



UNIVERSITY OF CALIFORNIA, BERKELEY

**Annual Financial Report
2009-10**

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The objective of Management's Discussion & Analysis (MD&A) is to help readers of the financial statements of the University of California, Berkeley (Berkeley) better understand the financial position and operating activities for the year ended June 30, 2010, with selected comparative information for the years ended June 30, 2009 and 2008. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2010, 2009, 2008) in this discussion refer to the fiscal years ended June 30.

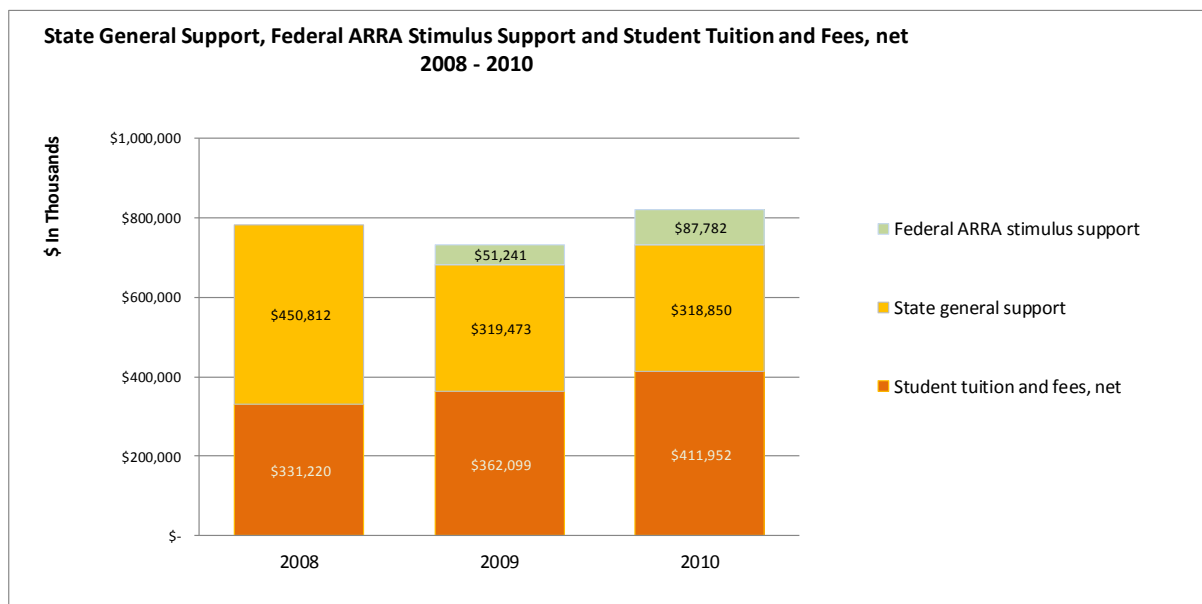
INTRODUCTION

The University of California was chartered in 1868 and its flagship campus — envisioned as a "City of Learning" — was established at Berkeley, on San Francisco Bay. Today Berkeley is the world's premier public university and a wellspring of innovation. With more than 36,000 students, 1,700 full-time faculty members, 130 academic departments and 80 interdisciplinary research units, its academic and research community makes key contributions to the economic and social well-being of the Bay Area, California, and the nation through comprehensive excellence in teaching, research and public service.

Berkeley ranks first among United States universities in the number of highly ranked graduate programs. In a report published in September 2010, the National Research Council (NRC) placed 48 out of 52 ranked Berkeley doctoral programs within the top 10 nationally. This compared to 46 of 52 programs for Harvard University, which came in second, and 40 of 59 programs for the University of California, Los Angeles (UCLA), in third place. Among its current faculty are: 8 Nobel laureates, 135 members of the National Academy of Sciences, 87 members of the National Academy of Engineering, and 12 recipients of the National Medal of Science.

FINANCIAL HIGHLIGHTS

Given the campus commitment to maintaining the quality of Berkeley's core mission of excellence in teaching, research and public service, key actions taken over the two years 2010 and 2009 allowed Berkeley's financial position to remain stable despite a dramatic reduction in state general support over the same two-year period. These actions included a system-wide furlough, workforce reduction through early retirements and layoffs, a more aggressive strategy toward utility savings, increases in student tuition and fees, and effective growth in federal and state grants and contracts. The substantial reduction of \$264 million state of California general support in the last two years (from \$451 million in 2008 to \$319 million in each of 2009 and 2010, or \$132 million per year) was significantly offset by a temporary allocation of \$139 million federal American Recovery and Reinvestment Act (ARRA) stimulus support through the state educational appropriation and an increase in student tuition and fees, net of scholarship allowances, of \$112 million in the same two-year period.



Net assets grew \$278 million to \$3.6 billion. Approximately 87% of net assets are invested in capital assets (\$2.8 billion) or restricted (\$323 million). The portion of net assets invested in capital assets consists of the net of the costs for land; infrastructure; buildings and improvements; equipment, software and intangibles; libraries and collections; special collections; and construction in progress; net of accumulated depreciation and amortization and the debt associated with these assets.

A significant long-term initiative, Operational Excellence, seeks to permanently reduce administrative expenses by \$75 million annually through streamlined systems, a simplified organizational structure, and a high performance operating culture. Savings from Operational Excellence will be critical to Berkeley's ability to fund anticipated cost increases in the long term and essential in offsetting the loss of Federal ARRA funding that bolstered its financial position in the last two years.

ECONOMIC FACTORS AFFECTING THE FUTURE

In the near-term, Berkeley anticipates the loss of federal ARRA funds, both those directed toward the educational mission and those funding competitive grants and contracts. While the state of California's government leadership shows a commitment to funding higher education, recognizing that each dollar spent on higher education redounds in the short and long-term to the health of the economy, Berkeley cannot expect to return to previous funding levels given persistent joblessness and lower tax revenues. California continues to mirror national trends in the global economic recovery.

While tuition and fee increases have offset some of the decline in state funding, it is clear that the burden of the cost of higher education continues to fall increasingly on students and families. The 2010 tuition and fees, despite a 15% mid-year increase, brought Berkeley in line with other public flagship universities (\$10,334 compared to the peer average of \$9,300 for resident lower division undergraduates). Berkeley anticipates increases in tuition, increases in the number of non-resident students, and a continued commitment to increased scholarships.

Operational Excellence will result in savings to the Berkeley beginning in fiscal year 2011. Savings will ultimately be directed toward improving upon Berkeley's mission: comprehensive excellence in teaching, research and public service. Under the Operational Excellence umbrella, six initiatives are concurrently underway, focused on near-term improvements in student services, energy management, technology and procurement. To enable these strategic efforts, Berkeley is developing a streamlined administrative structure, improving its financial management model and developing a high-performance operating culture.

University of California, Berkeley
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

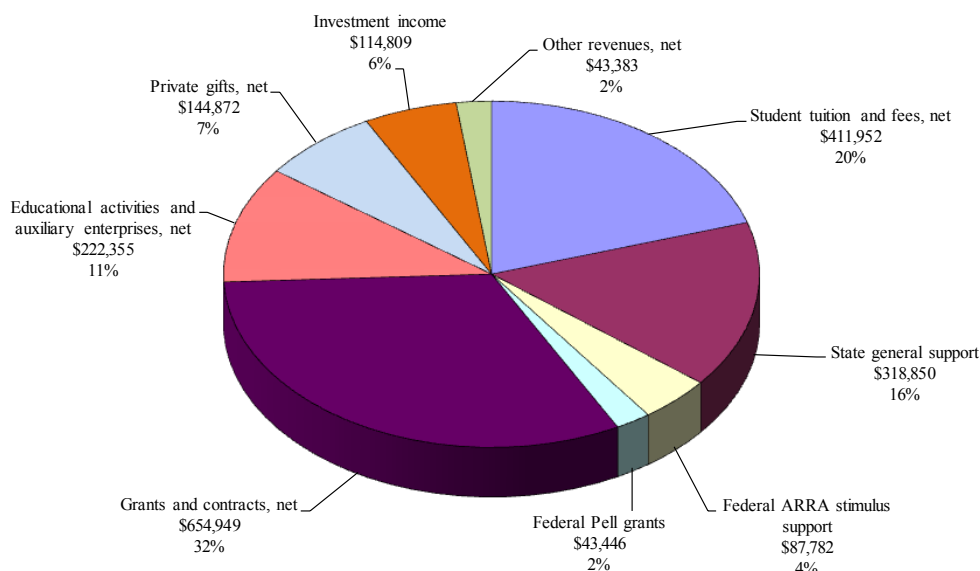
OPERATING PERFORMANCE

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

A summarized comparison of the operating results for 2010 and 2009, arranged in a format that matches the revenue supporting the core activities of Berkeley with the expenses associated with core activities, is as follows (in thousands of dollars):

