# UNIVERSITY OF CALIFORNIA, BERKELEY

# Annual Financial Report

## 2013-14

UNIVERSITY OF CALIFORNIA, BERKELEY

**STATEMENTS OF NET POSITION** (unaudited)

| *At June 30, 2014 (In Thousands of Dollars)* | CAMPUS * | FOUNDATION |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 1,980 | $ 1,704 |
| Short-term investments | 494,860 | 65,676 |
| Investments held by trustees | 2,409 | |
| Accounts receivable, net | 177,336 | |
| Pledges receivable, net | 5,674 | 25,651 |
| Current portion of notes and mortgages receivable, net | 4,830 | |
| Inventories | 4,533 | |
| Other current assets | 8,019 | 2,946 |
| **Current assets** | **699,641** | **95,977** |
| Investments | 2,370,049 | 1,661,018 |
| Investments-TRIP | 1,004,451 | |
| Investments held by trustees | 31,218 | |
| Pledges receivable, net | 19,778 | 104,230 |
| Notes and mortgages receivables, net | 25,287 | |
| Capital assets, net | 3,746,187 | |
| Other noncurrent assets | | 1,806 |
| **Noncurrent assets** | **7,196,970** | **1,767,054** |
| **Total assets** | **7,896,611** | **1,863,031** |
| **DEFERRED OUTFLOWS OF RESOURCES** | **369,529** | |
| **LIABILITIES** | | |
| Accounts payable | 114,549 | 594 |
| Accrued salaries | 100,953 | |
| Employee benefits | 25,745 | |
| Unearned revenue | 176,319 | |
| Commercial paper | 67,793 | |
| Current portion of long-term debt | 99,232 | |
| Funds held for others | 1,414 | 15,229 |
| Other current liabilities | 102,752 | |
| **Current liabilities** | **688,757** | **15,823** |
| Federal refundable loans | 23,193 | |
| Obligations under life income agreements | | 77,200 |
| Long-term debt | 2,155,079 | |
| Pension obligations | 833,793 | |
| Obligations for retiree health benefits | 754,145 | |
| Other noncurrent liabilities | 38,841 | |
| **Noncurrent liabilities** | **3,805,051** | **77,200** |
| **Total liabilities** | **4,493,808** | **93,023** |
| **DEFERRED INFLOWS OF RESOURCES** | **594,418** | |
| **NET POSITION** | | |
| Net investment in capital assets | 1,508,704 | |
| Restricted: | | |
| Nonexpendable: Endowments and gifts | 409,239 | 886,952 |
| Expendable: Endowments and gifts | 2,323,431 | 883,009 |
| Expendable: Other, including debt service, loans, capital projects and appropriations | 46,284 | |
| Unrestricted | (1,109,744) | 47 |
| **Total net position** | **$ 3,177,914** | **$ 1,770,008** |

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

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

| *Year Ended June 30, 2014 (In Thousands of Dollars)* | CAMPUS * | FOUNDATION |
|---|---|---|
| **OPERATING REVENUES** | | |
| Student tuition and fees, net | $ 691,267 | |
| Grants and contracts, net: | | |
| Federal | 373,625 | |
| State | 92,866 | |
| Private | 188,325 | |
| Local | 7,338 | |
| Educational activities, net | 81,315 | |
| Auxiliary enterprises, net | 175,209 | |
| Campus foundation private gifts | | $ 109,525 |
| Other operating revenues, net | 82,260 | 3,482 |
| **Total operating revenues** | **1,692,205** | **113,007** |
| **OPERATING EXPENSES** | | |
| Salaries and wages | 1,105,063 | |
| Pension benefits | 130,793 | |
| Retiree health benefits | 105,275 | |
| Other employee benefits | 256,447 | |
| Supplies and materials | 166,153 | |
| Depreciation and amortization | 192,914 | |
| Scholarships and fellowships | 131,911 | |
| Utilities | 38,563 | |
| Campus foundation grants | | 136,320 |
| Other operating expenses | 429,940 | 5,948 |
| **Total operating expenses** | **2,557,059** | **142,268** |
| **Operating loss** | **(864,854)** | **(29,261)** |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| State educational appropriations | 318,500 | |
| State financing appropriations | 12,082 | |
| Build America Bonds federal interest subsidies | 9,670 | |
| Federal Pell grants | 38,988 | |
| Private gifts, net | 184,112 | |
| Investment income: | | |
| Short-Term Investment Pool and other, net | 27,856 | |
| Endowment, net | 22,874 | |
| Campus foundation | | 5,272 |
| Net appreciation in fair value of investments | 394,623 | 179,425 |
| Adjustment to gift annuities and trust liabilities | | 16,501 |
| Interest expense | (80,028) | |
| Other nonoperating revenues, net | 3,384 | |
| **Net nonoperating revenues** | **932,061** | **201,198** |
| **Income before other changes in net position** | **67,207** | **171,937** |
| **OTHER CHANGES IN NET POSITION** | | |
| Capital gifts and grants, net | 36,091 | |
| State capital appropriations | 152 | |
| Permanent endowments | | 89,467 |
| Other changes | 81,483 | |
| **Increase in net position** | **184,933** | **261,404** |
| **NET POSITION** | | |
| Beginning of year, as previously reported | 3,689,097 | 1,508,604 |
| Cumulative effect of change in accounting treatment | (696,116) | |
| Beginning of year, as restated | 2,992,981 | 1,508,604 |
| **End of year** | **$ 3,177,914** | **$ 1,770,008** |

