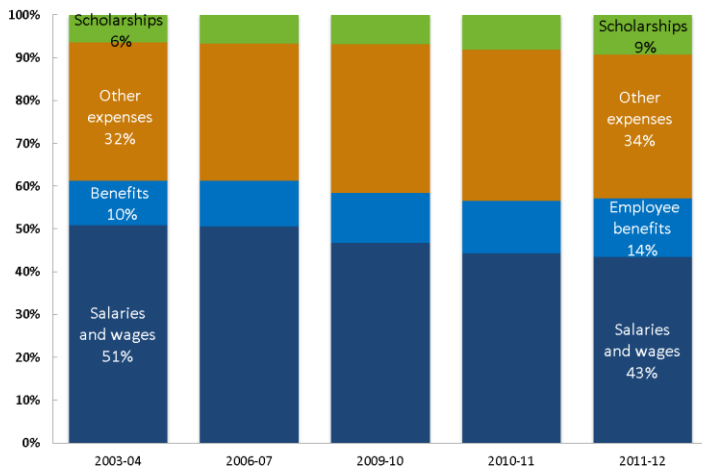
Expenses associated with Berkeley's core activities, were \$2.3 billion in 2011-12. The percentage of each of the categories of expense to total expenses associated with core activities is as follows:



Salaries and employee benefits of \$1.3 billion in 2011-12 (\$996 million of salaries and wages and \$316 million of benefits) increased by \$89 million, or 7%, from 2010-11. There were 13,900 full time equivalent employees at Berkeley in 2011-12, an increase of about 1% from 2010-11. Combined salaries and wages for both academic and administrative staff increased \$38 million, or 4%, from 2010-11, due to scheduled salary increases for academic and union personnel, and merit increases for staff, the first since 2008. Total benefit costs increased \$51 million, or 19%, in 2011-12, primarily attributable to the campus' contribution to the University of California Retirement Plan (UCRP). Continued growth in health insurance costs and fee remission payments for graduate student employees also contributed to the benefit cost increase.



Berkeley's mix of expenses, indicating a growing share of resources toward student scholarships, employee benefits and other expenses



Scholarships and fellowships, including Cal Grants, totaled \$213 million in 2011-12 and \$177 million in 2010-11, an increase of \$36 million or 20%. Total scholarship allowances, also a form of scholarship and fellowship cost, were \$185 million in 2010-11 and \$183 million in 2011-12. 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, including Cal Grants, grew from \$362 million in 2010-11 to \$396 million in 2011-12.

Utilities, consisting of natural gas, electricity, water and sewer, and utility services – increased slightly from \$35 million in 2010-11 to \$36 million in 2011-12 as the campus continued its aggressive effort to minimize these costs.

Supplies and materials of \$157 million in 2011-12 increased \$15 million, or 11%, from 2010-11. A significant portion of the increase was attributable to more capital project related operating expenses in 2011-12.

Depreciation and amortization expenses increased \$16 million to \$170 million in 2011-12, reflecting the increase in capital assets.

Interest expense, mainly associated with financing for construction, renovation and acquisition of facilities and equipment, increased from \$57 million in 2010-11 to \$64 million in 2011-12, due primarily to more revenue bonds issued in recent years for construction projects, such as the Memorial Stadium Seismic Improvement project, the Li Ka-Shing Center for Biomedical and Health Sciences Building, the Helios Energy Research Facility and the Student-Athlete High Performance Center.

Subcontracts expenses decreased \$13 million, or 9%, to \$121 million in 2011-12. The decrease in these expenses, including transfers to other UC campuses for related research projects, was primarily reflected in the state funded projects as total revenues from the state contracts and grants dropped \$9 million, or 9%, in 2011-12.

Travel expenses increased \$1 million, or 3%, from \$40 million in 2010-11 to \$41 million in 2011-12. The increase was mostly related to research and instructional programs.

UCOP (University of California Office of the President) assessment expenses of \$23 million associated with Berkeley's share of support for UC central operations. In 2011-12, UCOP received support from Berkeley through various balance sheet transfers. This assessment was new in 2011-12.

Other expenses consist of a variety of expense categories, including rent, insurance, consultant fees, communication services, legal settlements, repairs and maintenance, royalties to inventors, and other nonoperating expenses. These expenses totaled \$157 million in 2011-12, a decrease of \$43 million, or 22%, from 2010-11. A significant portion of the decrease was attributable to a one-time royalty pay-out in 2010-11.

Other Nonoperating Activities

Berkeley's other nonoperating activities, consisting of net appreciation or depreciation in the fair value of investments, are noncash transactions and, therefore, are not available to support operating expenses.

Net appreciation (depreciation) in fair value of investments reflected net depreciation of \$80 million in the fair value of Berkeley's investments in 2011-12, compared to net appreciation of \$270 million during 2010-11. Equity markets showed strong performance in 2010-11.

Other Changes in Net Position 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, from bond measures approved by the California voters, increased slightly in 2011-12.

Capital gifts and grants totaled \$15 million in 2011-12, decreasing \$89 million from 2010-11. Nearly \$40 million of the decrease was attributable to gifts for the Li Ka-Shing Center for Biomedical and Health Sciences Building which were recognized in 2010-11. A capital gift of \$17 million for Blum Hall was also recorded in 2010-11. The remaining decrease was associated with various capital projects.

Other changes in net position of \$80 million in 2011-12 increased \$134 million from 2010-11. Other changes are from timing and other differences in the recognition of revenues and expenses and the related assets and liabilities associated with endowments and long-term debt.

■ FINANCIAL STATEMENTS

Berkeley's financial statements are prepared from the official UC records and accounts for the campus. These campus-level accounts are maintained in accordance with UC policies and relevant accounting principles generally accepted in the United States and established by the Governmental Accounting Standards Board (GASB). Berkeley's financial statements have not been separately 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.univeristyofcalifornia.edu/reportingtransparency>

Berkeley's financial report communicates financial information for the Berkeley campus through these primary financial statements and notes to the financial statements. The three financial statements are the Statements of Net Position; Statements of Revenues, Expenses and Changes in Net Position; and Statements of Cash Flows. The three financial statements encompass the Berkeley campus and its discretely presented component, the Berkeley Foundation. However, the Notes to Financial Statements focus only on the campus. Information relating to the Berkeley Foundation can be found in its separately-issued financial statements report. The notes provide additional information on the Berkeley campus-level accounts that is essential to a full understanding of the financial statements.