	YEAR ENDED JUNE 30, 2010			YEAR ENDED JUNE 30, 2009			\$ Change	% Change
	Operating	Nonoperating	Total	Operating	Nonoperating	Total		
REVENUES								
Student tuition and fees, net	\$411,952		\$411,952	\$362,099		\$362,099	\$49,853	14%
State educational appropriations:								
State general support		\$318,850	318,850		\$319,473	319,473	(623)	(0%)
Federal ARRA stimulus support		87,782	87,782		51,241	51,241	36,541	71%
Federal Pell grants		43,446	43,446		29,020	29,020	14,426	50%
Grants and contracts, net	654,949		654,949	580,825		580,825	74,124	13%
Educational activities and auxiliary enterprises, net	222,355		222,355	224,096		224,096	(1,741)	(1%)
Private gifts, net		144,872	144,872		143,368	143,368	1,504	1%
Investment income		114,809	114,809		117,533	117,533	(2,724)	(2%)
Other revenues, net	24,713	18,670	43,383	20,510	19,433	39,943	3,440	9%
Revenues supporting core activities	1,313,969	728,429	2,042,398	1,187,530	680,068	1,867,598	174,800	9%
EXPENSES								
Salaries and employee benefits	1,174,929		1,174,929	1,193,475		1,193,475	(18,546)	(2%)
Scholarships and fellowships	80,668		80,668	77,275		77,275	3,393	4%
Utilities	35,425		35,425	42,447		42,447	(7,022)	(17%)
Supplies and materials	144,264		144,264	138,976		138,976	5,288	4%
Depreciation and amortization	149,835		149,835	144,210		144,210	5,625	4%
Other expenses:								
Subcontracts	141,447		141,447	90,783		90,783	50,664	56%
Travel	36,371		36,371	35,981		35,981	390	1%
Other	141,646	5,737	147,383	164,188	4,330	168,518	(21,135)	(13%)
Expenses associated with core activities	1,904,585	5,737	1,910,322	1,887,335	4,330	1,891,665	18,657	1%
Income (loss) from core activities	(\$590,616)	\$722,692	132,076	(\$699,805)	\$675,738	(24,067)	156,143	N/A
OTHER CHANGES IN NET ASSETS								
State capital appropriations			10,922			8,959	1,963	22%
Capital gifts and grants, net			22,521			36,598	(14,077)	(38%)
Transfers from UC			112,614			163,811	(51,197)	(31%)
Increase in net assets			278,133			185,301	(63,311)	(34%)
NET ASSETS								
Beginning of year			3,358,065			3,172,764	185,301	6%
End of year			\$3,636,198			\$3,358,065	\$278,133	8%

**Operating and nonoperating revenues that support Berkeley's core activities
 2010 (\$ in thousands)**



Revenues to support Berkeley's core activities, including those classified as nonoperating revenues, were \$2.0 billion in 2010. State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of Berkeley. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country. Gifts to Berkeley allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Other significant revenues are from educational activities and auxiliary enterprises such as student housing, food service operations and parking. The percentage of state general support was 16% of all operating and nonoperating revenues in 2010, slightly less than the 17% in 2009. However, Federal ARRA stimulus support, the other component of state educational appropriations, increased slightly from 3% in 2009 to 4% in 2010. The percentage of student tuition and fees of the total revenues increased slightly to 20% in 2010 from 19% in 2009. Grants and contracts share of total revenues for research also increased slightly to 32% in 2010 from 31% in 2009. Gifts decreased modestly from 8% in 2009 to 7% in 2010 of the total revenues. The percentage of educational activities, auxiliary enterprises, investment income, Federal Pell grants and all other revenue sources of the total revenue was 21% in 2010 and 22% in 2009.

Student tuition and fees revenue, net of scholarship allowances, grew by \$50 million (14%) from \$362 million in 2009 to \$412 million in 2010. Tuition and fee rate increases and growth in the student population (1.5% undergraduate and .5% graduate students) were contributing factors. The tuition and fee rate increases were necessitated by growth in the demand for resources that has outpaced state educational appropriations. Education fees increased in the Fall 2009 semester and again in the Spring 2010 semester for both undergraduate and graduate students. Non-resident tuition also increased, as did tuition for summer sessions and professional degree programs.

University of California, Berkeley
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

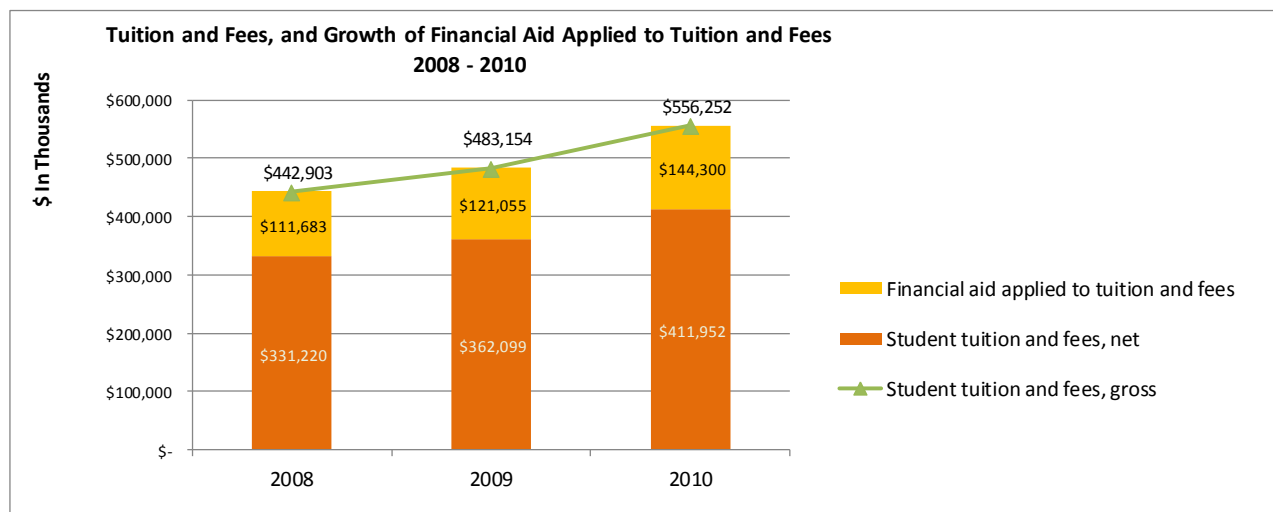
Enrollment and Tuition and Fee Totals

	2009-10	2008-09	% Change
Undergraduates	25,530	25,151	2%
resident	\$10,334	\$8,932	16%
non-resident	\$33,051	\$29,540	12%
Graduate	10,313	10,258	1%
resident	\$11,344	\$10,214	11%
non-resident	\$26,386	\$25,220	5%

Although these represent significant increases, they brought Berkeley's tuition and fees in line with other public flagship universities (\$10,334 compared to the peer average of \$9,300 for resident lower division undergraduates in 2009-10). Berkeley's total student body reached 35,843 in 2010.

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.

In 2010, Berkeley provided \$144 million in financial aid in the form of scholarship allowances that offset tuition and fees, compared to \$121 million in 2009, and \$112 million in 2008. This represents an increase of 29% over the three years, while the percentage of students receiving aid remained near 65% between 2008 and 2009. (2010 data is not available yet.) In the chart below, tuition and fees are reported net of aid applied to students' accounts.



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Housing and dining scholarship allowance is similarly applied by the auxiliary toward the students' accounts. Amounts paid directly to students are reported as Scholarships and Fellowships expense. Total student financial aid for the three years ended June 30, 2010 is summarized as follows:

	2010	2009	2008
Applied to student tuition and fees	\$144,300	\$121,055	\$111,683
Applied to auxiliary enterprises and other	<u>33,015</u>	<u>31,430</u>	<u>30,753</u>
Total scholarship allowances	177,315	152,485	142,436
Paid directly to students	<u>80,668</u>	<u>77,275</u>	<u>75,736</u>
Total student financial aid	<u>\$257,983</u>	<u>\$229,760</u>	<u>\$218,172</u>

State educational appropriations allocated to Berkeley from the Office of the President of the University of California were \$407 million and \$371 million in 2010 and 2009, respectively. State educational appropriations included state general support of \$319 million for both 2010 and 2009 and temporary federal ARRA stimulus support of \$88 million and \$51 million in 2010 and 2009, respectively. State educational appropriations, consisting solely of state general support, were \$451 million in 2008.