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

**STATEMENTS OF CASH FLOWS** (unaudited)

| *Year Ended June 30, 2014 (In Thousands of Dollars)* | CAMPUS * | FOUNDATION |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Student tuition and fees | $ 688,107 | |
| Grants and contracts | 666,373 | |
| Educational activities | 81,538 | |
| Auxiliary enterprises | 171,042 | |
| Collection of loans from students and employees | 8,184 | |
| Campus foundation private gifts | | $ 103,537 |
| Payments to employees | (1,101,297) | |
| Payments to suppliers and utilities | (601,346) | (5,960) |
| Payments for pension benefits | (104,042) | |
| Payments for retiree health benefits | (27,381) | |
| Payments for other employee benefits | (255,470) | |
| Payments for scholarships and fellowships | (131,716) | |
| Loans issued to students and employees | (7,498) | |
| Payments to campus and beneficiaries | | (144,282) |
| Other receipts | 82,860 | 6,045 |
| **Net cash used by operating activities** | **(530,646)** | **(40,660)** |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| State educational appropriations | 318,722 | |
| Federal Pell grants | 38,782 | |
| Gifts received for other than capital purposes: | | |
| Private gifts for endowment purposes | | 78,311 |
| Other private gifts | 197,944 | |
| Student direct lending receipts | 134,663 | |
| Student direct lending payments | (134,663) | |
| Other receipts | 61,770 | |
| **Net cash provided by noncapital financing activities** | **617,218** | **78,311** |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| State capital appropriations | (516) | |
| State financing appropriations | 7,849 | |
| Build America Bonds federal interest subsidies | 9,766 | |
| Capital gifts and grants | 25,261 | |
| Proceeds from debt issuance | 317,113 | |
| Proceeds from the sale of capital assets | 133 | |
| Purchase of capital assets | (481,425) | |
| Refinancing or prepayment of outstanding debt | (3,537) | |
| Scheduled principal paid on debt and capital leases | (16,349) | |
| Interest paid on debt and capital leases | (79,854) | |
| **Net cash used by capital and related financing activities** | **(221,559)** | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of investments, net of proceeds from sales and maturities of investments | (329,037) | (38,690) |
| Investment income, net of investment expenses | 35,479 | |
| **Net cash used by investing activities** | (293,558) | (38,690) |
| **Net decrease in cash and cash equivalents** | **(428,545)** | **(1,039)** |
| **Cash and cash equivalents, beginning of year** | 925,385 | 2,743 |
| **Cash and cash equivalents, end of year** | **$ 496,840** | **$ 1,704** |

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

**STATEMENTS OF CASH FLOWS** (continued)

| *Year Ended June 30, 2014 (In Thousands of Dollars)* | CAMPUS * | FOUNDATION |
|---|---|---|
| **RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES** | | |
| Operating loss | $ (864,854) | $ (29,261) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation and amortization expense | 192,914 | |
| Noncash gifts | | (9,747) |
| Allowance for doubtful accounts | 274 | 839 |
| Change in assets and liabilities: | | |
| Receivables | (1,214) | 9,973 |
| Investments held by trustees | (978) | |
| Inventories | 540 | |
| Other assets | (5,476) | 77 |
| Accounts payable | 7,835 | 309 |
| Accrued salaries | 2,537 | |
| Employee benefits | 4,158 | |
| Unearned revenue | 3,549 | (737) |
| Pension obligations | 24,975 | |
| Obligations for retiree health benefits | 77,894 | |
| Other liabilities | 27,200 | (12,113) |
| **Net cash used by operating activities** | **$ (530,646)** | **$ (40,660)** |
| **SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION** | | |
| Capital assets acquired through capital leases | $ 1,390 | |
| Capital assets acquired with a liability at year-end | 24,008 | |
| Gifts of capital assets | 5,592 | |
| Other noncash gifts (contributions of securities) | | $ 18,548 |
| Debt service for, or refinancing of, lease revenue bonds: | | |
| Principal paid | (123,710) | |
| Interest paid | (1,626) | |
| Proceeds from general revenue bonds used to refinance lease revenue bonds | 121,330 | |

* See accompanying Notes to Financial Statements

## 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. Accounts for separate, but related organizations, such as the Berkeley Education Alliance for Research in Singapore Limited, 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 data of the Foundation is 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.