STATEMENTS OF NET POSITION (unaudited)

At June, 2012 and 2011 (In Thousands of Dollars)

| | CAMPUS * | | FOUNDATION | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 2012 | 2011 | 2012 | 2011 |
| ASSETS | | | | |
| Cash and cash equivalents (Note 1) | \$1,319,087 | \$1,278,528 | \$2,483 | \$2,969 |
| Short-term investments | | | 64,197 | 66,092 |
| Investments held by trustees (Note 3) | 1,692 | 2,219 | | |
| Accounts receivable, net (Note 4) | 183,491 | 168,009 | | |
| Pledges receivable, net (Note 5) | 21,809 | 34,370 | 23,745 | 14,541 |
| Current portion of notes and mortgages receivable, net (Note 6) | 5,783 | 5,131 | | |
| Inventories | 4,607 | 4,801 | | |
| Other current assets | 2,728 | 2,099 | 224 | 1,352 |
| Current assets | 1,539,197 | 1,495,157 | 90,649 | 84,954 |
| Investments (Note 2) | 1,905,074 | 1,991,932 | 1,231,076 | 1,203,750 |
| Investments held by trustees (Note 3) | 123,167 | 99,456 | 2,475 | 2,676 |
| Pledges receivable, net (Note 5) | 36,040 | 42,425 | 102,809 | 80,869 |
| Notes and mortgages receivables, net (Note 6) | 26,002 | 27,432 | | |
| Capital assets, net (Note 7) | 3,486,489 | 3,194,032 | | |
| Other noncurrent assets | 2,126 | 704 | 1,781 | 1,957 |
| Noncurrent assets | 5,578,898 | 5,355,981 | 1,338,141 | 1,289,252 |
| Total assets | 7,118,095 | 6,851,138 | 1,428,790 | 1,374,206 |
| LIABILITIES | | | | |
| Accounts payable | 102,462 | 109,821 | 359 | 809 |
| Accrued salaries | 40,146 | 94,813 | | |
| Employee benefits | 10,630 | 12,159 | | |
| Unearned revenue | 155,068 | 141,076 | | |
| Commercial paper (Note 8) | 208,458 | 132,453 | | |
| Current portion of long-term debt (Note 8) | 43,519 | 39,701 | | |
| Funds held for others | 2,034 | 1,950 | 500 | 500 |
| Gift annuities payable | | | 2,593 | 2,672 |
| Trust liabilities | | | 6,291 | 6,536 |
| Other current liabilities (Note 9) | 86,897 | 67,752 | | |
| Current liabilities | 649,214 | 599,725 | 9,743 | 10,517 |
| Federal refundable loans | 22,993 | 23,066 | | |
| Funds held for others | | | 7,503 | 6,122 |
| Gift annuities payable | | | 19,043 | 16,923 |
| Trust liabilities | | | 48,416 | 51,180 |
| Long-term debt (Note 8) | 1,862,886 | 1,630,990 | | |
| Other noncurrent liabilities (Note 9) | 11,252 | 15,779 | | |
| Noncurrent liabilities | 1,897,131 | 1,669,835 | 74,962 | 74,225 |
| Total liabilities | 2,546,345 | 2,269,560 | 84,705 | 84,742 |
| NET POSITION | | | | |
| Invested in capital assets, net of related debt | 1,494,541 | 1,490,041 | | |
| Restricted Nonexpendable: | | | | |
| Endowments and gifts | 381,799 | 372,707 | 710,616 | 644,037 |
| Restricted Expendable: | | | | |
| Endowments and gifts | 1,902,582 | 1,975,531 | 633,440 | 644,372 |
| Other, including debt service, loans, capital projects and appropriations | 51,373 | 45,756 | | |
| Unrestricted | 741,455 | 697,543 | 29 | 1,055 |
| Total net position | \$4,571,750 | \$4,581,578 | \$1,344,085 | \$1,289,464 |

* See accompanying Notes to Financial Statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (unaudited)*Years Ended June 30, 2012 and 2011 (In Thousands of Dollars)*

| | CAMPUS * | | FOUNDATION | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 2012 | 2011 | 2012 | 2011 |
| OPERATING REVENUES | | | | |
| Student tuition and fees, net | \$623,967 | \$508,153 | | |
| Grants and contracts, net: | | | | |
| Federal | 408,202 | 405,165 | | |
| State | 95,333 | 104,333 | | |
| Private | 171,385 | 177,389 | | |
| Local | 4,491 | 3,956 | | |
| Educational activities, net | 81,485 | 154,902 | | |
| Auxiliary enterprises, net | 160,531 | 151,684 | | |
| Campus foundation private gifts | | | \$110,406 | \$165,373 |
| Other operating revenues, net | 57,364 | 57,251 | 3,328 | 3,066 |
| Total operating revenues | 1,602,758 | 1,562,833 | 113,734 | 168,439 |
| OPERATING EXPENSES | | | | |
| Salaries and wages | 995,852 | 958,243 | | |
| UCRP benefits (Note 10) | 57,929 | 29,114 | | |
| Retiree health benefits (Note 11) | 26,344 | 23,822 | | |
| Other employee benefits | 231,906 | 211,953 | | |
| Scholarships and fellowships | 139,683 | 110,067 | | |
| Utilities | 35,904 | 35,091 | | |
| Supplies and materials | 156,565 | 141,234 | | |
| Depreciation and amortization (Note 7) | 169,917 | 153,714 | | |
| Campus foundation grants | | | 110,602 | 98,823 |
| Other operating expenses | 341,297 | 372,352 | 4,260 | 3,664 |
| Total operating expenses | 2,155,397 | 2,035,590 | 114,862 | 102,487 |
| Operating income (loss) | (552,639) | (472,757) | (1,128) | 65,952 |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| State educational appropriations: | | | | |
| State general support | 268,991 | 350,887 | | |
| Federal American Recovery and Reinvestment Act stimulus support | | 19,174 | | |
| State financing appropriations | 19,508 | 20,678 | | |
| Build America Bonds federal interest subsidies | 10,512 | 10,407 | | |
| Federal Pell grants | 39,789 | 45,982 | | |
| Private gifts, net | 180,488 | 183,310 | | |
| Investment income: | | | | |
| Endowment, net | 30,657 | 34,727 | | |
| Short-term investment pool and other, net | 39,620 | 36,908 | | |
| Campus foundation | | | 5,431 | 5,767 |
| Net (depreciation) appreciation in fair value of investments | (79,764) | 270,285 | (17,387) | 151,491 |
| Adjustment to gift annuities and trust liabilities | | | (5,223) | 13,713 |
| Interest expense | (64,419) | (57,242) | | |
| Loss on disposal of capital assets | (188) | (1,512) | | |
| Other nonoperating revenues (expenses), net | (375) | 9 | | |
| Net nonoperating revenues (expenses) | 444,819 | 913,613 | (17,179) | 170,971 |
| Income (loss) before other changes in net position | (107,820) | 440,856 | (18,307) | 236,923 |
| OTHER CHANGES IN NET POSITION | | | | |
| State capital appropriations | 3,205 | 2,085 | | |
| Capital gifts and grants, net | 14,876 | 104,118 | | |
| Permanent endowments | | | 72,928 | 52,878 |
| Other changes | 79,911 | (53,956) | | |
| Increase (decrease) in net position | (9,828) | 493,103 | 54,621 | 289,801 |
| Net position, beginning of year | 4,581,578 | 4,088,475 | 1,289,464 | 999,663 |
| Net position, end of year | \$4,571,750 | \$4,581,578 | \$1,344,085 | \$1,289,464 |