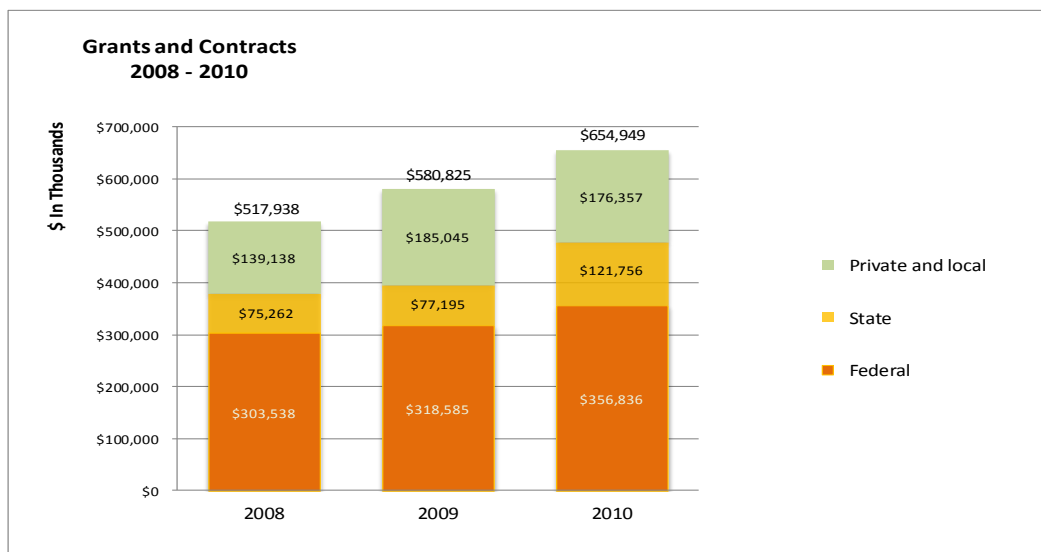
Federal Pell grants increased \$14 million, or 50%, in 2010 to \$43 million. The increase was primarily due to a 37% increase in grant recipients and a 13% increase in the maximum award amount.

Grants and contracts - Berkeley is consistently rated among the top institutions in the world for the quality and breadth of its research enterprise, for the scholarly distinction of its faculty, for the excellence of its Ph.D. programs, and for the amount of funding received in support of its research programs.

Each year, Berkeley receives well over one-half billion dollars in research support from external sources. In the fiscal year ending June 30, 2010, Berkeley submitted about 3,400 proposals and attracted \$745 million in new research awards. This represents a 30% increase over the past five years. Many of these awards fund multi-year projects and will be reflected as revenue in subsequent years.

The American Recovery and Reinvestment Act (ARRA) was passed by the United States Congress in February 2009 to provide stimulus funding for the nation's economy. Through fiscal year 2010, the campus submitted almost \$140 million to ARRA-funded programs and received \$66 million in fiscal year 2010. Seventy percent of the ARRA funding was from the National Institute of Health (NIH) and the National Science Foundation (NSF). These two agencies provide the most significant portion of Berkeley's federal research funding.

In 2010, operating revenues from federal, state, private and local government totaled \$655 million. The federal government provided 54% of the total grant and contract operating revenues, and agencies of the state of California, industry, and the non-profit sector supplied the rest.



Federal grants and contracts for research and other academic activities grew \$38 million from a variety of agencies, including the Department of Health and Human Services, the National Science Foundation, the Department of Energy, the Department of Defense, and other federal sponsors. State grants and contracts revenues went up by \$45 million, or 58%, from various state departments, such as the California Energy Commission, the California Department of Social Services, the California Office of Traffic Safety, CalTrans and the California Department of Mental Health. Grants and contracts operating revenues from local governments and private companies decreased by \$8 million, reflecting the downturn in the economy.

In fiscal year 2010, research funding in departments in excess of \$20 million included: multidisciplinary programs reporting to the Vice Chancellor of Research - \$100 million; the College of Engineering - \$47 million; Biological Sciences - \$46 million; the School of Public Health - \$30 million; Math and Physical Sciences - \$28 million; and the College of Natural Resources - \$22 million.

Educational activities and auxiliary enterprises decreased \$2 million to \$222 million in 2010. Sales and services of educational activities totaled \$71 million in 2010 and \$75 million in 2009, a decrease of \$4 million, as publication sales, ticket sales, royalties, and license fees declined from the prior year. Partially offsetting the decrease in educational activities, auxiliary enterprises' revenues increased by approximately \$2 million from \$149 million in 2009 to \$151 million in 2010, attributable mainly to growth in housing fees.

Private gifts, mainly restricted as to use, increased \$2 million in 2010, from \$143 million in 2009 to \$145 million in 2010. 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. Permanent endowments are not recorded on Berkeley's books but rather are recorded on either UC's or the Foundation's books.

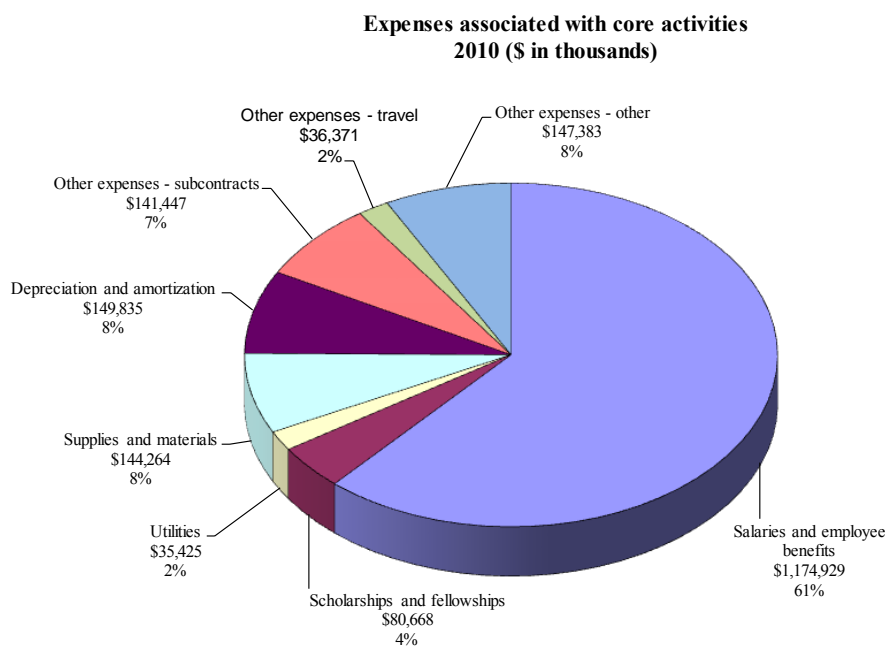
The portion of investment returns earned on endowments held by UC and distributed each year to Berkeley to support its current operations is reflected in investment income.

The Foundation's gift transfers to Berkeley increased \$6 million from \$79 million in 2009 to \$85 million in 2010. Included in these gift amounts are the payouts from the Foundation -- \$35 million and \$32 million for 2010 and 2009, respectively. The endowment payout amounts relate to the payout rates approved by the Executive Committee of the Foundation for the preceding years (2009 and 2008) as the payouts are distributed to Berkeley in August of the following fiscal year. The Executive Committee of the Foundation approved a payout rate for 2009 of 4.76% and 5% for 2008.

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Investment income includes expendable endowment income, dividend and interest from the total return investment pool (TRIP) and earnings from the short-term investment pool (STIP), all distributed from the Office of the President. In 2010, STIP earnings decreased \$8 million, due primarily to declining interest rates and less cash available for investment. The STIP decrease was partially offset by a \$5 million increase in endowment and TRIP income.

Other revenues for 2010 of \$43 million, including \$14 million of state financing appropriations, \$5 million of federal financing appropriations and \$24 million of other operating and nonoperating revenues, increased \$3 million from 2009. The state of California financing appropriation, which decreased \$6 million in 2010, is directly related to the required rental payments under lease-purchase agreements with the state of California and deferred maintenance projects. The \$5 million of federal financing appropriation, new in 2010, 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 \$4 million increase in other operating revenues was due to growth in rental income from recently acquired properties and increases from various departmental revenue-generating activities.



Expenses associated with core activities for 2010, totaling \$2 billion, increased \$19 million, or about 1% from 2009. About 61% of Berkeley's expenses in 2010 were related to salaries and benefits, compared to 63% in 2009. Subcontracts were 7% of total expenses associated with core activities in 2010 compared to 5% in 2009. The percentage of the other categories of expense to total expenses related to core activities remained approximately the same in 2010 as in 2009.

