



UNIVERSITY OF CALIFORNIA, BERKELEY

**Annual Financial Report
2012-13**

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UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF NET POSITION (unaudited)

At June 30, 2013 and 2012 (In Thousands of Dollars)

	CAMPUS *		FOUNDATION	
	2013	2012	2013	2012
ASSETS				
Cash and cash equivalents	\$1,433,550	\$1,319,087	\$2,743	\$2,483
Short-term investments			62,766	64,197
Investments held by trustees	2,007	1,692		
Accounts receivable, net	173,962	183,491		
Pledges receivable, net	15,577	21,809	34,172	23,745
Current portion of notes and mortgages receivable, net	5,757	5,783		
Inventories	5,072	4,607		
Other current assets	1,992	2,728	1,008	224
Current assets	1,637,917	1,539,197	100,689	90,649
Investments	2,052,522	1,905,074	1,396,030	1,231,076
Investments held by trustees	81,917	123,167	-	2,475
Pledges receivable, net	18,551	36,040	106,192	102,809
Notes and mortgages receivables, net	24,852	26,002		
Capital assets, net	3,615,491	3,486,489		
Other noncurrent assets	1,282	2,126	1,795	1,781
Noncurrent assets	5,794,615	5,578,898	1,504,017	1,338,141
Total assets	7,432,532	7,118,095	1,604,706	1,428,790
LIABILITIES				
Accounts payable	128,963	102,462	286	359
Accrued salaries	98,416	40,146		
Employee benefits	21,588	10,630		
Unearned revenue	173,453	155,068		
Commercial paper	243,911	208,458		
Current portion of long-term debt	36,998	43,519		
Funds held for others	1,627	2,034	10,085	9,384
Other current liabilities	105,672	86,897		
Current liabilities	810,628	649,214	10,371	9,743
Federal refundable loans	23,189	22,993		
Obligations under life income agreements			85,731	74,962
Long-term debt	1,905,582	1,862,886		
Obligations to UCRP	312,043	199,612		
Obligations for retiree health benefits	676,251	567,605		
Other noncurrent liabilities	15,742	11,252		
Noncurrent liabilities	2,932,807	2,664,348	85,731	74,962
Total liabilities	3,743,435	3,313,562	96,102	84,705
NET POSITION				
Invested in capital assets, net of related debt	1,505,891	1,494,541		
Restricted: Nonexpendable endowments and gifts	394,130	381,799	778,662	710,616
Restricted: Expendable endowments and gifts	2,045,377	1,902,582	729,931	633,440
Restricted: Expendable debt service, loans, capital projects and appropriations	68,020	51,373		
Unrestricted	(324,321)	(25,762)	11	29
Total net position	\$3,689,097	\$3,804,533	\$1,508,604	\$1,344,085

* See accompanying Notes to Financial Statements

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

Years Ended June 30, 2013 and 2012 (In Thousands of Dollars)