* See accompanying Notes to Financial Statements

STATEMENTS OF CASH FLOWS (unaudited)*Years Ended June 30, 2012 and 2011 (In Thousands of Dollars)*

| | CAMPUS * | | FOUNDATION | |
|--|--------------------|--------------------|-----------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Student tuition and fees | \$624,098 | \$508,180 | | |
| Grants and contracts | 658,317 | 696,011 | | |
| Educational activities | 79,460 | 154,865 | | |
| Auxiliary enterprises | 159,658 | 153,817 | | |
| Collection of loans from students and employees | 5,291 | 4,219 | | |
| Campus foundation private gifts | | | \$73,590 | \$71,506 |
| Payments to employees | (1,050,634) | (958,364) | | |
| Payments for UCRP benefits | (60,239) | (29,010) | | |
| Payments for retiree health benefits | (26,344) | (23,822) | | |
| Payments for other employee benefits | (229,922) | (212,243) | | |
| Payments to suppliers and utilities | (528,969) | (518,593) | (4,147) | (3,668) |
| Payments for scholarships and fellowships | (140,128) | (109,520) | | |
| Loans issued to students and employees | (4,588) | (3,288) | | |
| Payments to campus and beneficiaries | | | (118,552) | (106,895) |
| Other receipts | 71,216 | 43,796 | 5,328 | 5,063 |
| Net cash used by operating activities | (442,784) | (293,952) | (43,781) | (33,994) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| State educational appropriations | 268,910 | 370,132 | | |
| Federal Pell grants | 44,137 | 44,507 | | |
| Gifts received for other than capital purposes: | | | | |
| Private gifts for endowment purposes | | | 67,628 | 44,559 |
| Other private gifts | 187,190 | 153,855 | | |
| Student direct lending receipts | 154,563 | 149,884 | | |
| Student direct lending payments | (154,563) | (149,884) | | |
| Other receipts | 51,879 | 56,127 | | |
| Net cash provided by noncapital financing activities | 552,116 | 624,621 | 67,628 | 44,559 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| State capital appropriations | 2,037 | (26,556) | | |
| State financing appropriations | 13,895 | 10,974 | | |
| Build America Bonds federal interest subsidies | 10,512 | 9,073 | | |
| Capital gifts and grants | 22,489 | 59,140 | | |
| Proceeds from debt issuance | 364,364 | 322,482 | | |
| Proceeds from the sale of capital assets | 79 | 1,003 | | |
| Purchase of capital assets | (455,552) | (401,860) | | |
| Scheduled principal paid on debt and capital leases | (27,864) | (25,276) | | |
| Interest paid on debt and capital leases | (76,104) | (66,631) | | |
| Net cash used by capital and related financing activities | (146,144) | (117,651) | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from sale and maturities of investments, net of purchases | 70,277 | 71,635 | (24,333) | (11,036) |
| Investment income, net of investment expense | 7,094 | (17,119) | | |
| Net cash provided (used) by investing activities | 77,371 | 54,516 | (24,333) | (11,036) |
| Net increase (decrease) in cash and cash equivalents | 40,559 | 267,534 | (486) | (471) |
| Cash and cash equivalents, beginning of year | 1,278,528 | 1,010,994 | 2,969 | 3,440 |
| Cash and cash equivalents, end of year | \$1,319,087 | \$1,278,528 | \$2,483 | \$2,969 |

* See accompanying Notes to Financial Statements

STATEMENTS OF CASH FLOWS (continued)*Years Ended June 30, 2012 and 2011 (In Thousands of Dollars)*

| | CAMPUS * | | FOUNDATION | |
|---|--------------------|--------------------|-------------------|-------------------|
| | 2012 | 2011 | 2012 | 2011 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES | | | | |
| Operating (loss) income | (\$552,639) | (\$472,757) | (\$1,128) | \$65,952 |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | | | |
| Depreciation and amortization expense | 169,917 | 153,714 | | |
| Noncash gifts | | | (7,140) | (13,068) |
| Allowance for doubtful accounts | 1,197 | 880 | 1,790 | 29,578 |
| Change in assets and liabilities: | | | | |
| Accounts receivable | (18,855) | 4,528 | 263 | (139) |
| Pledges receivable | | | (32,933) | (111,877) |
| Investments held by trustees | 502 | (132) | | |
| Notes and mortgages receivable | 26 | 20 | | |
| Inventories | 194 | 38 | | |
| Other assets | (1,568) | (1,025) | 693 | 1,963 |
| Accounts payable | 770 | 30,312 | (450) | (419) |
| Accrued salaries | (54,667) | 1,872 | | |
| Employee benefits | (1,529) | 485 | | |
| Unearned revenue | 13,999 | (2,198) | 1,381 | 1,873 |
| Gift annuities payable | | | (2,943) | (3,109) |
| Trust liabilities | | | (3,314) | (4,748) |
| Other liabilities | (131) | (9,689) | | |
| Net cash used by operating activities | (\$442,784) | (\$293,952) | (\$43,781) | (\$33,994) |
| SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION | | | | |
| Capital assets acquired through capital leases | \$3,334 | \$2,615 | | |
| Capital assets acquired with a liability at year-end | 20,071 | 27,761 | | |
| Gifts of capital assets | 7,382 | 22,711 | | |
| Other noncash gifts | | | \$12,779 | \$21,074 |
| Debt service for, or refinancing of, lease revenue bonds: | | | | |
| Principal paid | (2,215) | (2,135) | | |
| Interest paid | (7,274) | (7,346) | | |

* See accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

ORGANIZATION

Founded in 1868, the University of California, Berkeley (Berkeley) is the original campus of the University of California (UC). UC is a public, state-supported institution administered by the corporation, "The Regents of the University of California" (The Regents). 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. The financial statements of the Foundation are presented discretely in Berkeley's financial statements because of the nature and significance of their relationship with the Berkeley campus, including its ongoing financial support of the campus. However, the Notes to Financial Statements focus only on the campus. Information relating to the Berkeley Foundation can be found in its separately issued financial statements report.

Berkeley's financial statements display most of the assets, liabilities, net position, revenues, and expenses pertaining to Berkeley. However, some significant liabilities, such as retirement plan and retiree health benefit liabilities, are not reflected in Berkeley's financial statements. In addition, certain financial balances and activities, such as UC-managed investments, bond debt, investment income, interest expense, self-insurance and retirement benefit expenses reflect values and rates available to UC. These values and rates may not be available to Berkeley on a stand-alone basis. Therefore, Berkeley's financial statements do not reflect a picture of the campus' financial position or changes in

financial position and cash flows on a stand-alone basis but rather as a campus within the UC system.

SIGNIFICANT ACCOUNTING POLICIES

Berkeley's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America using the economic resources measurement focus and the accrual basis of accounting as applicable to its accounts. Berkeley follows accounting principles issued by the Governmental Accounting Standards Board (GASB).

The significant accounting policies of Berkeley are as follows:

Cash and cash equivalents

Berkeley considers all balances in demand deposit accounts to be cash. Berkeley classifies its share of UC's Short Term Investment Pool (STIP) and Total Return Investment Pool (TRIP) as cash equivalents. However, UC classifies these highly liquid cash equivalents as short-term investments.