Salaries and employee benefits of \$1.2 billion in 2010 (\$940 million of salaries and wages and \$235 million of benefits) decreased by \$19 million, or 2%, from 2009. There were 13,900 full time equivalent employees at Berkeley in 2010. Combined salaries and wages for both academic and administrative staff decreased \$33 million, or 3%, from 2009. While academic salaries increased less than 1%, administrative staff salaries decreased more than 8% in 2010. Salary reduction programs, such as the furlough program and the time reduction program, as well as a reduction in staff positions, accounted for the significant decrease in administrative staff salaries in 2010. Total benefit costs increased \$14 million, or 7%,

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

attributable primarily to continued growth in health insurance costs, increase in fee remission payments for graduate student employees and the campus' contribution to UC's Retirement Plan (UCRP) that restarted on April 15, 2010.

Scholarships and fellowships, representing payments of financial aid made directly to students and reported as an operating expense, totaled \$81 million in 2010, a \$3 million, or 4%, increase over 2009. Total scholarship allowances, also a form of scholarship and fellowship cost, increased \$25 million to \$177 million in 2010. Scholarship allowances are reported as an offset to revenue, not as an operating expense. See the Student Tuition and Fees section above for additional financial aid information.

Utilities -- consisting of natural gas, electricity, water and sewer, and utility services -- showed a \$7 million, or 17%, decrease from the prior year to \$35 million in 2010. Most of the decrease was due to a 30% rate reduction for natural gas and lower usage for natural gas, oil and electricity from more aggressive cost-saving efforts.

Supplies and materials of \$144 million in 2010, increased \$5 million, or 4%, from \$139 million in 2009. The increase was mainly attributable to more operating expenses associated with capital projects and more laboratory instruments and supplies purchased in 2010.

Depreciation and amortization expense increased \$6 million to \$150 million in 2010, reflecting the increase in capital assets.

Subcontracts expenses increased \$50 million, or 56%, from \$91 million in 2009 to \$141 million in 2010. The increase in these expenses, including transfers to other UC campuses for related research projects, highlights the continued competitive and effective nature of Berkeley's research enterprises.

Travel expenses remained constant at \$36 million for the two years 2010 and 2009.

Other expenses consist of a variety of expense categories, including rent, insurance, legal settlements, repairs and maintenance, and other nonoperating expenses. These expenses decreased \$21 million, or 13%, to \$147 million in 2010 as departments across the campus lowered their spending on miscellaneous services, printing and publications, building maintenance, and rental of facilities and equipment.

Other Changes in Net Assets

Other changes in net assets are generally not available to be used to support Berkeley's operating expenses in the current year.

State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital asset. State capital appropriations increased nearly \$2 million in 2010, mainly associated with activities for the Durant Hall renovation and the Birge Hall infrastructure improvements in 2010. Capital gifts and grants totaled \$23 million in 2010, decreasing \$14 million from 2009. The decrease was primarily attributable to a \$20 million state capital grant received in 2009 for the Biomedical and Health Science Building. Offsetting this decrease, a \$6 million capital gift for equipment was received at Engineering Research in 2010.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Transfers from UC, primarily between Berkeley and UC's Office of the President, were a \$113 million addition to Berkeley's net assets in 2010, compared to a \$164 million addition in 2009. See Note 10 in the Notes to the Financial Statements for additional detail of the transfers.

Capital Spending and Debt/Capital Investments

Berkeley continues to make major investments in its capital assets to meet the campus' academic and strategic objectives. Enrollment, new academic initiatives, and growth in research all create demand for more space. While some of the demand can be met through renovation of existing buildings, new buildings are also required, particularly for programs that demand high performance infrastructure and other advanced features renovated space cannot provide.

Berkeley's capital program can be arranged around five major themes: life safety, intellectual community, campus growth and new initiatives, renewal and maintenance, and sustainable campus. Details on current projects related to these major themes are available on our website, <http://smcp.chance.berkeley.edu/caphighlights/0910.html>. Achievement of these goals is made possible through a varied financial strategy which includes private philanthropy; grants from private foundations, state and federal governments; campus debt; and state bonds.

While this year's capital program continued to see support from the state in the form of general obligation and lease revenue bonds, future capital programs are anticipated to rely less on the state and more heavily on campus debt, private philanthropy, and innovative partnerships with for-profit industry, such as the Strategic Energy Partnership with Pacific Gas and Electric and the Energy Biosciences Institute with British Petroleum.

Completing Berkeley's capital spending are investments in the acquisition of library books and other special collections, other equipment and software.

Using the 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 of America 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.universityofcalifornia.edu/finreports/>.

Berkeley's financial report communicates financial information for the Berkeley campus through three primary financial statements and notes to the financial statements. The three financial statements are the Statements of Net Assets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows. The three financial statements encompass the Berkeley campus and its discretely presented component, the Berkeley Foundation. However, the MD&A and 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.

Berkeley's Statements of Net Assets display all of the assets, liabilities, and net assets reflected in Berkeley's accounts. However, certain significant assets, liabilities, and net assets, such as system-wide investments, self-insurance liabilities, revenue bond debt, and endowment funds, are not reflected in Berkeley's campus-level accounts. Therefore, Berkeley's Statements of Net Assets do not reflect a picture of the campus' financial position on a stand-alone basis but rather as a campus within the UC system.

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF NET ASSETS (unaudited)

AT JUNE 30, 2010 AND 2009 (IN THOUSANDS OF DOLLARS)

	CAMPUS *		FOUNDATION	
	2010	2009	2010	2009
ASSETS				
Cash and cash equivalents (Note 1)	\$563,974	\$516,618	\$3,440	\$3,989
Short-term investments			65,694	60,432
Investments held by trustees (Note 3)	1,555	1,851		
Investment of cash collateral				2,861
Accounts receivable, net (Note 4)	179,313	128,451	1,652	381
Pledges receivable, net (Note 5)	15,751	27,711	7,081	16,912
Current portion of notes and mortgages receivable, net (Note 6)	5,168	5,031		
Inventories	4,839	5,525		
Other current assets	1,204	2,314	776	1,558
Current assets	771,804	687,501	78,643	86,133
Investments (Note 2)	447,020	426,329	987,234	858,196
Investments held by trustees (Note 3)	53,296	5,097	4,867	4,699
Pledges receivable, net (Note 5)	9,366	21,206	6,030	8,810
Notes and mortgages receivables, net (Note 6)	27,997	26,487		
Capital assets, net (Note 7)	2,916,672	2,726,862		
Other noncurrent assets	645	1,045	1,890	1,840
Noncurrent assets	3,454,996	3,207,026	1,000,021	873,545
Total assets	4,226,800	3,894,527	1,078,664	959,678
LIABILITIES				
Accounts payable	63,210	70,533	1,228	383
Accrued salaries and employee benefits	104,616	106,408		
Deferred revenue	173,955	158,862		
Collateral held for securities lending				2,882
Current portion of long-term debt (Note 8)	3,652	13,750		
Funds held for others	1,660	878	500	500
Gift annuities payable			2,824	1,865
Trust liabilities			5,475	5,106
Other current liabilities (Note 9)	70,758	61,126		
Current liabilities	417,851	411,557	10,027	10,736
Federal refundable loans	23,060	23,101		
Deferred revenue			2,000	2,000
Funds held for others			2,249	2,348
Gift annuities payable			19,283	21,834
Trust liabilities			45,442	40,677
Long-term debt (Note 8)	129,863	81,701		
Other noncurrent liabilities (Note 9)	19,828	20,103		
Noncurrent liabilities	172,751	124,905	68,974	66,859
Total liabilities	590,602	536,462	79,001	77,595
NET ASSETS				
Invested in capital assets	2,835,608	2,635,663		
Restricted nonexpendable			561,293	499,827
Restricted expendable	322,606	350,972	437,470	381,485
Unrestricted	477,984	371,430	900	771
Total net assets	\$3,636,198	\$3,358,065	\$999,663	\$882,083

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

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

YEARS ENDED JUNE 30, 2010 AND 2009 (IN THOUSANDS OF DOLLARS)