	CAMPUS *		FOUNDATION	
	2013	2012	2013	2012
OPERATING REVENUES				
Student tuition and fees, net	\$639,860	\$623,967		
Grants and contracts, net:				
Federal	368,791	408,202		
State	88,853	95,333		
Private	189,837	171,385		
Local	7,033	4,491		
Educational activities, net	87,207	81,485		
Auxiliary enterprises, net	172,268	160,531		
Campus foundation private gifts			\$114,131	\$110,406
Other operating revenues, net	74,659	57,364	2,529	3,328
Total operating revenues	1,628,508	1,602,758	116,660	113,734
OPERATING EXPENSES				
Salaries and wages	1,056,041	995,852		
UCRP benefits	195,753	86,477		
Retiree health benefits	129,134	119,024		
Other employee benefits	241,777	231,906		
Supplies and materials	179,609	156,565		
Depreciation and amortization	188,471	169,917		
Scholarships and fellowships	121,652	139,683		
Utilities	38,286	35,904		
Campus foundation grants			139,913	110,602
Other operating expenses	401,416	341,297	4,091	4,260
Total operating expenses	2,552,139	2,276,625	144,004	114,862
Operating loss	(923,631)	(673,867)	(27,344)	(1,128)
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	283,378	268,991		
State financing appropriations	24,226	19,508		
Build America Bonds federal interest subsidies	10,304	10,512		
Federal Pell grants	38,655	39,789		
Private gifts, net	177,468	180,488		
Investment income:				
Short-Term Investment Pool and other, net	38,663	39,620		
Endowment, net	25,204	30,657		
Campus foundation			1,477	5,431
Net appreciation (depreciation) in fair value of investments	158,095	(79,764)	138,933	(17,387)
Adjustment to gift annuities and trust liabilities			8,116	(5,223)
Interest expense	(89,386)	(64,419)		
Other nonoperating revenues (expenses), net	7,613	(563)		
Net nonoperating revenues (expenses)	674,220	444,819	148,526	(17,179)
(Loss) income before other changes in net position	(249,411)	(229,048)	121,182	(18,307)
OTHER CHANGES IN NET POSITION				
Capital gifts and grants, net	46,638	14,876		
State capital appropriations	207	3,205		
Permanent endowments			45,812	72,928
Other changes	87,130	79,911		
(Decrease) increase in net position	(115,436)	(131,056)	166,994	54,621
NET POSITION				
Beginning of year, as previously reported	3,804,533	4,581,578	1,344,085	1,289,464
Cumulative effect of change in accounting treatment		(645,989)	(2,475)	
Beginning of year, as restated	3,804,533	3,935,589	1,341,610	1,289,464
End of year	\$3,689,097	\$3,804,533	\$1,508,604	\$1,344,085

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF CASH FLOWS (unaudited)

Years Ended June 30, 2013 and 2012 (In Thousands of Dollars)

	CAMPUS *		FOUNDATION	
	2013	2012	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	\$637,101	\$624,098		
Grants and contracts	684,936	658,317		
Educational activities	87,109	79,460		
Auxiliary enterprises	172,093	159,658		
Collection of loans from students and employees	7,169	5,291		
Campus foundation private gifts			\$94,511	\$73,590
Payments to employees	(988,574)	(1,050,634)		
Payments to suppliers and utilities	(590,621)	(528,969)	(4,104)	(4,147)
Payments for UCRP benefits	(76,896)	(60,239)		
Payments for retiree health benefits	(20,488)	(26,344)		
Payments for other employee benefits	(242,492)	(229,922)		
Payments for scholarships and fellowships	(121,667)	(140,128)		
Loans issued to students and employees	(6,114)	(4,588)		
Payments to campus and beneficiaries			(148,118)	(118,552)
Other receipts	41,093	71,216	5,215	5,328
Net cash used by operating activities	(417,351)	(442,784)	(52,496)	(43,781)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	283,548	268,910		
Federal Pell grants	39,000	44,137		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes			42,363	67,628
Other private gifts	186,192	187,190		
Student direct lending receipts	138,731	154,563		
Student direct lending payments	(138,731)	(154,563)		
Proceeds from debt issuance	2,000			
Other receipts	78,001	51,879		
Net cash provided by noncapital financing activities	588,741	552,116	42,363	67,628
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
State capital appropriations	1,518	2,037		
State financing appropriations	14,251	13,895		
Build America Bonds federal interest subsidies	10,304	10,512		
Capital gifts and grants	59,761	22,489		
Proceeds from debt issuance	207,027	364,364		
Proceeds from the sale of capital assets	4,003	79		
Purchase of capital assets	(311,888)	(455,552)		
Scheduled principal paid on debt and capital leases	(24,690)	(27,864)		
Interest paid on debt and capital leases	(91,697)	(76,104)		
Net cash used by capital and related financing activities	(131,411)	(146,144)		
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale and maturities of investments, net of purchases	63,837	70,277	10,393	(24,333)
Investment income, net of investment expense	10,647	7,094		
Net cash provided (used) by investing activities	74,484	77,371	10,393	(24,333)
Net increase (decrease) in cash and cash equivalents	114,463	40,559	260	(486)
Cash and cash equivalents, beginning of year	1,319,087	1,278,528	2,483	2,969
Cash and cash equivalents, end of year	\$1,433,550	\$1,319,087	\$2,743	\$2,483