Investments

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

Accounts receivable, net

Accounts receivable, net of allowance for uncollectible amounts, includes reimbursements due from state and federal sponsors of externally funded research, local government and private grants and contracts, educational activities and amounts due from students, employees and faculty for services.

Pledges receivable, net

Unconditional pledges of private gifts to Berkeley in the future, net of allowance for uncollectible amounts, are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Conditional pledges, including all pledges of endowments and intentions to pledge, are recognized as receivables and revenues when the specified conditions are met. .

Notes and mortgages receivable, net

Loans to students, net of allowance for uncollectible amounts, are provided from federal student loan programs and from other sources. Home mortgage loans, primarily to faculty, are provided from other sources.

Inventories

Inventories, consisting primarily of supplies and merchandise for resale, are valued at cost, typically determined under the weighted average method, which is not in excess of net realizable value..

Capital assets

Land, infrastructure, buildings and improvements, intangible assets, 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. Intangible assets include easements, land rights, trademarks, patents and other similar arrangements. Capital leases are recorded at the present value of future minimum lease payments. Significant additions, replacements, major repairs, and renovations to infrastructure and buildings are generally capitalized if the cost exceeds \$35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations. Equipment with a cost in excess of \$5,000 and a useful life of more than one year is capitalized. All costs of land, library collections, and special collections are capitalized.

Depreciation is calculated using the straight-line method over the estimated economic life of the asset. Equipment under capital leases is amortized over the estimated useful life of the equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the life of the applicable lease or the economic life of the asset.

Estimated economic lives are generally as follows:

| Estimated economic lives for: | Years |
|--------------------------------------|--------------|
| Infrastructure | 25 |
| Buildings and improvements | 15-33 |
| Equipment | 2-20 |
| Computer software | 3-7 |
| Intangible assets | 2-indefinite |
| Library books and collections | 15 |

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

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

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

Unearned revenue

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

Funds held for others

Funds held for others result from Berkeley acting as an agent, or fiduciary, on behalf of organizations that are not significant or financially accountable to Berkeley.

Federal refundable loans

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

Pollution remediation obligations

Upon an obligating event, Berkeley estimates the components of any expected pollution remediation costs and recoveries from third parties. The costs, estimated using the expected cash flow technique, are accrued as a liability. Pollution remediation liabilities generally involve groundwater, soil and sediment contamination at certain sites where state and other regulatory agencies have indicated Berkeley is among the responsible parties. The liabilities are revalued annually and may increase or decrease the cost or recovery from third parties, if any, as a result of additional information that refines the estimates, or from payments made from revenue sources that support the activity. There were no expected recoveries at June 30, 2012 and 2011 reducing the pollution remediation liability.

Net position

Net position is 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 debt attributable to the acquisition, construction, or improvement of those assets.

Restricted: Berkeley classifies the net position resulting from transactions with purpose restrictions as restricted net position until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable: The net position subject to externally-imposed restrictions, which must be retained in perpetuity by Berkeley, is classified as nonexpendable net position. This includes Berkeley's permanent endowment funds.

Expendable: The net position whose use by Berkeley is subject to externally-imposed restrictions that can

be fulfilled by actions of Berkeley pursuant to those restrictions or that expire by the passage of time are classified as expendable net position. This includes funds functioning as endowments, endowment income and gains, subject to the UC's spending policy, support received from gifts, appropriations or capital projects, or other third party receipts.

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

Expenses are charged to either restricted or unrestricted net position 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 position as operating activities.

Certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of Berkeley are mandated by the GASB to be recorded as nonoperating revenues, including state educational appropriations, certain federal grants for student financial aid, private gifts and investment income, since the GASB does not consider them to be related to the principal operating activities of Berkeley.

Nonoperating revenues and expenses include state educational appropriations, state financing appropriations, Build America Bonds federal interest subsidies, federal Pell grants, private gifts for other than capital purposes, investment income, net unrealized appreciation or depreciation in the fair value of investments, interest expense and gain or loss on the disposal of capital assets.

State capital appropriations, capital gifts and grants, and gifts for endowment purposes are classified as other changes in net position.

Student tuition and fees

Substantially all of the student tuition and fees provide for current operations of Berkeley. A small portion of the student fees, reported as capital gifts and grants, is required

for debt service associated with student union and recreational centers.

Berkeley recognizes certain scholarship allowances as the difference between the stated charge for tuition and fees, housing and dining charges, recreational center and other fees, and the amount that is paid by the student and sponsoring agencies on behalf of the student. Payments of financial aid made directly to students are classified as scholarship and fellowship expenses. Scholarship allowances are netted in the statement of revenues, expenses and changes in net position for the years ended June 30, 2012 and 2011 as follows:

| <i>(in thousands of dollars)</i> | | |
|----------------------------------|------------------|------------------|
| | 2012 | 2011 |
| Student tuition and fees | \$154,550 | \$152,922 |
| Auxiliary enterprises | \$28,299 | \$32,231 |
| Scholarship allowances | \$182,849 | \$185,153 |

State appropriations

The state of California provides appropriations to UC on an annual basis. Berkeley's allocated share of state educational appropriations from UC 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 position when the related expenditures are incurred. Special state appropriations for AIDS, tobacco, and breast cancer research are reported as grant operating revenue.

Grant and contract revenue

Berkeley receives grant and contract revenue from governmental and private sources. Berkeley recognizes revenue associated with the direct costs of sponsored programs as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs is at cost reimbursement rates negotiated with UC's federal cognizant agency, the U.S. Department of Health and Human Services. For the year ended June 30, 2012, the facilities and administrative cost recovery totaled \$117.2 million, \$81.7 million from federally sponsored programs and \$35.5 million from other sponsors. For the year ended June 30, 2011, the facilities and administrative cost recovery totaled \$114.6 million, \$79.8 million from federally sponsored programs and \$34.8 million from other sponsors.

Self insurance programs

Berkeley participates in UC's self-insurance programs for medical malpractice, workers' compensation and general liability claims. Berkeley's share of the self-insurance programs expenses is determined by UC. As a result, these

expenses are included in the statement of revenues, expenses and changes in net position.

UCRP benefits expense

The University of California Retirement Plan (UCRP) provides retirement benefits to retired employees of Berkeley. Contributions from the campus to the UCRP are effectively made to a cost-sharing single-employer defined benefit pension plan administered by UC. Berkeley's cost for UCRP benefits expense is based upon the contributions to UCRP determined by the Regents and UC. Berkeley's required contributions are recognized as an expense in the statement of revenues, expenses and changes in net position.

Retiree health benefits expense

The University of California Retiree Health Benefit Trust (UCRHBT) provides retiree health benefits to retired employees of Berkeley. Contributions from the campus to the UCRHBT are effectively made to a cost-sharing single-employer health plan administered by UC. Berkeley's cost for retiree health benefits expense is based on rates determined by UC for contributions to the UCRHBT. Berkeley's required contributions are recognized as an expense in the statement of revenues, expenses and changes in net position.

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 Section 501(c) (3) of the Internal Revenue Code (IRC). Because UC is a state institution, related income received by Berkeley is also exempt from federal tax under IRC Section 115(a). In addition, Berkeley is exempt from state income taxes imposed under the California Revenue and Taxation Code.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although management believes the estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made and actual amounts could differ from those estimates.