	CAMPUS *		FOUNDATION	
	2010	2009	2010	2009
OPERATING REVENUES				
Student tuition and fees, net	\$411,952	\$362,099		
Grants and contracts, net:				
Federal	356,836	318,585		
State	121,756	77,195		
Private	171,377	174,103		
Local	4,980	10,942		
Educational activities, net	70,514	75,061		
Auxiliary enterprises, net	151,841	149,035		
Campus foundation private gifts			\$61,797	\$58,418
Other operating revenues, net	24,713	20,510	4,253	2,693
Total operating revenues	1,313,969	1,187,530	66,050	61,111
OPERATING EXPENSES				
Salaries and wages	940,123	973,011		
Employee benefits	234,806	220,464		
Scholarships and fellowships	80,668	77,275		
Utilities	35,425	42,447		
Supplies and materials	144,264	138,976		
Depreciation and amortization (Note 7)	149,835	144,210		
Campus foundation grants			84,551	78,937
Other operating expenses	319,464	290,952	2,825	2,465
Total operating expenses	1,904,585	1,887,335	87,376	81,402
Operating loss	(590,616)	(699,805)	(21,326)	(20,291)
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations:				
State general support	318,850	319,473		
Federal American Recovery and Reinvestment Act stimulus support	87,782	51,241		
State financing appropriations	13,830	19,389		
Build America Bonds federal interest subsidies	4,785			
Federal Pell grants	43,446	29,020		
Private gifts, net	144,872	143,368		
Investment income:				
Endowment, net (Note 11)	78,045	75,427		
Short-term investment pool and other, net	36,764	42,106		
Campus foundation			5,701	7,149
Net appreciation (depreciation) in fair value of investments			78,933	(183,732)
Adjustment to gift annuities and trust liabilities			7,601	(30,996)
Interest expense	(3,587)	(1,659)		
Loss on disposal of capital assets	(1,446)	(2,238)		
Other nonoperating revenues (expenses), net	(649)	(389)		
Net nonoperating revenues (expenses)	722,692	675,738	92,235	(207,579)
Income (loss) before other changes in net assets	132,076	(24,067)	70,909	(227,870)
OTHER CHANGES IN NET ASSETS				
State capital appropriations	10,922	8,959		
Capital gifts and grants, net	22,521	36,598		
Permanent endowments			46,671	49,922
Transfers from UC, net (Note 10)	112,614	163,811		
Increase (decrease) in net assets	278,133	185,301	117,580	(177,948)
Net assets, beginning of year	3,358,065	3,172,764	882,083	1,060,031
Net assets, end of year	\$3,636,198	\$3,358,065	\$999,663	\$882,083

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF CASH FLOWS (unaudited)

YEARS ENDED JUNE 30, 2010 AND 2009 (IN THOUSANDS OF DOLLARS)

	CAMPUS *		FOUNDATION	
	2010	2009	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	\$407,750	\$363,094		
Grants and contracts	630,086	580,833		
Educational activities	71,207	75,064		
Auxiliary enterprises	151,948	147,604		
Collection of loans from students and employees	3,922	3,736		
Campus foundation private gifts			\$63,928	\$63,879
Payments to employees	(936,454)	(966,807)		
Payments for employee benefits	(236,364)	(218,280)		
Payments to suppliers and utilities	(495,853)	(469,290)	(2,875)	(2,061)
Payments for scholarships and fellowships	(80,726)	(77,743)		
Loans issued to students and employees	(5,544)	(4,535)		
Payments to campus and beneficiaries			(92,406)	(87,432)
Other receipts	24,719	14,819	7,710	4,926
Net cash used by operating activities	(465,309)	(551,505)	(23,643)	(20,688)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations:				
State general support	318,578	319,541		
Federal American Recovery and Reinvestment Act stimulus support	87,782	51,241		
Federal Pell grants	40,050	29,124		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes			39,857	45,836
Other private gifts	171,290	147,722		
Student direct lending receipts	145,698	135,247		
Student direct lending payments	(145,698)	(135,247)		
Other payments	(5,319)	(4,884)		
Net cash provided by noncapital financing activities	612,381	542,744	39,857	45,836
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
State capital appropriations	17,535	14,439		
State financing appropriations	10,249	20,222		
Build America Bonds federal interest subsidies	4,785			
Capital gifts and grants	11,361	16,383		
Proceeds from debt issuance		23,463		
Proceeds from the sale of capital assets	222	555		
Purchase of capital assets	(335,921)	(377,633)		
Principal paid on debt and capital leases	(13,925)	(3,021)		
Interest paid on debt and capital leases	(769)	(1,367)		
Net cash used by capital and related financing activities	(306,463)	(306,959)		
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale and maturities of investments			109,670	59,420
Investment income:				
Endowment	78,045	75,427		
Short-term investment pool and other	36,779	42,150	4,429	7,417
Purchase of investments	(20,691)	(426,329)	(130,862)	(92,803)
Net cash provided (used) by investing activities	94,133	(308,752)	(16,763)	(25,966)
Transfers of net assets from UC, net	112,614	163,811		
Net increase (decrease) in cash and cash equivalents	47,356	(460,661)	(549)	(818)
Cash and cash equivalents, beginning of year	516,618	977,279	3,989	4,807
Cash and cash equivalents, end of year	\$563,974	\$516,618	\$3,440	\$3,989

* See accompanying Notes to Financial Statements

STATEMENTS OF CASH FLOWS (continued)

YEARS ENDED JUNE 30, 2010 AND 2009 (IN THOUSANDS OF DOLLARS)

	CAMPUS *		FOUNDATION	
	2010	2009	2010	2009
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating loss	(\$590,616)	(\$699,805)	(\$21,326)	(\$20,291)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation and amortization expense	149,835	144,210		
Noncash gifts			(8,110)	(3,136)
Allowance for doubtful accounts	(842)	453	406	327
Change in assets and liabilities:				
Accounts receivable	(39,673)	(1,704)	135	662
Pledges receivable			12,205	4,592
Investments held by trustees	202	(749)		
Notes and mortgages receivable	(29)			
Inventories	686	(480)		
Other assets	1,782	(213)	(290)	3,383
Accounts payable	(2,656)	(6,701)	845	(377)
Accrued salaries and employee benefits	(1,792)	4,681		
Deferred revenue	7,901	7,040	(98)	498
Gift annuities payable			(3,801)	(3,118)
Trust liabilities			(3,609)	(3,228)
Other liabilities	9,893	1,763		
Net cash used by operating activities	(\$465,309)	(\$551,505)	(\$23,643)	(\$20,688)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired through capital leases	\$1,503	\$1,679		
Capital assets acquired with a liability at year-end	14,238	14,240		
Gifts of capital assets	8,475	2,669		
Other noncash gifts			\$15,188	\$6,332
Debt service for lease-revenue bonds	(3,887)	(3,887)		

* See accompanying Notes to Financial Statements

ORGANIZATION

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

FINANCIAL REPORTING ENTITY

Berkeley's financial statements include the accounts of the campus only. Accounts for separate, but related organizations, such as the E. O. Lawrence Berkeley National Laboratory, associated student organizations, and booster and alumni organizations are not included in the reporting entity because Berkeley does not have fiduciary responsibility for these organizations or the organizations' balances and activities are insignificant compared to Berkeley's amounts. The University of California, Berkeley Foundation (the "Foundation") is a legally separate not-for-profit organization dedicated to providing to Berkeley the financial benefits generated from its fundraising efforts and investment earnings. 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 all of the assets, liabilities, net assets, revenues, expenses and transfers of net assets from UC reflected in Berkeley's accounts. However, certain significant financial balances and activities, such as UC-managed investments, self-insurance liabilities, commercial paper debt, retirement benefit liabilities, endowment funds, changes in fair value of investments and permanent endowments and non-capital interest expense are not reflected in Berkeley's campus-level accounts. 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. Berkeley's financial statements have not been individually audited but rather are audited as part of the UC financial statement audit.

SIGNIFICANT ACCOUNTING POLICIES

Berkeley's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board (GASB) and all statements of the Financial Accounting Standards Board through November 30, 1989, using the economic resources measurement focus and the accrual basis of accounting.

GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets, was adopted during the year ended June 30, 2010. Statement No. 51 requires the capitalization of identifiable intangible assets in the statement of net assets and provides guidance for amortization of intangible assets unless they are considered to have an indefinite useful life. Management determined that Berkeley was already compliant with the requirements of the statement in fiscal year 2009 except for the discrete disclosure of the original cost, amortization and estimated economic lives in the footnotes. The footnotes were modified to separately present the information for intangible assets.

The significant accounting policies of Berkeley are as follows:

Cash and cash equivalents

Berkeley considers all balances in demand deposit accounts and its share of UC's Short Term Investment Pool (STIP) to be cash.

Investments

Berkeley considers its share of UC's Total Return Investment Pool (TRIP) to be non-current investments held by the Office of the President. These amounts are recorded at historical cost, which does not approximate the fair value of the investments. Realized gains or losses are recorded upon the sale of Berkeley's shares. Dividend and interest income, net of administrative fees, is recorded as it is distributed from the Office of the President.

Investments held by trustees

Investments held by trustees are primarily recorded at fair value.

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 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. 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.

University of California, Berkeley
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
YEARS ENDED JUNE 30, 2010 AND 2009

Estimated economic lives are generally as follows:

Infrastructure	25 years
Buildings and improvements	15-33 years
Equipment	2-20 years
Computer software	3-7 years
Intangible assets	2 years-indefinite
Libraries and collections	15 years

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

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

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

Deferred revenue

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

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 assets 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.