## 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. Berkeley follows accounting principles issued by the Governmental Accounting Standards Board (GASB).

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities,* effective for Berkeley's fiscal year beginning July 1, 2013. This Statement reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as expenses, certain items that were previously reported as assets and liabilities.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*, effective for Berkeley's fiscal year beginning July 1, 2013. This Statement resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, effective for Berkeley's fiscal year beginning July 1, 2013. This Statement revises existing standards for financial reporting for pension plans by changing the approach to measuring the net pension liability. The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. Statement No. 67 affects the information presented in the footnotes to the financial statements and required supplementary information for UCRP.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for Berkeley's fiscal year beginning July 1, 2014. UC has elected to early implement this Statement, effective July 1, 2013, affecting Berkeley's financial statements. This Statement revises existing standards for employer financial statements relating to measuring and reporting pension liabilities for pension plans provided by the University to its employees. This Statement requires recognition of a liability equal to the net pension liability, which is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for Berkeley's fiscal year beginning July 1, 2014. This Statement establishes standards for accounting and financial reporting of government combinations and disposals of government operations. Government combinations include mergers, acquisitions and transfers of operations of government or nongovernment entities to a continuing government. The Statement includes guidance for measuring the assets and liabilities that are acquired in a combination, either with or without consideration. The provisions of this Statement are applicable on a prospective basis to combinations that occur after the effective date.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for Berkeley's fiscal year beginning July 1, 2013. This Statement establishes standards for recording a liability when a government extends a nonexchange financial guarantee for the obligations of another government, a not-for-profit organization, a private entity or an individual without receiving equal or nearly equal value in exchange. As part of the nonexchange financial guarantee, the government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. This standard requires the government that extends a nonexchange financial guarantee to record a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective for Berkeley concurrently with the implementation of GASB Statement No. 68. This Statement addresses an issue in Statement No. 68 concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to the implementation of that Statement by employers and nonemployer contributing entities.

Implementation of Statements Nos. 66, 67, 69, 70 and 71 had no effect on Berkeley's beginning net position. The adoption of Statements Nos. 65 and 68 did not result in any adjustments to the financial statements for the discretely presented Foundation. To implement Statement No. 65, Berkeley reclassified losses on debt refundings to deferred outflows of resources and wrote-off unamortized bond issuance costs as of July 1, 2013. To implement Statement No. 68, Berkeley recorded its share of the net pension liabilities for UC's defined benefit plans.

Also, in 2014, Berkeley changed its accounting treatment on its share of UC's Total Return Investment Pool (TRIP). Berkeley reclassified TRIP from cash and cash equivalents to noncurrent investments in the statement of net position and recognized the net appreciation in fair value of investment associated with TRIP.

The impact on Berkeley's net position as of June 30, 2013 of adopting GASB Statements Nos. 65 and 68, and the change in reporting of TRIP, was as follows:

| (in thousands of dollars) | Year Ended June 30, 2013 | |
|---|---|---|
| Cumulative effect on net position of: | | |
| Adoption of Statement No. 65 | $ | (503) |
| Adoption of Statement No. 68 | | (775,463) |
| Change in reporting of TRIP | | 79,850 |
| Total | $ | (696,116) |

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 all other highly liquid cash equivalents with original maturities less than one year as short-term investments.

**Investments**
Investments are 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. Berkeley recognizes contribution revenue when all eligibility requirements have been met.

**Notes and mortgages receivable, net**
Loans to students, net of allowance for uncollectible amounts, are provided from federal student loan programs and from other sources. Home mortgage loans, primarily to faculty, are provided from UC's Short Term Investment Pool and from other UC sources. Mortgage loans are classified as mortgages receivable in the statement of net position.

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

**Capital assets, net**
Land, infrastructure, buildings and improvements, intangible assets, equipment, libraries 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. Costs of special collections in excess of $5,000 and all costs of land and library collections are capitalized.

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

Estimated economic lives are generally as follows:

| | YEARS |
|---|---|
| Infrastructure | 25 |
| Buildings and improvements | 15-33 |
| Equipment | 2-20 |
| Computer software | 3-7 |
| Intangible assets | 2-indefinite |
| Library books and collections | 15 |

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

**Self-insurance programs expense**
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.

**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, 2014 reducing the pollution remediation liability.

**Deferred outflows of resources and deferred inflows of resources**

Berkeley classifies gains on retirement of debt as deferred inflows of resources and losses as deferred outflows of resources and amortizes such amounts as a component of interest expense over the remaining life of the old debt, or the new debt, whichever is shorter.

Changes in net pension liability not included in pension expense are reported as deferred outflows of resources or deferred inflows of resources. Employer contributions subsequent to the measurement date of the net pension liability are reported as deferred outflows of resources.