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF CASH FLOWS (continued)

Years Ended June 30, 2012 and 2011 (In Thousands of Dollars)

	CAMPUS *		FOUNDATION	
	2013	2012	2013	2012
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating (loss) income	(\$923,631)	(\$673,867)	(\$27,344)	(\$1,128)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation and amortization expense	188,471	169,917		
Noncash gifts			(15,018)	(7,140)
Allowance for doubtful accounts	(562)	1,197	1,621	1,790
Change in assets and liabilities:				
Accounts receivable	10,716	(18,855)	(550)	263
Pledges receivable			(17,906)	(32,933)
Investments held by trustees	39	502		
Inventories	(466)	194		
Other assets	1,541	(1,542)	2,384	693
Accounts payable	(2,178)	770	(73)	(450)
Accrued salaries	58,270	(54,667)		
Employee benefits	10,958	(1,529)		
Unearned revenue	18,326	13,999	10,507	1,381
Obligations to UCRP	112,431	28,548		
Obligations for retiree health benefits	108,646	92,680		
Other liabilities	88	(131)	(6,117)	(6,257)
Net cash used by operating activities	(\$417,351)	(\$442,784)	(\$52,496)	(\$43,781)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired through capital leases	\$2,372	\$3,334		
Capital assets acquired with a liability at year-end	39,420	20,071		
Gifts of capital assets	1,875	7,382		
Other noncash gifts			\$18,311	\$12,779
Debt service for, or refinancing of, lease revenue bonds:				
Principal paid	(2,295)	(2,215)		
Interest paid	(7,783)	(7,274)		

* 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 only. Accounts for separate, but related organizations, such as the E. O. Lawrence Berkeley National Laboratory, 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 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.

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).

The significant accounting policies of Berkeley are as follows:

Cash and cash equivalents

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

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.

University of California, Berkeley
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
YEARS ENDED JUNE 30, 2013 AND 2012

Pledges receivable, net

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

Notes and mortgages receivable, net

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

Inventories

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

Capital assets, 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. All costs of land, library collections, and special collections are capitalized.

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

Estimated economic lives are generally as follows:

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

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

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

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

Unearned revenue

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

Funds held for others

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

Federal refundable loans

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

Pollution remediation obligations

Upon an obligating event, Berkeley estimates the components of any expected pollution remediation costs and recoveries from third parties. The costs, estimated using the expected cash flow technique, are accrued as a liability. Pollution remediation liabilities generally involve groundwater, soil and sediment contamination at certain sites where state and other regulatory agencies have indicated Berkeley is among the responsible parties. The liabilities are revalued annually and may increase or decrease the cost or recovery from third parties, if any, as a result of additional information that refines the estimates, or from payments made from revenue sources that support the activity. There were no expected recoveries at June 30, 2013 and 2012 reducing the pollution remediation liability.

Net position

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

Invested in capital assets, net of related debt

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

Restricted

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

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

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

Unrestricted

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

University of California, Berkeley
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
YEARS ENDED JUNE 30, 2013 AND 2012

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 years ended June 30, 2013 and 2012 as follows:

(in thousands of dollars)

	2013	2012
Student tuition and fees	\$166,403	\$154,550
Auxiliary enterprises	31,435	28,299
Scholarship allowances	\$197,838	\$182,849

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, 2013, the facilities and administrative cost recovery totaled \$118.3 million, \$80.7 million from federally sponsored programs and \$37.6 million from other sponsors. For the year ended June 30, 2012, the facilities and administrative cost recovery totaled \$117.2 million, \$81.7 million from federally sponsored programs and \$35.5 million from other sponsors.

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.

UCRP benefits and obligation to UCRP

Berkeley's cost for UCRP benefits expense is its share, as determined by UC, of the annual required contribution to UCRP, as actuarially determined. Berkeley's contributions to UCRP are made based upon rates or amounts determined by the Regents, and reduce its obligation to UCRP in the statement of net position.