Net assets

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

Invested in capital assets, net of related debt

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

Restricted expendable

Berkeley classifies net assets resulting from transactions with purpose restrictions as restricted net assets until the specific resources are used for the required purpose. Net assets whose use by Berkeley is subject to externally-imposed restrictions that can be fulfilled by actions of Berkeley pursuant to those restrictions are classified as restricted expendable net assets.

Unrestricted

Net assets that are neither reserved, restricted nor invested in capital assets, net of related debt, are classified as unrestricted net assets. Unrestricted net assets may be designated for specific purposes by management or the

University of California, Berkeley
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
YEARS ENDED JUNE 30, 2010 AND 2009

Regents. Substantially all unrestricted net assets are allocated for academic and research initiatives or programs, for capital programs, or for other purposes.

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

Revenues and expenses

Operating revenues include receipts from student tuition and fees, grants and contracts for specific operating activities, and sales and services from educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of Berkeley are presented in the statement of revenues, expenses and changes in net assets as operating activities.

Certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of Berkeley are mandated by the GASB to be recorded as nonoperating revenues, including state educational appropriations, 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 and loss on the disposal of capital assets.

State capital appropriations, capital gifts and grants, and certain net transfers from the Office of the President are classified as other changes in net assets.

Student tuition and fees

Substantially all of the student tuition and fees provide for current operations of Berkeley. A small portion of the student fees, reported as capital gifts and grants, is required for debt service associated with student union and recreational centers. Certain waivers of student tuition and fees considered to be scholarship allowances are recorded as an offset to revenue.

State appropriations

The state of California provides appropriations to UC on an annual basis. Total state educational appropriations consisted of state general support augmented by federal stimulus support. Berkeley's allocated share of state educational appropriations is recognized as nonoperating revenue; however, the related expenses are incurred to support either educational operations or other specific operating purposes. State financing appropriations provide for principal and interest payments associated with lease-purchase agreements with the State Public Works Board and are also reported as non-operating revenue. State appropriations for capital projects are recorded as revenue under other changes in net assets when related expenditures are incurred. Special state appropriations for AIDS, tobacco, and breast cancer research are reported as grant revenue.

Grant and contract revenue

Berkeley receives grant and contract revenue from governmental and private sources. Berkeley recognizes revenue associated with the direct costs of sponsored programs as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs is at cost reimbursement rates negotiated with UC's federal cognizant agency, the U.S. Department of Health and Human Services. For the year ended June 30, 2010, the facilities and administrative cost recovery totaled \$106.9 million, \$73.6 million from federally sponsored programs and \$33.3 million from other sponsors. For the year ended June 30, 2009, the facilities and administrative cost recovery totaled \$94.6 million, \$64.2 million from federally sponsored programs and \$30.4 million from other sponsors.

Scholarship allowances

Berkeley recognizes certain scholarship allowances, including both financial aid and fee waivers, as the difference between the stated charge for tuition and fees, housing and dining charges, recreational center fees, and the amount that is paid by the student, as well as third parties making payments on behalf of the student. Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

Scholarship allowances in the following amounts are recorded as an offset to revenues for the years ended June 30, 2010 and 2009 (in thousands of dollars):

	2010	2009
Student tuition and fees	\$144,300	\$121,055
Auxiliary enterprises	33,015	31,430
Scholarship allowances	\$177,315	\$152,485

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. The campus is required to contribute at a rate assessed each year by the UCRP. As a result, the campus's required contributions are recognized as an expense in the statement of revenues, expenses and changes in net assets, and as operating activities in the statement of cash flows.

Retiree health benefits expense

UC established the University of California Retiree Health Benefit Trust (UCRHBT) to allow certain UC locations and affiliates, including Berkeley, to share the risks, rewards and costs of providing for retiree health benefits and to accumulate funds on a tax-exempt basis under an arrangement segregated from UC assets. The Regents serves as Trustee of UCRHBT and has the authority to amend or terminate the Trust.

The UCRHBT provides retiree health benefits to retired employees of the campus. Contributions from the campus to the UCRHBT are effectively made to a cost-sharing single-employer health plan administered by UC. The campus is required to contribute at a rate assessed each year by the UCRHBT. As a result, the campus's required contributions are recognized as an expense in the statement of revenues, expenses and changes in net assets, and as operating activities in the statement of cash flows.

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.

University of California, Berkeley
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
YEARS ENDED JUNE 30, 2010 AND 2009

Use of estimates

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

Comparative information

Berkeley reclassified certain items in the 2009 financial statements for purpose of presenting comparative information consistent with the presentation in 2010. The reclassifications included reporting federal Pell grants as nonoperating revenues rather than federal grants and contracts; reporting re-invested earnings from TRIP as noncurrent rather than current assets; and reporting net transfers from UC associated with state educational appropriations, endowment income and STIP as nonoperating revenues rather than changes in net assets. These revisions had no effect on the previously reported net assets. The effect of the reclassifications on Berkeley's financial statements for the year ended June 30, 2009 is as follows (in thousands of dollars):

	YEAR ENDED JUNE 30, 2009		
	As Previously Reported	Reclassifications	As Restated
Statement of Net Assets			
Current Assets	\$705,830	(\$18,329)	\$687,501
Noncurrent assets	3,188,697	18,329	3,207,026
Statement of Revenues, Expenses and Changes in Net Assets			
Total operating revenues	\$1,216,550	(\$29,020)	\$1,187,530
Total operating expenses	1,888,454	(1,119)	1,887,335
Operating loss	(671,904)	(27,901)	(699,805)
Net nonoperating revenues	587,749	87,989	675,738
Loss before other changes in net assets	(84,155)	60,088	(24,067)
Transfers from UC	223,899	(60,088)	163,811
Statement of Cash Flows			
Net cash used by operating activities	(\$523,500)	(\$28,005)	(\$551,505)
Net cash provided by noncapital financing activities	553,855	(11,111)	542,744
Net cash used by investing activities	(389,627)	80,875	(308,752)
Transfers from UC	223,899	(60,088)	163,811
Net decrease in cash	(442,332)	(18,329)	(460,661)
Cash and cash equivalents, end of year	534,947	(18,329)	516,618

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.

Under UC policy, deposits are only held at financial institutions that maintain an issuer rating on long term debt of A3 or higher by Moody's, A- or higher by Standard & Poor's or an Asset Peer Group rating of 65 or higher as defined by Sheshunoff Bank Rating Reports. At June 30, 2010 and 2009, the carrying amount of Berkeley's demand deposits, held in nationally recognized banking institutions, was \$1.7 million compared to bank balances of \$1.3 million, for both years. Bank balances in excess of the Federal Deposit Insurance Corporation (FDIC) limits are collateralized by UC with U.S. government securities held in the name of the bank.

Berkeley does not have a significant exposure to foreign currency risk in demand deposit accounts. Accounts held in foreign countries maintain minimum operating balances with the intent to reduce potential foreign exchange risk while providing an adequate level of liquidity to meet the obligations of the academic programs established abroad.

The equivalent U.S. dollar balances required to support research groups in foreign countries were insignificant at June 30, 2010 and 2009, respectively.

Berkeley considers its share of UC's STIP to be cash. Berkeley's share of UC's STIP at June 30, 2010 and 2009 was \$562.3 million and \$514.9 million, respectively.

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. Primarily all of Berkeley's available cash balances were invested in STIP. The STIP allows participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities and is managed to maximize current earned income. Cash to provide for payroll, construction expenditures and other operating expenses for Berkeley is invested in the STIP. Investments authorized by the Regents for the STIP include fixed income securities with a maximum maturity of five and one-half years. In addition, the Regents has also authorized loans, primarily to faculty members residing in California, under UC's Mortgage Origination Program with terms up to 40 years. Earnings from STIP distributed to Berkeley from the Office of the President, included in short-term investment pool and other, net, in the statements of revenues, expenses, and changes in net assets, was \$16.1 million in 2010 and \$23.8 million in 2009.

Berkeley participates in UC's TRIP. 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 investment amounts are recorded at historical cost, which does not approximate the fair value of the investments. Realized gains or losses are recorded upon sale of Berkeley's shares. Dividend and interest income, net of administrative fees, is recorded as it is distributed from the Office of the President, totaling \$20.7 million in 2010 and \$18.3 million in 2009.

NOTE 3: INVESTMENTS HELD BY TRUSTEES

Berkeley has entered into agreements with trustees to maintain trusts for certain capital projects. In addition, the state of California retains on deposit certain proceeds from the sale of lease-revenue bonds to be used for capital projects. The combined fair value of all of the investments and deposits held by trustees was \$54.9 million and \$6.9 million at June 30, 2010 and 2009, respectively.