**Net position**

Net position is required to be classified for accounting and reporting purposes into the following categories:

**Net investment in capital assets**

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

**Restricted**

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

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

***Expendable***. The net position whose use by Berkeley is subject to externally-imposed restrictions that can be fulfilled by actions of Berkeley pursuant to those restrictions or that expire by the passage of time are classified as expendable net position. 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 other nonoperating revenues (expenses).

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 year ended June 30, 2014 as follows:

*(in thousands of dollars)*

| | 2014 |
|---|---|
| Student tuition and fees | $ 172,814 |
| Auxiliary enterprises | 31,367 |
| **Scholarship allowances** | **$ 204,181** |

**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, 2014, the facilities and administrative cost recovery totaled $118.3 million, $80.3 million from federally sponsored programs and $38.0 million from other sponsors.

**Pension obligations**
Berkeley records pension obligations equal to its share of the net pension liability for UC's defined benefit plans. The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The fiduciary net position and changes in net position of the defined benefit plans has been measured consistent with the accounting policies used by the plans. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available.

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

**Retiree health benefits and obligations for retiree health benefits**
Berkeley's cost for retiree health benefits expense is its share, as determined by UC, of the annual required contribution to the retiree health plan, as actuarially determined. Berkeley's contributions toward retiree health benefits, at rates determined by UC, are made to University of California Retiree Health Benefit Trust (UCRHBT) and reduce the obligation for retiree health benefits in the statement of 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.

## NOTE 1: CASH

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, 2014, the carrying amount of Berkeley's demand deposits, held in nationally recognized banking institutions, was $1.8 million.

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 balance required to support research groups in foreign countries was $0.2 million at June 30, 2014.

## 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.

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. Berkeley's share of UC's STIP at June 30, 2014 was $494.9 million.

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. Berkeley's share of UC's TRIP at June 30, 2014 was $1.0 billion.

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 includes 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 $33.6 million at June 30, 2014.

## NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable and the allowance for doubtful accounts at June 30, 2014 are as follows:

*(in thousands of dollars)*

| | STATE & FEDERAL GOVERNMENT | LOCAL GOVT & PRIVATE GRANTS & CONTRACTS | OTHER | TOTAL |
|---|---|---|---|---|
| Accounts receivable | $ 109,653 | $ 37,310 | $ 37,928 | $ 184,891 |
| Allowance for doubtful accounts | (426) | (1,013) | (6,116) | (7,555) |
| **Accounts receivable, net** | **$ 109,227** | **$ 36,297** | **$ 31,812** | **$ 177,336** |

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

The expense for doubtful accounts has either increased or (decreased) the following revenues for the year ended June 30, 2014:

*(in thousands of dollars)*

| | 2014 |
|---|---|
| Student tuition and fees | $ (437) |
| Grants and contracts | (198) |
| Educational activities | 104 |
| Auxiliary enterprises | (209) |
| Other operating revenues | (391) |
| Expense for doubtful accounts | $ (1,131) |

## NOTE 5: PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2014 is summarized as follows:

*(in thousands of dollars)*

| | | 2014 |
|---|---|---|
| Total pledges receivable outstanding | $ | 41,285 |
| Less: Unamortized discount to present value | | (997) |
| Allowance for uncollectible pledges | | (14,836) |
| **Total pledges receivable, net** | | **25,452** |
| Less: Current portion of pledges receivable | | (5,674) |
| **Noncurrent portion of pledges receivable** | **$** | **19,778** |

Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2014 and thereafter are as follows:

*(in thousands of dollars)*

| Year Ending June 30 | | |
|---|---|---|
| 2015 | $ | 14,944 |
| 2016 | | 15,471 |
| 2017 | | 5,033 |
| 2018 | | 2,733 |
| 2019 | | 568 |
| 2020 and thereafter | | 2,536 |
| **Total payments on pledges receivable** | **$** | **41,285** |

Adjustments to the allowance for doubtful accounts associated with pledges have decreased the following revenues for the year ended June 30, 2014:

*(in thousands of dollars)*

| | | 2014 |
|---|---|---|
| Private gifts | $ | (9,173) |
| Capital gifts and grants | | (220) |

## NOTE 6: NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2014, along with the allowance for uncollectible amounts, are as follows:

*(in thousands of dollars)*

| | | | NONCURRENT | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | CURRENT | | NOTES | | MORTGAGES | | TOTAL |
| Notes and mortgages receivable | $ | 4,937 | $ | 24,857 | $ | 2,533 | $ | 27,390 |
| Allowance for uncollectible amounts | | (107) | | (2,103) | | | | (2,103) |
| **Notes and mortgages receivable, net** | **$** | **4,830** | **$** | **22,754** | **$** | **2,533** | **$** | **25,287** |

## NOTE 7: CAPITAL ASSETS

Berkeley's capital asset activity for the year ended June 30, 2014 is as follows:

*(in thousands of dollars)*

| | 2013 | ADDITIONS | DISPOSALS | 2014 |
|---|---|---|---|---|
| **ORIGINAL COST** | | | | |
| Land | $ 110,989 | | | $ 110,989 |
| Infrastructure | 62,176 | $ 1,233 | $ (51) | 63,358 |
| Buildings and improvements | 4,111,071 | 103,607 | (9,664) | 4,205,014 |
| Equipment, software and intangibles | 505,181 | 29,160 | (18,408) | 515,933 |
| Libraries and collections | 946,060 | 32,648 | (6,783) | 971,925 |
| Special collections | 110,783 | 4,583 | | 115,366 |
| Construction in progress | 247,528 | 157,692 | | 405,220 |
| **Capital assets, at original cost** | **$ 6,093,788** | **$ 328,923** | **$ (34,906)** | **$ 6,387,805** |

| | 2013 | DEPRECIATION AND AMORTIZATION | DISPOSALS | 2014 |
|---|---|---|---|---|
| **ACCUMULATED DEPRECIATION AND AMORTIZATION** | | | | |
| Infrastructure | $ 24,130 | $ 2,378 | $ (22) | $ 26,486 |
| Buildings and improvements | 1,371,702 | 128,832 | (6,596) | 1,493,938 |
| Equipment, software and intangibles | 375,184 | 32,497 | (16,192) | 391,489 |
| Libraries and collections | 707,281 | 29,207 | (6,783) | 729,705 |
| **Accumulated depreciation and amortization** | **$ 2,478,297** | **$ 192,914** | **$ (29,593)** | **$ 2,641,618** |
| **Capital assets, net** | **$ 3,615,491** | | | **$ 3,746,187** |

## NOTE 8: DEBT

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

Berkeley's share of outstanding debt at June 30, 2014 is as follows:

*(in thousands of dollars)*

| | INTEREST RATES | MATURITY YEARS | 2014 |
|---|---|---|---|
| **INTERIM FINANCING:** | | | |
| Commercial paper | 0.2% | 2014 | $ 67,793 |
| **LONG-TERM FINANCING:** | | | |
| UC general revenue bonds | 0.2 - 6.3% | 2015-2112 | 1,692,031 |
| UC limited projects revenue bonds | 3.0 - 6.3% | 2015-2050 | 553,735 |
| **UC revenue bonds** | | | 2,245,766 |
| Capital lease obligations | 1.75 - 4.3% | 2015-2019 | 5,522 |
| Other borrowings | Various | 2014-2020 | 3,023 |
| **Total outstanding debt** | | | **2,322,104** |
| Less: Commercial paper | | | (67,793) |
| Current portion of outstanding debt | | | (99,232) |
| **Noncurrent portion of outstanding debt** | | | **$ 2,155,079** |

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 year ended June 30, 2014 was $81.3 million. Interest expense, net of investment income, totaling $1.3 million was capitalized during the year ended June 30, 2014. The remaining $80.0 million in 2014 is reported as interest expense in the statement of revenues, expenses and changes in net position.

**Outstanding Long-Term Debt Activity**
The activity with respect to Berkeley's share of UC's current and noncurrent debt for the year ended June 30, 2014 is as follows:

*(in thousands of dollars)*

| | UC REVENUE BONDS | CAPITAL LEASE OBLIGATIONS | OTHER BORROWINGS | TOTAL |
|---|---|---|---|---|
| *Year ended June 30, 2014* | | | | |
| Long-term debt and capital leases at June 30, 2013 | $ 1,558,510 | $ 362,079 | $ 39,328 | $ 1,959,917 |
| New obligations | 704,919 | | | 704,919 |
| Refinancing or prepayment of outstanding debt | | (339,342) | (32,799) | (372,141) |
| Scheduled principal payments | (17,663) | (17,215) | (3,506) | (38,384) |
| **Long-term debt and capital leases at June 30, 2014** | **2,245,766** | **5,522** | **3,023** | **2,254,311** |
| Less: Current portion | (97,161) | (2,071) | - | (99,232) |
| **Noncurrent portion at June 30, 2014** | **$ 2,148,605** | **$ 3,451** | **$ 3,023** | **$ 2,155,079** |

**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.

Commercial paper outstanding, including interest rates, at June 30, 2014:

*(in thousands of dollars)*

| | INTEREST RATES | OUTSTANDING |
|---|---|---|
| Taxable | 0.1 - 0.2% | $ 67,793 |
| **Total outstanding** | | **$ 67,793** |

**UC 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. General Revenues, as defined in the Indenture, have been amended to include certain state appropriations as to secure payment of the General Revenue Bonds. General Revenues for the year ended June 30, 2014 were $1.7 billion. The pledge of General Revenues for interest rate swap agreements is on a parity basis with the University's General Revenue Bonds.