Retiree health benefits and obligation 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 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.

University of California, Berkeley
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
YEARS ENDED JUNE 30, 2013 AND 2012

Comparative information

Effective July 1, 2012, Berkeley changed its accounting policy to include its share of the unfunded portion of the actuarially-determined annual required contributions to the University of California Retirement Plan (UCRP) and the University of California Retiree Health Benefit Trust (UCRHBT). The cumulative effect of this change in accounting treatment is reflected in Berkeley's restated 2012 statement of net position and statement of revenues, expenses and changes in net position, summarized as follows:

<i>(in thousands of dollars)</i>	YEAR ENDED JUNE 30, 2012		
	As Previously Reported	Adjustments	As Restated
Statement of Net Position			
Obligations to UCRP	-	\$199,612	\$199,612
Obligations for retiree health benefits	-	567,605	567,605
Noncurrent liabilities	1,897,131	767,217	2,664,348
Total net position	4,571,750	(767,217)	3,804,533
Statement of Revenues, Expenses and Changes in Net Position			
UCRP benefits	\$57,929	\$28,548	\$86,477
Retiree health benefits	26,344	92,680	119,024
Total operating expenses	2,155,397	121,228	2,276,625
Operating loss	(552,639)	(121,228)	(673,867)
Decrease in net position	(9,828)	(121,228)	(131,056)
Net position, cumulative effect of change in accounting treatment	-	(645,989)	(645,989)
Net position, beginning of year, as restated	4,581,578	(645,989)	3,935,589
Net position, end of year	4,571,750	(767,217)	3,804,533

NOTE 1: CASH AND CASH EQUIVALENTS

UC maintains centralized management for substantially all of its cash. Cash in Berkeley's demand deposit accounts is minimized by sweeping available cash balances into UC's investment accounts on a daily basis. At June 30, 2013 and 2012, the carrying amount of Berkeley's demand deposits, held in nationally recognized banking institutions, was \$1.9 million and \$2.0 million, respectively.

Berkeley does not have a significant exposure to foreign currency risk in demand deposit accounts. Accounts held in foreign countries maintain minimum operating balances with the intent to reduce potential foreign exchange risk while providing an adequate level of liquidity to meet the obligations of the academic programs established abroad. The equivalent U.S. dollar balances required to support research groups in foreign countries were \$0.2 million at June 30, 2013 and 2012.

Berkeley classifies its share of UC's STIP and TRIP as cash equivalents. Berkeley's share of UC's STIP and TRIP at June 30, 2013 and 2012 was \$1,431.5 million and \$1,316.9 million, respectively.

STIP allows participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities and is managed to maximize current earned income. Cash to provide for payroll, construction expenditures and other operating expenses for Berkeley is invested in STIP. The available cash in endowment investment pools awaiting investment, or cash for administrative expenses, is also invested in STIP. Investments authorized by the Regents for STIP include fixed income securities with a maximum maturity of five and one-half years.

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

NOTE 2: INVESTMENTS

The Regents, as the governing Board, is responsible for the oversight of UC's investments and establishes investment policy, which is carried out by UC's Chief Investment Officer. These investments are associated with the STIP, TRIP, General Endowment Pool (GEP), and other investment pools managed by the Chief Investment Officer, or are separately invested. Berkeley has a share of these investments. Berkeley classifies its share of STIP and TRIP as cash equivalents.

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

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

Investments authorized by The Regents for GEP, other investment pools and separate investments include equity securities, fixed-income securities and certain other asset classes. The equity portion of the investment portfolios 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 \$83.9 million and \$124.9 million at June 30, 2013 and 2012, respectively.