Comparative information

Berkeley restated the 2011 financial statements to reflect Berkeley's share of UC-managed investments, long-term debt and endowment funds, which previously were not included in Berkeley's financial statements, and to eliminate transfers from UC. Those adjustments are summarized as follows:

| (in thousands of dollars) | YEAR ENDED JUNE 30, 2011 | | |
|--|--------------------------|-----------------------------------|-------------|
| | As Previously Reported | Adjustments and Reclassifications | As Restated |
| Statement of Net Position | | | |
| Current assets | \$1,027,375 | \$467,782 | \$1,495,157 |
| Noncurrent assets | 3,773,664 | 1,582,317 | 5,355,981 |
| Current liabilities | 434,689 | 165,036 | 599,725 |
| Noncurrent liabilities | 167,319 | 1,502,516 | 1,669,835 |
| Total net position | 4,199,031 | 382,547 | 4,581,578 |
| Statement of Revenues, Expenses and Changes in Net Position | | | |
| Total operating revenues | \$1,545,637 | \$17,196 | \$1,562,833 |
| Total operating expenses | 2,038,575 | (2,985) | 2,035,590 |
| Operating (income) loss | (492,938) | 20,181 | (472,757) |
| Net nonoperating revenues (expenses) | 673,976 | 239,637 | 913,613 |
| Other changes | | (53,956) | (53,956) |
| Transfers from UC, net | 275,592 | (275,592) | |
| Increase (decrease) in net position | 562,833 | (69,730) | 493,103 |
| Net position, beginning of year | 3,636,198 | 452,277 | 4,088,475 |
| Net position, end of year | 4,199,031 | 382,547 | 4,581,578 |
| Statement of Cash Flows | | | |
| Net cash used by operating activities | (\$314,133) | \$20,181 | (\$293,952) |
| Net cash provided by noncapital financing activities | 574,330 | 50,291 | 624,621 |
| Net cash used by capital and related financing activities | (382,119) | 264,468 | (117,651) |
| Net cash provided (used) by investing activities | 93,644 | (39,128) | 54,516 |
| Transfers of net position from UC, net | 275,592 | (275,592) | |
| Net increase (decrease) in cash and cash equivalents | 247,314 | 20,220 | 267,534 |
| Cash and cash equivalents, beginning of year | 563,974 | 447,020 | 1,010,994 |
| Cash and cash equivalents, end of year | 811,288 | 467,240 | 1,278,528 |

NOTE 1: CASH AND CASH EQUIVALENTS

UC maintains centralized management for substantially all of its cash. 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, 2012 and 2011, the carrying amount of Berkeley's demand deposits, held in nationally recognized banking institutions, was \$2.0 million and \$1.9 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 \$0.2 million and \$0.6 million at June 30, 2012 and 2011, respectively.

Berkeley classifies its share of UC's STIP and TRIP as cash equivalents. Berkeley's share of UC's STIP and TRIP at June 30, 2012 and 2011 was \$1,316.9 million and \$1,276.0 million, respectively.

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 and is managed to maximize current earned income. Cash to provide for payroll, construction expenditures and other operating expenses for Berkeley is invested in STIP. The available cash in endowment investment pools awaiting investment, or cash for administrative expenses, is also invested in STIP. Investments authorized by the Regents for STIP include fixed income securities with a maximum maturity of five and one-half years.

TRIP allows Berkeley the opportunity to maximize the return on its long-term working capital by taking advantage of the economies of scale of investing in a large pool across a broad range of asset classes. TRIP is managed to a total return objective and is intended to supplement STIP. Investments authorized by The Regents for TRIP include a diversified portfolio of equity and fixed-income securities.

NOTE 2: INVESTMENTS

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. These investments are associated with the STIP, TRIP, General Endowment Pool (GEP), and other investment pools managed by the Chief Investment Officer, or are separately invested. Berkeley has a share of these investments. Berkeley classifies its share of STIP and TRIP as cash equivalents.

GEP is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. GEP is a balanced portfolio and the primary investment vehicle for endowed gift funds. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

Other investment pools primarily facilitate annuity and life income arrangements. Separate investments are those that cannot be pooled due to investment restrictions or income requirements, or represent UC's estimated interest in externally held irrevocable trusts.

Investments authorized by The Regents for GEP, other investment pools and separate investments include equity securities, fixed-income securities and certain other asset classes. The equity portion of the investment portfolios include both domestic and foreign common and preferred stocks which may be included in actively or passively managed strategies, along with a modest exposure to private equities. UC's investment portfolios may include foreign currency denominated equity securities. The fixed-income portion of the investment portfolios may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. Fixed-income investment guidelines permit the use of futures and options on fixed-income instruments in the ongoing management of the portfolios. Real estate investments are authorized for GEP. Absolute return strategies, which may incorporate short sales, plus derivative positions to implement or hedge an investment position, are also authorized for the GEP.

More detail about UC's investments can be found in UC's Annual Financial Report.

NOTE 3: INVESTMENTS HELD BY TRUSTEES

UC has entered into agreements with trustees to maintain trusts for the Berkeley's long-term debt requirements, capital projects and certain other requirements. In addition, the state of California retains on deposit certain proceeds from the sale of lease-revenue bonds to be used for Berkeley's capital projects. The combined fair value of all of the investments and deposits held by trustees was \$124.9 million and \$101.7 million at June 30, 2012 and 2011, respectively.

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable and the allowance for uncollectible amounts at June 30, 2012 and 2011 are as follows:

(in thousands of dollars)

| | STATE & FEDERAL GOVT | LOCAL GOVT & PRIVATE GRANTS & CONTRACTS | AUXILIARY & SERVICE ENTERPRISE S | FEES & OTHER | TOTAL |
|---------------------------------|----------------------------|--|---|-----------------|------------------|
| At June 30, 2012 | | | | | |
| Accounts receivable | \$132,904 | \$32,511 | \$4,410 | \$21,786 | \$191,611 |
| Allowance for doubtful account: | (56) | (1,791) | (877) | (5,396) | (8,120) |
| Accounts receivable, net | \$132,848 | \$30,720 | \$3,533 | \$16,390 | \$183,491 |
| At June 30, 2011 | | | | | |
| Accounts receivable | \$103,800 | \$37,013 | \$4,890 | \$29,334 | \$175,037 |
| Allowance for doubtful account: | (164) | (250) | (1,008) | (5,606) | (7,028) |
| Accounts receivable, net | \$103,636 | \$36,763 | \$3,882 | \$23,728 | \$168,009 |

Adjustments to the allowance for doubtful accounts have either increased or (decreased) the following revenues for the years ended June 30, 2012 and 2011:

(in thousands of dollars)

| | 2012 | 2011 |
|--------------------------|-----------|--------|
| Student tuition and fees | (\$1,233) | (\$42) |
| Grants and contracts | (1,440) | (300) |
| Educational activities | 91 | 13 |
| Auxiliary enterprises | (213) | (101) |
| Other operating revenues | 178 | (120) |

NOTE 5: PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2012 and 2011 is summarized as follows::