Limited Project Revenue Bonds are issued to finance auxiliary enterprises and are collateralized by a pledge consisting of the sum of the gross revenues of the specific projects. The Indenture requires UC to achieve the sum of gross project revenues equal to 1.1 times debt service and maintain certain other financial covenants. Pledged revenues for the year ended June 30, 2014 were $177.8 million.

**Capital Leases**

UC entered into lease-purchase agreements with the state of California that are recorded as capital leases. The state sold lease revenue bonds to finance construction of certain state-owned buildings to be used by UC. At the conclusion of the lease term, ownership transferred to UC.

In October 2013, UC refinanced all the lease revenue bonds issued by the state of California with University General Revenue Bonds and ownership of all the properties transferred to UC.

The state of California financing appropriation pertaining to Berkeley under the terms of the lease-purchase agreements, recorded as nonoperating revenue, for the year ended June 30, 2014 was $7.8 million. The scheduled principal and interest including accrued interest, reported in Berkeley's financial statements for the year ended June 30, 2014 contain amounts related to these lease-purchase agreements with the state of California as follows:

*(in thousands of dollars)*

| | 2014 |
|---|---|
| Capital lease principal | $ 3,104 |
| Capital lease interest | 2,285 |
| **Total** | **$ 5,389** |

Berkeley's capital leases with other lessors, typically for equipment, totaled $5.5 million for the year ended June 30, 2014.

**Other UC Borrowings**

Other borrowings of $3.0 million at June 30, 2014, consisted of bank lines of credit and loans with various expiration dates through 2020, to provide interim financing for buildings and equipment.

**Future Debt Service**
Berkeley's share of future debt service payments for each of the five fiscal years subsequent to June 30, 2014 and thereafter are as presented below:

*(in thousands of dollars)*

| Year Ending June 30 | COMMERCIAL PAPER | REVENUE BONDS | CAPITAL LEASES | OTHER BORROWINGS | TOTAL PAYMENT | PRINCIPAL | INTEREST |
|---|---|---|---|---|---|---|---|
| 2015 | $ 67,942 | $ 238,458 | $ 2,179 | | $ 308,579 | $ 161,400 | $ 147,179 |
| 2016 | | 118,847 | 1,760 | $ 49 | 120,656 | 27,242 | 93,414 |
| 2017 | | 120,548 | 1,123 | 43 | 121,714 | 29,094 | 92,620 |
| 2018 | | 120,207 | 574 | 35 | 120,816 | 29,149 | 91,667 |
| 2019 | | 121,671 | 106 | 35 | 121,812 | 31,214 | 90,598 |
| 2020-2112 | | 3,919,173 | | 2,912 | 3,922,085 | 2,044,005 | 1,878,080 |
| **Total future debt service** | **67,942** | **4,638,904** | **5,742** | **3,074** | **4,715,662** | **$ 2,322,104** | **$ 2,393,558** |
| Less: Interest component of future payments | (149) | (2,393,138) | (220) | (51) | (2,393,558) | | |
| **Principal portion of future payments** | **$ 67,793** | **$ 2,245,766** | **$ 5,522** | **$ 3,023** | **$ 2,322,104** | | |

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

## NOTE 9: OTHER LIABILITIES

Other current liabilities of $102.8 million and noncurrent liabilities of $38.8 million at June 30, 2014 consisted of compensated absences, deposits, pollution remediation and other accrued liabilities.

## NOTE 10: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The composition of deferred outflows and inflows of resources at June 30, 2014 is summarized as follows:

*(in thousands of dollars)*

| | NET PENSION LIABILITY | LOSS ON DEBT REFUNDING | TOTAL |
|---|---|---|---|
| Deferred outflows of resources | $ 315,730 | $ 53,799 | $ 369,529 |
| Deferred inflows of resources | 594,418 | | 594,418 |

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

Most Berkeley employees participate in the University of California Retirement System (UCRS) that is administered by the University. The UCRS consists of The University of California Retirement Plan (UCRP), a single-employer defined benefit plan, and the University of California Retirement Savings Program (UCRSP) that includes four defined contribution plans with several investment portfolios generally funded with employee non-elective and elective contributions. The Regents has the authority to establish and amend the benefit plans.

UCRP provides lifetime retirement income, disability protection, death benefits, and post-retirement and pre-retirement survivor benefits to eligible employees of the University, and its affiliates. Membership is required in UCRP for all employees appointed to work at least 50 percent time for one year or more or for an indefinite period or for a definite period of a year or more. An employee may also become eligible by completing 1,000 hours within a 12-month period. Generally, five years of service are required for entitlement to plan benefits. The amount of pension benefit is determined under the basic formula of covered compensation times age factor times years of service credit. The maximum monthly benefit cannot exceed 100 percent of the employee's highest average plan compensation over a 36-month period, subject to certain limits imposed under the Internal Revenue Code. Annual cost-of-living adjustments (COLAs) are made to monthly benefits according to a specified formula based on the Consumer Price Index. Ad hoc COLAs may be granted subject to funding availability.