University of California, Berkeley
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NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable and the allowance for uncollectible amounts at June 30, 2013 and 2012 are as follows:

(in thousands of dollars)

	STATE & FEDERAL GOVERNMENT	LOCAL GOVT & PRIVATE GRANTS & CONTRACTS	AUXILIARY & SERVICE ENTERPRISES	FEES & OTHER	TOTAL
At June 30, 2013					
Accounts receivable	\$109,553	\$40,769	\$5,054	\$25,886	\$181,262
Allowance for doubtful accounts	(190)	(1,051)	(696)	(5,363)	(7,300)
Accounts receivable, net	\$109,363	\$39,718	\$4,358	\$20,523	\$173,962
At June 30, 2012					
Accounts receivable	\$132,904	\$32,511	\$4,410	\$21,786	\$191,611
Allowance for doubtful accounts	(56)	(1,791)	(877)	(5,396)	(8,120)
Accounts receivable, net	\$132,848	\$30,720	\$3,533	\$16,390	\$183,491

Adjustments to the allowance for doubtful accounts have either increased or (decreased) the following revenues for the years ended June 30, 2013 and 2012:

(in thousands of dollars)

	2013	2012
Student tuition and fees	(\$1,486)	(\$1,233)
Grants and contracts	549	(1,440)
Educational activities	(270)	91
Auxiliary enterprises	(57)	(213)
Other operating revenues	(17)	178

NOTE 5: PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2013 and 2012 is summarized as follows:

(in thousands of dollars)

	2013	2012
Total pledges receivable outstanding	\$43,615	\$73,899
Less: Unamortized discount to present value	(1,624)	(2,997)
Allowance for uncollectible pledges	(7,863)	(13,053)
Total pledges receivable, net	34,128	57,849
Less: Current portion of pledges receivable	(15,577)	(21,809)
Noncurrent portion of pledges receivable	\$18,551	\$36,040

University of California, Berkeley
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
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Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2013 and thereafter are as follows:

(in thousands of dollars)

<u>Year Ending June 30</u>	
2014	\$21,768
2015	7,835
2016	4,853
2017	3,970
2018	2,236
2019 and thereafter	2,953
Total payments on pledges receivable	\$43,615

Adjustments to the allowance for doubtful accounts associated with pledges have increased (decreased) the following revenues for the years ended June 30, 2013 and 2012:

(in thousands of dollars)

	<u>2013</u>	<u>2012</u>
Private gifts	(\$1,775)	(\$478)
Capital gifts and grants	4,678	(3,275)

NOTE 6: NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2013 and 2012, along with the allowance for uncollectible amounts, are as follows:

(in thousands of dollars)

	<u>CURRENT</u>	<u>NONCURRENT</u>		<u>TOTAL</u>
		<u>NOTES</u>	<u>MORTGAGES</u>	
At June 30, 2013				
Notes and mortgages receivable	\$5,883	\$24,931	\$1,986	\$26,917
Allowance for uncollectible amounts	(126)	(2,065)		(\$2,065)
Notes and mortgages receivable, net	\$5,757	\$22,866	\$1,986	\$24,852
At June 30, 2012				
Notes and mortgages receivable	\$5,876	\$25,580	\$2,264	\$27,844
Allowance for uncollectible amounts	(93)	(1,842)		(\$1,842)
Notes and mortgages receivable, net	\$5,783	\$23,738	\$2,264	\$26,002

University of California, Berkeley
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
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NOTE 7: CAPITAL ASSETS

Berkeley's capital asset activity for the years ended June 30, 2013 and 2012 is as follows:

(in thousands of dollars)