(in thousands of dollars)

| | 2012 | 2011 |
|---|-----------------|-----------------|
| Total pledges receivable outstanding | \$73,899 | \$90,378 |
| Less: Unamortized discount to present value | (2,997) | (3,932) |
| Allowance for uncollectible pledges | (13,053) | (9,651) |
| Total pledges receivable, net | 57,849 | 76,795 |
| Less: Current portion of pledges receivable | (21,809) | (34,370) |
| Noncurrent portion of pledges receivable | \$36,040 | \$42,425 |

Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2012 and thereafter are as follows:

(in thousands of dollars)

| Year Ending June 30 | |
|---|-----------------|
| 2013 | \$32,844 |
| 2014 | 16,569 |
| 2015 | 11,209 |
| 2016 | 4,532 |
| 2017 | 4,281 |
| 2018 and thereafter | 4,464 |
| TOTAL PAYMENTS ON PLEDGES RECEIVABLE | \$73,899 |

Adjustments to the allowance for doubtful accounts associated with pledges have decreased the following revenues for the years ended June 30, 2012 and 2011:

(in thousands of dollars)

| | 2012 | 2011 |
|--------------------------|---------|---------|
| Private gifts | (478) | (3,189) |
| Capital gifts and grants | (3,275) | (1,187) |

NOTE 6: NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2012 and 2011, along with the allowance for uncollectible amounts, are as follows:

(in thousands of dollars)

| | | NONCURRENT | | |
|--|----------------|-----------------|----------------|-----------------|
| | CURRENT | NOTES | MORTGAGES | TOTAL |
| At June 30, 2012 | | | | |
| Notes and mortgages receivable | \$5,876 | \$25,580 | \$2,264 | \$27,844 |
| Allowance for uncollectible amounts | (93) | (1,842) | | (\$1,842) |
| NOTES AND MORTGAGES RECEIVABLE, NET | \$5,783 | \$23,738 | \$2,264 | \$26,002 |
| At June 30, 2011 | | | | |
| Notes and mortgages receivable | \$5,181 | \$26,643 | \$2,568 | \$29,211 |
| Allowance for uncollectible amounts | (50) | (1,779) | | (\$1,779) |
| NOTES AND MORTGAGES RECEIVABLE, NET | \$5,131 | \$24,864 | \$2,568 | \$27,432 |

NOTE 7: CAPITAL ASSETS

Berkeley's capital asset activity for the years ended June 30, 2012 and 2011 is as follows:

(in thousands of dollars)

| | 2010 | ADDITIONS | DISPOSALS | 2011 | ADDITIONS | DISPOSALS | 2012 |
|--|--------------------|-------------------------------|-------------------|--------------------|-------------------------------|-------------------|--------------------|
| ORIGINAL COST | | | | | | | |
| Land | \$91,827 | | | \$91,827 | | | \$91,827 |
| Infrastructure | 43,442 | \$11,359 | | 54,801 | \$5,343 | | 60,144 |
| Buildings and improvements | 2,956,490 | 180,626 | (\$3,329) | 3,133,787 | 415,799 | (\$389) | 3,549,197 |
| Equipment, software and intangibles | 471,093 | 36,162 | (31,607) | 475,648 | 32,292 | (22,235) | 485,705 |
| Libraries and collections | 886,500 | 28,627 | 2,365 | 917,492 | 30,533 | (19,407) | 928,618 |
| Special collections | 96,989 | 5,288 | (2,830) | 99,447 | 7,071 | | 106,518 |
| Construction in progress | 443,126 | 172,725 | | 615,851 | (28,393) | | 587,458 |
| Capital assets, at original cost | \$4,989,467 | \$434,787 | (\$35,401) | \$5,388,853 | \$462,645 | (\$42,031) | \$5,809,467 |
| ACCUMULATED DEPRECIATION AND AMORTIZATION | | | | | | | |
| | 2010 | DEPRECIATION AND AMORTIZATION | DISPOSALS | 2011 | DEPRECIATION AND AMORTIZATION | DISPOSALS | 2012 |
| Infrastructure | \$17,447 | \$2,073 | | \$19,520 | \$2,265 | | \$21,785 |
| Buildings and improvements | 1,056,211 | 92,221 | (\$2,692) | 1,145,740 | 108,136 | (\$181) | 1,253,695 |
| Equipment, software and intangibles | 343,325 | 31,484 | (28,146) | 346,663 | 31,178 | (21,321) | 356,520 |
| Libraries and collections | 655,812 | 27,936 | (850) | 682,898 | 28,338 | (20,258) | 690,978 |
| Accumulated depreciation and amortization | \$2,072,795 | \$153,714 | (\$31,688) | \$2,194,821 | \$169,917 | (\$41,760) | \$2,322,978 |
| Capital assets, net | \$2,916,672 | | | \$3,194,032 | | | \$3,486,489 |

NOTE 8: DEBT

UC finances Berkeley's construction, renovation and acquisition of facilities and equipment through the issuance of debt obligations. Commercial paper and bank loans provide for interim financing. Long-term financing includes revenue bonds, capital lease obligations and other borrowings.

(in thousands of dollars)

| | INTEREST RATES | MATURITY YEARS | 2012 | 2011 |
|---|----------------|----------------|--------------------|--------------------|
| INTERIM FINANCING: | | | | |
| Commercial paper | 0.1%-0.4% | | \$208,458 | \$132,453 |
| LONG-TERM FINANCING: | | | | |
| UC revenue bonds: | | | | |
| General revenue bonds | 0.3% - 7.5% | 2013-2112 | 1,074,699 | 900,556 |
| Limited projects revenue bonds | 2.0% - 6.3% | 2013-2050 | 453,726 | 455,056 |
| UC revenue bonds | | | 1,528,425 | 1,355,612 |
| Capital lease obligations | 1.8-10.0% | 2013-2035 | 374,655 | 311,775 |
| Other borrowings | 0.7% | 2013 | 3,325 | 3,304 |
| Total outstanding debt | | | 2,114,863 | 1,803,144 |
| Less: Commercial paper | | | (208,458) | (132,453) |
| Current portion of outstanding debt | | | (43,519) | (39,701) |
| Noncurrent portion of outstanding debt | | | \$1,862,886 | \$1,630,990 |

Interest expense associated with financing projects during construction, net of any investment income earned on tax-exempt bond proceeds during construction, is capitalized. Total interest expense during the years ended June 30, 2012 and 2011 was \$84.2 million and \$73.6 million, respectively. Interest expense, net of investment income, totaling \$19.8 million and \$16.4 million was capitalized during the years ended June 30, 2012 and 2011, respectively. The remaining \$64.4 million in 2012 and \$57.2 million in 2011 is reported as interest expense in the statement of revenues, expenses and changes in net position.

Commercial Paper

Commercial paper may be issued for interim/permanent financing for capital projects, interim financing of equipment, standby or interim financing for gift financed projects and working capital for Berkeley. The program's liquidity is supported by available investments in STIP and TRIP. Commercial paper is collateralized by a pledge of the revenues derived from the ownership or operation of the projects financed and constitute limited obligations of UC. There is no encumbrance, mortgage or other pledge of property securing commercial paper, and the paper does not constitute general obligations of UC.