**Contributions**

Contributions to the UCRP may be made by Berkeley campus and the employees. The rates for contributions as a percentage of payroll are determined annually pursuant to The Regents' funding policy and based upon recommendations of the consulting actuary. The Regents determine the portion of the total contribution to be made by Berkeley and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements. Effective July 1, 2013, employee member and employer contributions were 6.5 percent and 12 percent, respectively. Member contributions for the employees in the new benefit tier applicable to employees hired on or after July 1, 2013 are 7.0%, and the employer rate is uniform across all members. Effective July 1, 2014, employee member and employer contributions were 8.0 percent and 14.0 percent, respectively.

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.

Contributions to UCRP for the year ended June 30, 2014 are as follows:

| *(in thousands of dollars)* | **2014** |
|---|---|
| Contributions - employer | $ 106,254 |
| Contributions - employee | 55,360 |
| **Total** | **$ 161,614** |

**Net Pension Liability**

Berkeley's proportionate share of the net pension liability for UCRP as of June 30, 2014 is as follows:

| *(in thousands of dollars)* | **2014** |
|---|---|
| Proportion of the net pension liability | 9.2% |
| Proportionate share of net pension liability | $ 650,399 |

Berkeley's net pension liability was measured as of June 30, 2014 based upon rolling forward the results of the actuarial valuations as of July 1, 2013. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future. Berkeley's net pension liability was calculated using the following methods and assumptions:

| | **2014** |
|---|---|
| Inflation | 3.5 % |
| Investment rate of return | 7.5 % |
| Projected salary increases | 4.3 - 6.8 % |
| Cost-of-living adjustments | 2.0 % |

For active members, inactive members and healthy retirees, the RP-2000 Combined Healthy Mortality Table, projected with scale AA to 2025, with ages set back two years is used. For disabled members, rates are based on the RP-2000 Disabled Retiree Mortality Table, projected with Scale AA to 2025, with ages set back two years for males.

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the July 1, 2013 were based upon the results of an experience study conducted for the period July 1, 2006 through June 30, 2010.

The long-term expected investment rate of return assumption for UCRP was determined based on a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation adopted by the Regents and by adding expected inflation. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption for each major asset class are as follows:

| Asset Class | Target Allocation | Long-Term Exptected Real Rate of Return |
|---|---|---|
| U.S. Equity | 23.0% | 6.8% |
| Developed International Equity | 24.0% | 6.9% |
| Emerging Market Equity | 5.0% | 9.3% |
| Core Fixed Income | 12.0% | 1.5% |
| High Yield Bonds | 2.5% | 3.7% |
| Emerging Market Debt | 2.5% | 4.0% |
| TIPS | 8.0% | 1.3% |
| Real Estate | 7.0% | 5.4% |
| Private Equity | 6.0% | 10.4% |
| Absolute Return/Headge Funds/Real Assets | 10.0% | 4.1% |
| **Total** | **100%** | |

**Discount Rate**
The discount rate used to estimate the net pension liability as of June 30, 2014 was 7.50 percent. To calculate the discount rate, cash flows into and out of UCRP were projected in order to determine whether UCRP has sufficient cash in future periods for projected benefit payments for current members. For this purpose, Berkeley contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected Berkeley contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are not included. UCRP was projected to have assets sufficient to make projected benefit payments for current members for all future years as of June 30, 2014.

**Sensitivity of the Net Pension Liability to the Discount Rate Assumption**
The following presents Berkeley's current-period net pension liability, calculated using the current-period discount rate assumption of 7.5 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

*(in thousands of dollars)*

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| *As of June 30, 2014* | | | |
| Net pension liability - Berkeley | $ 1,249,217 | $ 650,399 | $ 147,618 |

**Deferred Outflows of Resources and Deferred Inflows of Resources**
Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources for the year ended June 30, 2014:

*(in thousands of dollars)*

| | | 2014 |
|---|---|---|
| **Deferred Outflows of Resources:** | | |
| Changes in proportion and differences between Berkeley's contributions and proportionate share of contributions | $ | 32,967 |
| Changes of assumptions or other inputs | | 191,042 |
| Net difference between projected and actual earnings on pension plan investments | | 91,721 |
| Total Deferred Outflows of Resources | $ | 315,730 |
| **Deferred Inflows of Resources:** | | |
| Changes in proportion and differences between Berkeley's contributions and proportionate share of contributions | $ | 16,598 |
| Changes of assumptions or other inputs | | 172,747 |
| Net difference between projected and actual earnings on pension plan investments | | 367,498 |
| Difference between expected and actual experience | | 37,575 |
| Total Deferred Inflows of Resources | $ | 594,418 |

Deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense during the years ending June 30 as follows:

*(in thousands of dollars)*

| Year Ending June 30 | | |
|---|---|---|
| 2015 | $ | (41,256) |
| 2016 | | (41,257) |
| 2017 | | (88,914) |
| 2018 | | (107,875) |
| 2019 | | 614 |
| 2020 and thereafter | | - |

The UCRSP plans (DC Plan, Supplemental DC Plan, 403(b) Plan and 457(b) Plan) provide savings incentives and additional retirement security for all eligible employees. The DC Plan accepts both pre-tax and after-tax employee contributions. The Supplemental DC Plan accepts employer contributions on behalf of certain qualifying employees. The 403(b) and 457(b) plans accept pre-tax employee contributions and Berkeley may also make contributions on behalf of certain members of management. Benefits from the plans are based on participants' mandatory and voluntary contributions, plus earnings, and are immediately vested.

Information related to plan assets and liabilities as they relate to Berkeley is not readily available. Additional information on the retirement plans can be obtained from the 2013-14 annual report of the University of California Retirement System.

## NOTE 12: 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 2013-14 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.

Effective July 2013, retirees who are employed by Berkeley after July 1, 2013, and retire at the age of 56 or older, become eligible for a percentage of the campus' contribution based on age and years of service. Retirees are eligible for the maximum campus contribution at age 65 with 20 or more 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 retiree health benefits expense is its share, as determined by UC, of the actuarially-determined annual required contribution. The annual required contribution represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize unfunded actuarial liabilities over a period of up to 30 years. For the year ended June 30, 2014, Berkeley's contributions for retiree health benefits was $27.4 million, and Berkeley's accrual of unfunded obligations for retiree health benefits was $77.9 million.

Additional information on the retiree health plans can be obtained from the 2013-2014 annual reports of the UC and the University of California Health and Welfare Program.

## NOTE 13: ENDOWMENTS AND GIFTS

Endowments are held and administered either by UC or by the campus foundation. The book value and market value for endowments for the years ended June 30, 2014 are as follows:

*(in thousands of dollars)*

| | 2014 | |
|---|---|---|
| | BOOK VALUE | MARKET VALUE |
| Endowment - regental | $ 645,676 | $ 2,370,049 |
| Endowment - foundation | 1,164,253 | 1,543,367 |
| **Total** | **$ 1,809,929** | **$ 3,913,416** |

The value of endowments and gifts reflected in Berkeley's statement of net position, exclusive of income for operating purposes, at June 30, 2014 is as follows:

*(in thousands of dollars)*

| | RESTRICTED NONEXPENDABLE | RESTRICTED EXPENDABLE | UNRESTRICTED | TOTAL |
|---|---|---|---|---|
| *At June 30, 2014* | | | | |
| Endowments | $ 404,441 | $ 913,312 | | $ 1,317,753 |
| Funds functioning as endowments | | 1,047,498 | | 1,047,498 |
| Annuity and life income | 4,798 | | | 4,798 |
| Gifts | | 295,410 | $ 17,505 | 312,915 |
| **Total endowments and gifts** | **$ 409,239** | **$ 2,256,220** | **$ 17,505** | **$ 2,682,964** |

UC's endowment income distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution provided by dividend and interest income and by capital gains may vary significantly from year to year. UC's policy is to retain the realized and unrealized appreciation with the endowment after the annual income distribution has been made. The net appreciation available to meet future spending needs, subject to the approval of The Regents, amounted to $913.3 million at June 30, 2014.

The portion of investment returns earned on endowments and distributed at the end of each year to support current operations for the following year is based upon a rate that is approved by The Regents. The annual income distribution transferred to Berkeley from endowments held by UC was $73.0 million for the year ended June 30, 2014. The portion of this annual income distribution from accumulated capital gains, in addition to the dividend and interest income earned during the year, was $50.1 million for the year ended June 30, 2014.

### Campus Foundation

Under UC 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 year ended June 30, 2014, gifts of $139.5 million ($45.0 million from endowment investments and $94.5 million from current funds) were transferred to Berkeley from the Foundation.

## NOTE 14: COMMITMENTS AND CONTINGENCIES

### Contractual Commitments

Amounts committed but unexpended for construction projects totaled $328.4 million at June 30, 2014.

Berkeley leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the year ended June 30, 2014 was $17.1 million. The terms of operating leases extend through the year ending 2026.

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 |
|---|---|---|
| 2015 | $ | 9,715 |
| 2016 | | 7,184 |
| 2017 | | 5,836 |
| 2018 | | 3,890 |
| 2019 | | 3,146 |
| 2020 and thereafter | | 14,107 |
| **Total** | **$** | **43,878** |

**Contingencies**
Substantial amounts are received and expended by Berkeley under federal and state programs and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid and other programs. Berkeley's management believes that any liabilities arising from such audits will not have a material effect on Berkeley's financial position.

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