	2011	ADDITIONS	DISPOSALS	2012	ADDITIONS	DISPOSALS	2013
ORIGINAL COST							
Land	\$91,827			\$91,827	\$19,766	(\$604)	\$110,989
Infrastructure	54,801	\$5,343		60,144	2,032		62,176
Buildings and improvements	3,133,787	415,799	(\$389)	3,549,197	570,991	(9,117)	4,111,071
Equipment, software and intangibles	475,648	32,292	(22,235)	485,705	33,634	(14,158)	505,181
Libraries and collections	917,492	30,533	(19,407)	928,618	29,941	(12,499)	946,060
Special collections	99,447	7,071		106,518	4,265		110,783
Construction in progress	615,851	(28,393)		587,458	(339,930)		247,528
Capital assets, at original cost	\$5,388,853	\$462,645	(\$42,031)	\$5,809,467	\$320,699	(\$36,378)	\$6,093,788
	2011	DEPRECIATION AND AMORTIZATION	DISPOSALS	2012	DEPRECIATION AND AMORTIZATION	DISPOSALS	2013
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure	\$19,520	\$2,265		\$21,785	\$2,345		\$24,130
Buildings and improvements	1,145,740	108,136	(\$181)	1,253,695	125,113	(\$7,106)	1,371,702
Equipment, software and intangibles	346,663	31,178	(21,321)	356,520	32,211	(13,547)	375,184
Libraries and collections	682,898	28,338	(20,258)	690,978	28,802	(12,499)	707,281
Accumulated depreciation and amortization	\$2,194,821	\$169,917	(\$41,760)	\$2,322,978	\$188,471	(\$33,152)	\$2,478,297
Capital assets, net	\$3,194,032			\$3,486,489			\$3,615,491

NOTE 8: DEBT

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

(in thousands of dollars)

	INTEREST RATES	MATURITY YEARS	2013	2012
INTERIM FINANCING:				
Commercial paper	0.1% - 0.3%		\$243,911	\$208,458
LONG-TERM FINANCING:				
UC general revenue bonds	2.82% - 5.90%	2014-2112	987,438	1,074,699
UC limited projects revenue bonds	4.05% - 5.90%	2014-2050	553,735	453,726
UC revenue bonds			1,541,173	1,528,425
Capital lease obligations	0.25-5.00%	2014-2035	362,079	374,655
Other borrowings	Various	2014	39,328	3,325
Total outstanding debt			2,186,491	2,114,863
Less: Commercial paper			(243,911)	(208,458)
Current portion of outstanding debt			(36,998)	(43,519)
Noncurrent portion of outstanding debt			\$1,905,582	\$1,862,886

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, 2013 and 2012 was \$94.0 million and \$84.2 million, respectively. Interest expense, net of investment income, totaling \$4.6 million and \$19.8 million was capitalized during the years ended June 30, 2013 and 2012, respectively. The remaining \$89.4 million in 2013 and \$64.4 million in 2012 is reported as interest expense in the statement of revenues, expenses and changes in net position.

University of California, Berkeley
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
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Commercial Paper

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

Outstanding Long-Term Debt Activity

The activity with respect to Berkeley's share of UC's current and noncurrent debt for the years ended June 30, 2013 and 2012 is as follows:

(in thousands of dollars)

	UC REVENUE BONDS	CAPITAL LEASE OBLIGATIONS	OTHER BORROWINGS	TOTAL
<i>Year ended June 30, 2013</i>				
Current portion at June 2012	\$25,259	\$14,935	\$3,325	\$43,519
Reclassification from noncurrent	16,277	17,215	181	33,673
Principal payments	(25,259)	(14,935)		(40,194)
Current portion at June 30, 2013	16,277	17,215	3,506	36,998
Noncurrent portion at June 30, 2012	1,503,166	359,720		1,862,886
New obligations	38,007	2,359	36,003	76,369
Reclassification to current	(16,277)	(17,215)	(181)	(33,673)
Noncurrent portion at June 30, 2013	\$1,524,896	\$344,864	\$35,822	\$1,905,582
<i>Year ended June 30, 2012</i>				
Current portion at June 2011	\$23,533	\$12,864	\$3,304	\$39,701
Reclassification from noncurrent	25,259	15,044	21	40,324
Principal payments	(23,533)	(12,973)		(36,506)
Current portion at June 30, 2012	25,259	14,935	3,325	43,519
Noncurrent portion at June 30, 2011	1,332,079	298,911		1,630,990
New obligations	196,346	75,853	21	272,220
Reclassification to current	(25,259)	(15,044)	(21)	(40,324)
Noncurrent portion at June 30, 2012	\$1,503,166	\$359,720		\$1,862,886

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.