Outstanding Long-Term Debt Activity

The activity with respect to Berkeley's share of UC's current and noncurrent debt for the years ended June 30, 2012 and 2011 is as follows:

(in thousands of dollars)

| | UC REVENUE BONDS | CAPITAL LEASE OBLIGATIONS | OTHER UC BORROWINGS | TOTAL |
|--|--------------------|---------------------------|---------------------|--------------------|
| <i>Year ended June 30, 2012</i> | | | | |
| Current portion at June 2011 | \$23,533 | \$12,864 | \$3,304 | \$39,701 |
| Reclassification from noncurrent | 25,259 | 15,044 | 21 | 40,324 |
| Principal payments | (23,533) | (12,973) | | (36,506) |
| Current portion at June 30, 2012 | 25,259 | 14,935 | 3,325 | 43,519 |
| Noncurrent portion at June 30, 2011 | 1,332,079 | 298,911 | | 1,630,990 |
| New obligations | 196,346 | 75,853 | 21 | 272,220 |
| Reclassification to current | (25,259) | (15,044) | (21) | (40,324) |
| Noncurrent portion at June 30, 2012 | \$1,503,166 | \$359,720 | | \$1,862,886 |
| <i>Year ended June 30, 2011</i> | | | | |
| Current portion at June 2010 | \$14,965 | \$12,257 | | \$27,222 |
| Reclassification from noncurrent | 23,533 | 13,053 | \$3,304 | 39,890 |
| Principal payments | (14,965) | (12,446) | | (27,411) |
| Current portion at June 30, 2011 | 23,533 | 12,864 | 3,304 | 39,701 |
| Noncurrent portion at June 30, 2010 | 1,074,582 | 309,350 | | 1,383,932 |
| New obligations | 281,030 | 2,614 | 3,304 | 286,948 |
| Reclassification to current | (23,533) | (13,053) | (3,304) | (39,890) |
| Noncurrent portion at June 30, 2011 | \$1,332,079 | \$298,911 | | \$1,630,990 |

Revenue Bonds

Revenue bonds have financed various auxiliary, administrative, academic and research facilities of Berkeley. They generally have annual principal and semiannual interest payments, serial and term maturities, contain sinking fund requirements and may have optional redemption provisions. Revenue bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents. Revenue bond indentures require Berkeley to use the facilities in a way which will not cause the interest on the tax-exempt bonds to be included in the gross income of the bondholders for federal tax purposes.

General Revenue Bonds are collateralized solely by General Revenues as defined in the Indenture. General Revenues are certain operating and nonoperating revenues of UC consisting of gross student tuition and fees; facilities and administrative cost recovery from contracts and grants; revenues from educational, auxiliary and other activities; and other revenues, including unrestricted investment income. The General Revenue Bond Indenture requires UC to set rates, charges and fees each year sufficient for General Revenues to pay for the annual principal and interest on the bonds and certain other financial covenants.

Limited Project Revenue Bonds are issued to finance auxiliary enterprises and are collateralized by a pledge consisting of the sum of the gross revenues of the specific projects. The Indenture requires UC to achieve the sum of gross project revenues equal to 1.1 times debt service and maintain certain other financial covenants.

All indentures permit UC to issue additional bonds as long as certain conditions are met.

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.

Berkeley's share of the capital lease obligations associated with the lease-purchase agreements with the state were \$369.0 million at June 30, 2012, and \$307.7 million at June 30, 2011.

The state of California financing appropriation pertaining to Berkeley under the terms of the lease-purchase agreements, recorded as nonoperating revenue, for the years ended June 30, 2012 and 2011 was \$19.5 million and \$19.9 million, respectively. The scheduled principal and interest including accrued interest, reported in the Berkeley's financial statements for the years ended June 30, 2012 and 2011 contain amounts related to these lease-purchase agreements with the state of California as follows:

(in thousands of dollars)

| | 2012 | 2011 |
|-------------------------|-----------------|-----------------|
| Capital lease principal | \$11,264 | \$10,740 |
| Capital lease interest | 16,452 | 16,184 |
| Total | \$27,716 | \$26,924 |

Berkeley's capital leases with lessors other than the state of California, typically for equipment, totaled \$5.7 million and \$4.1 million at June 30, 2012 and 2011, respectively.

Other Borrowings

Other borrowings consist of a bank loan associated with the acquisition of a building.

Future Debt Service

Berkeley's share of future debt service payments for each of the five fiscal years subsequent to June 30, 2012 and thereafter are as presented below:

(in thousands of dollars)

| Year Ending June 30 | COMMERCIAL PAPER | UC REVENUE BONDS | CAPITAL LEASES | OTHER UC BORROWINGS | TOTAL PAYMENTS | PRINCIPAL | INTEREST |
|--|---------------------|---------------------|-------------------|------------------------|--------------------|--------------------|--------------------|
| 2013 | \$208,469 | \$87,345 | \$33,532 | \$3,349 | \$332,695 | \$245,183 | \$87,512 |
| 2014 | | 89,407 | 34,573 | | 123,980 | 39,512 | 84,468 |
| 2015 | | 89,272 | 33,887 | | 123,159 | 40,445 | 82,714 |
| 2016 | | 90,723 | 34,641 | | 125,364 | 43,545 | 81,819 |
| 2017 | | 90,060 | 34,205 | | 124,265 | 44,505 | 79,760 |
| 2018-2112 | | 2,960,127 | 434,312 | | 3,394,439 | 1,701,673 | 1,692,766 |
| Total future debt service | 208,469 | 3,406,934 | 605,150 | 3,349 | 4,223,902 | \$2,114,863 | \$2,109,039 |
| Less: Interest component of future payments | | (11) | (1,878,509) | (230,495) | (24) | (2,109,039) | |
| Principal portion of future pay | \$208,458 | \$1,528,425 | \$374,655 | \$3,325 | \$2,114,863 | | |

More detail about UC's debt can be found in UC's Annual Report.

NOTE 9: OTHER LIABILITIES

Other current liabilities of \$86.9 million and \$67.7 million and noncurrent liabilities of \$11.3 million and \$15.8 million at June 30, 2012 and 2011, respectively, consisted of compensated absences, deposits, pollution remediation and other accrued liabilities.

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

Most Berkeley employees participate in UCRS. UCRS consists of the University of California Retirement Plan (UCRP), a single employer, defined benefit plan funded with UC (including Berkeley) and employee contributions; the University of California Retirement Savings Program (UCRSP) that includes four 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 employees who were members of PERS who elected early retirement. The Regents has the authority to establish and amend the benefit plans.

The UCRP provides lifetime retirement income, disability protection, death benefits and pre-retirement survivor benefits to eligible employees of UC (including Berkeley). Membership in the retirement plan is required for all employees appointed to work at least 50 percent time for an indefinite period or for a definite period of a year or more. An employee may also become eligible by completing 1,000 hours of service within a 12-month period. Generally, five years of service are required for entitlement to plan benefits. The amount of the pension benefit is determined by salary rate, age and years of service credit with certain cost-of-living adjustments. The maximum monthly benefit is 100 percent of the employee's highest average compensation over a consecutive 36-month period, subject to certain limits imposed under the Internal Revenue Code.