University of California, Berkeley
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
 YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable and the allowance for uncollectible amounts at June 30, 2010 and 2009 are as follows (in thousands of dollars):

	STATE & FEDERAL GOVERNMENT	LOCAL GOVT & PRIVATE GRANTS & CONTRACTS	AUXILIARY & SERVICE ENTERPRISES	FEES & OTHER	TOTAL
At June 30, 2010					
Accounts receivable	\$119,775	\$29,813	\$4,803	\$30,527	\$184,918
Allowance for uncollectible amounts	(190)	(355)	(924)	(4,136)	(5,605)
Accounts receivable, net	\$119,585	\$29,458	\$3,879	\$26,391	\$179,313
At June 30, 2009					
Accounts receivable	\$71,481	\$38,940	\$5,174	\$19,545	\$135,140
Allowance for uncollectible amounts	(349)	(507)	(1,231)	(4,602)	(6,689)
Accounts receivable, net	\$71,132	\$38,433	\$3,943	\$14,943	\$128,451

Adjustments to the allowance for doubtful accounts have either increased or (decreased) the following revenues for the years ended June 30, 2010 and 2009 (in thousands of dollars):

	2010	2009
Student tuition and fees	\$137	(\$1,809)
Grants and contracts	(250)	(255)
Educational activities	(10)	(70)
Auxiliary enterprises	266	(446)
Other operating revenues	(323)	205

NOTE 5: PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2010 and 2009 is summarized as follows (in thousands of dollars):

	2010	2009
Total pledges receivable outstanding	\$32,021	\$56,082
Less: Unamortized discount to present value	(893)	(2,815)
Allowance for uncollectible pledges	(6,011)	(4,350)
Current portion of pledges receivable	(15,751)	(27,711)
Noncurrent portion of pledges receivable	\$9,366	\$21,206

Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2010 and thereafter are as follows (in thousands of dollars):

Year Ending June 30	
2011	\$20,901
2012	4,761
2013	2,915
2014	1,534
2015	438
2016 and thereafter	1,472
Total payments on pledges receivable	\$32,021

University of California, Berkeley
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
YEARS ENDED JUNE 30, 2010 AND 2009

Adjustments to the allowance for doubtful accounts associated with pledges have decreased the following revenues for the years ended June 30, 2010 and 2009 (in thousands of dollars):

	2010	2009
Private gifts	(\$579)	(\$5,266)
Capital gifts and grants	(3,294)	(140)
	(\$3,873)	(\$5,406)

NOTE 6: NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2010 and 2009, along with the allowance for uncollectible amounts, are as follows (in thousand of dollars):

	CURRENT	NONCURRENT		TOTAL
		NOTES	MORTGAGES	
At June 30, 2010				
Notes and mortgages receivable	\$5,228	\$27,456	\$2,854	\$30,310
Allowance for uncollectible amounts	(60)	(2,313)	-	(\$2,313)
Notes and mortgages receivable, net	\$5,168	\$25,143	\$2,854	\$27,997
At June 30, 2009				
Notes and mortgages receivable	\$5,086	\$25,577	\$2,985	\$28,562
Allowance for uncollectible amounts	(55)	(2,075)	-	(\$2,075)
Notes and mortgages receivable, net	\$5,031	\$23,502	\$2,985	\$26,487

NOTE 7: CAPITAL ASSETS

Berkeley's capital asset activity for the year ended June 30, 2010 and 2009 is as follows (in thousands of dollars):

	2008	ADDITIONS	DISPOSALS	2009	ADDITIONS	DISPOSALS	2010
ORIGINAL COST							
Land	\$67,357	\$23,697	(\$1)	\$91,053	\$774	-	\$91,827
Infrastructure	38,788	1,736		40,524	2,918	-	43,442
Buildings and improvements	2,591,905	297,492		2,889,397	68,310	(1,217)	2,956,490
Equipment, software and intangibles	452,872	36,935	(32,123)	457,684	36,364	(22,955)	471,093
Libraries and collections	836,548	29,816	(3,392)	862,972	28,686	(5,158)	886,500
Special collections	90,535	4,170	(1,612)	93,093	3,896	-	96,989
Construction in progress	252,618	(11,365)		241,253	201,873	-	443,126
Capital assets, at original cost	\$4,330,623	\$382,481	(\$37,128)	\$4,675,976	\$342,821	(\$29,330)	\$4,989,467
DEPRECIATION AND AMORTIZATION							
	2008	DEPRECIATION AND AMORTIZATION	DISPOSALS	2009	DEPRECIATION AND AMORTIZATION	DISPOSALS	2010
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure	\$14,323	\$1,536		\$15,859	\$1,588		\$17,447
Buildings and improvements	883,285	84,668		967,953	89,439	(1,181)	1,056,211
Equipment, software and intangibles	332,771	31,382	(31,477)	332,676	31,556	(20,907)	343,325
Libraries and collections	608,805	26,624	(2,803)	632,626	27,252	(4,066)	655,812
Accumulated depreciation and amortization	\$1,839,184	\$144,210	(\$34,280)	\$1,949,114	\$149,835	(\$26,154)	\$2,072,795
Capital assets, net	\$2,491,439			\$2,726,862			\$2,916,672

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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. Most long-term indebtedness for Berkeley's housing and food service operations is carried by UC rather than by Berkeley. Long-term indebtedness for Berkeley's parking operations, the Recreational Sports Facility, deferred maintenance and various other facilities is also carried by UC. Berkeley is assessed the required debt service related to its proportionate share of the systemwide debt by UC.

Debt reflected in Berkeley's statement of net assets at June 30, 2010 and 2009 is as follows (in thousands of dollars):

	INTEREST RATES	MATURITY YEARS	2010	2009
LONG-TERM FINANCING:				
Capital lease obligations	2.84-5.49%	2011-2035	\$ 133,515	\$ 83,880
Mortgages and other borrowings			-	11,571
Total outstanding debt			133,515	95,451
Less: Current portion of outstanding debt			(3,652)	(13,750)
Noncurrent portion of outstanding debt			\$ 129,863	\$ 81,701

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, 2010 and 2009 was \$14.9 million and \$5.9 million, respectively. Interest expense, net of investment income, totaling \$11.3 million and \$4.2 million was capitalized during the years ended June 30, 2010 and 2009, respectively. The remaining \$3.6 million in 2010 and \$1.7 million in 2009 is reported as interest expense in the statement of revenues, expenses and changes in net assets.

Outstanding Debt Activity

The activity with respect to Berkeley's current and noncurrent debt for the years ended June 30, 2010 and 2009 is as follows (in thousands of dollars):

	CAPITAL LEASE OBLIGATIONS	OTHER BORROWINGS	TOTAL
<i>Year ended June 30, 2010</i>			
Current portion at June 2009	\$2,179	\$11,571	\$13,750
Reclassification from noncurrent	3,827	-	3,827
Principal payments	(2,354)	(11,571)	(13,925)
Current portion at June 30, 2010	\$3,652	\$ -	\$3,652
<i>Year ended June 30, 2009</i>			
Noncurrent portion at June 30, 2009	\$81,701	\$ -	\$81,701
New obligations	51,989	-	51,989
Reclassification to current	(3,827)	-	(3,827)
Noncurrent portion at June 30, 2010	\$129,863	\$ -	\$129,863
<i>Year ended June 30, 2009</i>			
Current portion at June 2008	\$2,645	\$155	\$2,800
Reclassification from noncurrent	2,400	11,571	13,971
Principal payments	(2,866)	(155)	(3,021)
Current portion at June 30, 2009	\$2,179	\$11,571	\$13,750
Noncurrent portion at June 30, 2008	\$82,422	\$11,571	\$93,993
New obligations	1,679	-	1,679
Reclassification to current	(2,400)	(11,571)	(13,971)
Noncurrent portion at June 30, 2009	\$81,701	\$ -	\$81,701

University of California, Berkeley
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Capital Leases

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

Upon completion, the buildings and equipment are leased to UC under terms and amounts that are sufficient to satisfy the state's lease revenue bond requirements with the understanding that the state will provide financing appropriations to UC to satisfy the annual lease requirements. At the conclusion of the lease term, ownership transfers to UC.

Most of the capital lease obligations associated with the lease-purchase agreements with the state are carried by UC, and Berkeley is assessed for its share of the related debt service. However, capital lease obligations associated only with Berkeley are recorded by Berkeley. The capital lease obligations associated with the lease-purchase agreements with the State that are carried by Berkeley and reported in Berkeley's statement of net assets were \$130.4 million at June 30, 2010, and \$79.9 million at June 30, 2009.

The state of California financing appropriation to Berkeley under the terms of the lease-purchase agreements, recorded as nonoperating revenue, for the years ended June 30, 2010 and 2009 was \$12.3 million and \$17.9 million, respectively. The principal and interest debt service payments reported in Berkeley's financial statements as transfers to UC for the years ended June 30, 2010 and 2009 were as follows (in thousands of dollars):

	2010	2009
Capital lease principal	\$8,159	\$10,478
Capital lease interest	5,905	7,910
Total	\$14,064	\$18,388

Capital leases entered into with other lessors, typically for equipment, totaled \$3.2 million and \$4.0 million for the years ended June 30, 2010 and 2009, respectively.