Contributions to the UCRP may be made by the campus and the employees. The Regents' contribution funding policy is based on a percentage of payroll using the entry age normal actuarial cost method. Employee contributions by represented employees are subject to collective bargaining agreements. Berkeley's contributions were \$57.9 million and \$29.1 million, respectively, during the years ended June 30, 2012 and 2011. Employee contributions to UCRP are accounted for separately and currently accrue interest at 6.0 percent annually. Upon termination, members may elect a refund of their contributions plus accumulated interest; vested terminated members who are eligible to retire may also elect monthly retirement income or a lump sum equal to the present value of their accrued benefits.

The UCRSP includes four defined contribution plans – the Defined Contribution Plan (DC Plan), the Supplemental Defined Contribution Plan (SDC Plan), the Tax Deferred 403(b) Plan (403(b) Plan) and the 457(b) Deferred Compensation Plan (457(b) Plan) – providing retirement savings incentives that are generally available to all campus employees. Participants' interests in the plans are fully and immediately vested and are distributable at retirement, termination of employment or death. Participants may also elect to defer distribution of the account until age 70 ½ or separation from service after age 70 ½, whichever is later, in accordance with Internal Revenue Code minimum distribution requirements. The plans also accept qualified rollover contributions.

The DC Plan accepts both after-tax and pre-tax employee contributions that are fully vested. Pre-tax contributions are mandatory for all employees who are members of UCRP, as well as Safe Harbor participants — part-time, seasonal and temporary employees who are not covered by Social Security.

UC has a provision for matching employer and employee contributions to the DC Plan for certain summer session teaching or research compensation for eligible academic employees. UC may also make contributions in behalf of certain members of management. UC established a SDC Plan to accept employer contributions on behalf of certain designated employees.

The 403(b) and 457(b) Plans accept pre-tax employee contributions. Berkeley may also make contributions on behalf of certain members of management. Berkeley made no employer contributions to those plans in 2012 and 2011.

Additional information on the retirement plans can be obtained from the 2011-2012 annual reports of the UC, the UCRP, the UCRSP and the UC PERS-VERIP.

NOTE 11: RETIREE HEALTH BENEFIT COSTS

UC administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision, to eligible retirees and their eligible family members (retirees) of UC and its affiliates, including Berkeley. The Regents has the authority to establish and amend the plans. Additional information can be obtained from the 2011–2012 annual report of the University of California Retiree Health Benefit Trust.

Membership in UCRP is required to become eligible for retiree health benefits.

The contribution requirements of Berkeley and eligible retirees are established and may be amended by UC. The contribution requirements are based upon projected pay-as-you-go financing. Contributions toward medical and dental benefits are shared between the campus and the retiree. Contributions toward wellness benefits are made by Berkeley. Berkeley does not contribute toward the cost of other benefits available to retirees. Retirees employed by Berkeley prior to 1990 and not rehired after that date are eligible for the maximum employer contribution if they retire before age 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least five years of service. Retirees employed after 1989 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum employer contribution, increasing to 100 percent after 20 years of service.

Active employees do not make any contributions toward the retiree health benefit plans. Retirees pay the excess, if any, of the premium over the applicable portion of the employer's contribution.

Berkeley's contribution rates were \$3.51 and \$3.31 per \$100 of UCRP covered payroll resulting in contributions of \$26.3 million and \$23.8 million for the years ended June 30, 2012 and 2011, respectively.

Additional information on the retiree health plans can be obtained from the 2011–2012 annual reports of the UC and the University of California Health and Welfare Program.

NOTE 12: ENDOWMENTS AND GIFTS

Endowments are administered either by UC or by the campus foundation. The book value and market value for endowments for the years ended June 30, 2012 and 2011 are as follows:

(in thousands of dollars)

| | 2012 | | 2011 | |
|------------------------|--------------------|--------------------|--------------------|--------------------|
| | BOOK VALUE | MARKET VALUE | BOOK VALUE | MARKET VALUE |
| Endowment - regental | \$657,380 | \$1,905,074 | \$664,126 | \$1,991,932 |
| Endowment - foundation | 956,944 | 1,126,822 | 861,960 | 1,091,985 |
| Total | \$1,614,324 | \$3,031,896 | \$1,526,086 | \$3,083,917 |

The value of endowments and gifts reflected in Berkeley's statement of net position, exclusive of income for operating purposes, at June 30, 2012 and 2011 is as follows:

(in thousands of dollars)

| | RESTRICTED NONEXPENDABLE | RESTRICTED EXPENDABLE | UNRESTRICTED | TOTAL |
|-----------------------------------|-----------------------------|--------------------------|----------------|--------------------|
| <i>At June 30, 2012</i> | | | | |
| Endowments | \$376,711 | \$670,647 | | \$1,047,358 |
| Funds functioning as endowments | | 852,628 | | 852,628 |
| Annuity and life income | 5,088 | | | 5,088 |
| Gifts | | 305,906 | \$9,010 | 314,916 |
| Total endowments and gifts | \$381,799 | \$1,829,181 | \$9,010 | \$2,219,990 |
| <i>At June 30, 2011</i> | | | | |
| Endowments | \$367,004 | \$722,462 | | \$1,089,466 |
| Funds functioning as endowments | | 896,763 | | 896,763 |
| Annuity and life income | 5,703 | | | 5,703 |
| Gifts | | 282,653 | \$7,838 | 290,491 |
| Total endowments and gifts | \$372,707 | \$1,901,878 | \$7,838 | \$2,282,423 |

UC's endowment income distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution provided by dividend and interest income and by capital gains may vary significantly from year to year. UC's policy is to retain the realized and unrealized appreciation with the endowment after the annual income distribution has been made.

The portion of investment returns earned on endowments and distributed at the end of each year to support current operations for the following year is based upon a rate that is approved by The Regents.

Campus Foundation

Under University policies approved by The Regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the mission of the campus and UC. Although independent boards govern The Berkeley Foundation, its assets are dedicated for the benefit of the Berkeley campus. During the years ended June 30, 2012 and 2011, gifts of \$115.3 million (\$37.1 million from endowment investments and \$78.2 million from current funds) and \$95.3

million (\$35.9 million from endowment investments and \$59.4 million from current funds), respectively, were transferred to Berkeley from the Foundation.

NOTE 13: COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled \$638.2 million and \$545.8 million at June 30, 2012 and 2011, respectively.

Berkeley leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2012 and 2011 were \$16.4 million and \$15.5 million, respectively. The terms of operating leases extend through the year ending 2022.

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 |
|---------------------|----------------------------------|
| 2013 | \$11,426 |
| 2014 | 10,856 |
| 2015 | 8,048 |
| 2016 | 5,972 |
| 2017 | 4,657 |
| 2018 and thereafter | 16,551 |
| Total | \$57,510 |

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.

Berkeley is contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, management and general counsel are of the opinion that the outcome of such matters will not have a material effect on Berkeley's financial position.

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