Other Borrowings

Other borrowings consist of a bank loan associated with the acquisition of land or buildings. The balance outstanding of \$11.6 million at June 30, 2009 was paid off at June 30, 2010. The interest rate associated with the bank loan was 8.8 percent, and the interest payments totaled \$0.6 million and \$1.0 million for 2010 and 2009, respectively.

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to June 30, 2010 are as follows (in thousands of dollars):

Year Ending June 30	CAPITAL LEASES	PRINCIPAL	INTEREST
2011	\$1,610	\$1,517	\$93
2012	999	953	46
2013	329	309	20
2014	239	228	11
2015	155	152	3
Total future debt service	3,332	\$3,159	\$173
Less: Interest component of future payments	(173)		
Principal portion of future payments	\$3,159		

NOTE 9: OTHER LIABILITIES

Other current liabilities of \$72.4 million and \$62.0 million and noncurrent liabilities of \$19.8 million and \$20.1 million at June 30, 2010 and 2009, respectively, consisted of compensated absences, deposits, pollution remediation and other accrued liabilities.

Pollution remediation liabilities generally involve groundwater, soil and sediment contamination at certain sites where state and other regulatory agencies have indicated UC 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, 2010 and 2009 reducing the pollution remediation liability. Berkeley records in its accounts pollution remediation liabilities associated with capital assets recorded in its accounts.

Berkeley participates in UC's self-insurance programs for medical malpractice, workers' compensation, employee health care and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded by UC when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate for claims that have been incurred, but not reported. The estimated liabilities are based upon an independent actuarial determination of the anticipated future payments. Berkeley is assessed for its share of the required insurance expense. Insurance expense of \$8.0 million and \$7.9 million was included in other operating expenses for the years ended June 30, 2010 and 2009, respectively.

NOTE 10: TRANSFERS FROM UC

Transfers from UC include transfers arising out of binding legal agreements related to the financing of capital projects and transfers made at the discretion of management to serve a variety of objectives, such as distribution of certain campus revenues to Office of the President, additions to funds functioning as endowment, and funding of specific designated operating activities.

Transfers of funds from (to) UC for the years ended June 30, 2010 and 2009 are as follows (in thousands dollars):

	2010	2009
Capital projects funding	214,143	245,380
Debt service funding	5,869	663
Repayment of principal	(26,274)	(27,448)
Payment of interest	(45,718)	(35,965)
Transfers of net capital assets	(1,266)	1,726
Indirect cost recovery, net	(30,016)	(26,955)
Educational fee	8,782	(2,945)
Funds functioning as endowments	(39,456)	(10,616)
Endowment cost recovery fees	6,823	6,682
Other operating funding	19,727	13,289
Total	112,614	163,811

NOTE 11: ENDOWMENTS AND FOUNDATION 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, 2010 and 2009 are as follows (in thousands dollars):

	2010		2009	
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE
Endowment - regental	\$614,979	\$1,670,211	\$574,664	\$1,528,841
Endowment - foundation	774,476	895,456	698,031	785,758
Total	\$1,389,455	\$2,565,667	\$1,272,695	\$2,314,599

The Regents' Endowments

The endowments held by UC are administered on a systemwide basis, and related investments are not reflected on Berkeley's separate financial statements. The portion of investment returns earned on endowments held by UC and distributed each year to support current operations is based on a rate (stated in dollar per share) that is approved by The Regents. The total distribution from endowments held by UC was \$78.0 million and \$75.4 million for the years ended June 30, 2010 and 2009, respectively.

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 the University. Although independent boards govern The Berkeley Foundation, its assets are dedicated for the benefit of the Berkeley campus. During the years ended June 30, 2010 and 2009, gifts of \$84.6 million (\$35.3 million from endowment investments and \$49.3 million from current funds) and \$78.9 million (\$31.8 million from endowment investments and \$47.1 million from current funds), respectively, were transferred to Berkeley from the Foundation.

NOTE 12: RETIREE HEALTH PLANS

UC administers single-employer health plans to provide health and welfare benefits, primarily medical, dental and vision benefits, to eligible retirees of the University of California and its affiliates. The Regents has the authority to establish and amend the benefit plans.

The contribution requirements of the eligible retirees and the participating UC locations, such as Berkeley, are established and may be amended by UC. Membership in the UCRP is required to become eligible for retiree health benefits. Contributions toward benefits are shared with the retiree. UC determines the employer's contribution. Retirees are required to pay the difference between the employer's contribution and the full cost of the health insurance. Retirees employed by the campus prior to 1990 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 5 years of service. Retirees employed by the campus after 1989 and not rehired after that date 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.

Participating UC locations, such as the campus, are required to contribute at a rate assessed each year by the UCRHBT. The contribution requirements are based upon projected pay-as-you-go financing requirements. The assessment rates were \$3.12 and \$3.09 per \$100 of UCRP covered payroll resulting in campus contributions of \$21.9 million and \$22.9 million for the years ended June 30, 2010 and 2009, respectively.

The actuarial value of UCRHBT assets and the actuarial accrued liability associated with UC's campuses and medical centers using the entry age normal cost method as of July 1, 2009, the date of the latest actuarial valuation, were \$76.9 million and \$14.5 billion, respectively. The net assets held in trust for pension benefits on the UCRHBT's Statement of Plan Fiduciary Net assets were \$69.4 million at June 30, 2010. For the years ended

June 30, 2010 and 2009, combined contributions from UC campuses and medical centers were \$283.5 million and \$278.5 million, respectively, including an implicit subsidy of \$49.5 million and \$44.1 million, respectively. UC's annual retiree health benefit expense for its campuses and medical centers was \$1.6 billion and \$1.5 billion for the years ended June 30, 2010 and 2009, respectively. As a result of contributions that were less than the retiree health benefit expense, UC's obligation for retiree health benefits attributable to its campuses and medical centers totaling \$3.7 billion at June 30, 2010 increased by \$1.4 billion and \$1.2 billion for the years ended June 30, 2010 and 2009, respectively.

Information related to plan assets and liabilities as they relate to individual campuses and medical centers is not readily available. Additional information on the retiree health plans can be obtained from the 2009–2010 annual reports of the University of California and the University of California Health and Welfare Program.

NOTE 13: RETIREMENT PLANS

Substantially all full-time employees of Berkeley participate in the University of California Retirement System (UCRS) that is administered by UC. 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.

The UCRP provides lifetime retirement income, disability protection, and survivor benefits to eligible employees. Benefits are based on average highest three years compensation, age, and years of service and are subject to limited cost-of-living increases.

Contributions to the UCRP may be made by the 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 the campus and by the employees. Employee contributions by represented employees are subject to collective bargaining agreements. As a result of the funded status of the UCRP, during the year ended June 30, 2009, there were no required campus or employee contributions other than for service credit buybacks.

The actuarial value of UCRP assets and the actuarial accrued liability associated with UC's campuses and medical centers using the entry age normal cost method as of July 1, 2009, the date of the latest actuarial valuation, were \$34.8 billion and \$36.8 billion, respectively, resulting in a funded ratio of 94.8 percent. The net assets held in trust for pension benefits attributable to the campuses and medical centers included in the UCRP Statement of Plan's Fiduciary Net assets were \$34.6 billion and \$32.3 billion at June 30, 2010 and June 30, 2009, respectively.

For the years ended June 30, 2010 and 2009, UC campuses and medical centers contributed a combined \$64.8 million and \$0.4 million, respectively. UC's annual UCRP benefits expense for its campuses and medical centers was \$1.6 billion for the year ended June 30, 2010. As a result of contributions that were less than the UCRP benefits expense, UC's obligation for UCRP benefits attributable to its campuses and medical centers increased by \$1.5 billion for the year ended June 30, 2010.

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 the campus 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.

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Information related to plan assets and liabilities, as they relate to campus employees, is not readily available. Additional information on the retirement plans can be obtained from the 2009-2010 annual reports of the University of California Retirement Plan, the University of California Retirement Savings Plan and the University of California PERS-VERIP.

NOTE 14: COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled \$456.0 million and \$557.2 million at June 30, 2010 and 2009, respectively.

Berkeley leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the year ended June 30, 2010 and 2009 were \$17.0 million and \$21.2 million, respectively. The terms of operating leases extend through the year ending 2020.

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
2011	\$10,500
2012	8,792
2013	6,889
2014	5,021
2015	2,362
2016 and thereafter	3,523
Total	\$37,087

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.