University of California, Berkeley
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
YEARS ENDED JUNE 30, 2013 AND 2012

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

Capital Leases

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

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

Berkeley's share of the capital lease obligations associated with the lease-purchase agreements with the state were \$355.8 million at June 30, 2013, and \$369.0 million at June 30, 2012.

The state of California financing appropriation pertaining to Berkeley under the terms of the lease-purchase agreements, recorded as nonoperating revenue, for the years ended June 30, 2013 and 2012 was \$24.2 million and \$19.5 million, respectively. The scheduled principal and interest including accrued interest, reported in the Berkeley's financial statements for the years ended June 30, 2013 and 2012 contain amounts related to these lease-purchase agreements with the state of California as follows:

<i>(in thousands of dollars)</i>		
	2013	2012
Capital lease principal	\$13,218	\$11,264
Capital lease interest	15,930	16,452
Total	\$29,148	\$27,716

Berkeley's capital leases with lessors other than the state of California, typically for equipment, totaled \$6.3 million and \$5.7 million at June 30, 2013 and 2012, respectively.

Other Borrowings

Other borrowings of \$39.3 million and \$3.3 million at June 30, 2013 and 2012, respectively, consisted of bank lines of credit and loan to provide interim financing for buildings and equipment.

University of California, Berkeley
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
YEARS ENDED JUNE 30, 2013 AND 2012

Future Debt Service

Berkeley's share of future debt service payments for each of the five fiscal years subsequent to June 30, 2013 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
2014	\$244,137	\$81,151	\$35,167	\$39,353	\$399,808	\$313,876	\$85,932
2015		80,962	34,479		115,441	31,238	84,203
2016		82,481	35,233		117,714	33,922	83,792
2017		83,620	34,582		118,202	35,940	82,261
2018		83,715	33,688		117,403	36,662	80,741
2019-2112		3,040,049	400,949		3,440,998	1,734,853	1,706,146
Total future debt service	244,137	3,451,978	574,098	39,353	4,309,566	\$2,186,491	\$2,123,075
Less: Interest component of future payments	(226)	(1,910,805)	(212,019)	(25)	(2,123,075)		
Principal portion of future payments	\$243,911	\$1,541,173	\$362,079	\$39,328	\$2,186,491		

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

NOTE 9: OTHER LIABILITIES

Other current liabilities of \$105.7 million and \$86.9 million and noncurrent liabilities of \$15.7 million and \$11.3 million at June 30, 2013 and 2012, respectively, consisted of compensated absences, deposits, pollution remediation and other accrued liabilities.

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

Most Berkeley employees participate in UCRS. UCRS consists of the University of California Retirement Plan (UCRP), a single employer, defined benefit plan funded with UC (including Berkeley) and employee contributions; the University of California Retirement Savings Program (UCRSP) that includes four defined contribution plans with options to participate in internally and externally managed investment portfolios generally funded with employee non-elective and elective contributions; and the California Public Employees' Retirement System (PERS) Voluntary Early Retirement Incentive Program (PERS-VERIP), a defined benefit plan for employees who were members of PERS who elected early retirement. The Regents has the authority to establish and amend the benefit plans.

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

Berkeley's annual UCRP benefits expense is its share, as determined by UC, of the actuarially-determined annual required contributions. 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 or surplus over a period of up to 30 years.

Contributions to the UCRP may be made by the campus and the employees. The Regents' contribution funding policy is based on a percentage of payroll using the entry age normal actuarial cost method. Employee contributions by represented employees are subject to collective bargaining agreements. Berkeley's contributions to UCRP were \$83.3 million and \$57.9 million, respectively, during the years ended June 30, 2013 and 2012. Berkeley's accruals of unfunded obligations to UCRP were \$112.5 million and \$28.6 million for the years ended June 30, 2013 and 2012, 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.

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

The DC Plan accepts both after-tax and pre-tax employee contributions that are fully vested. Pre-tax contributions are mandatory for all employees who are members of UCRP, as well as Safe Harbor participants — part-time, seasonal and temporary employees who are not covered by Social Security. UC has a provision for matching employer and employee contributions to the DC Plan for certain summer session teaching or research compensation for eligible academic employees. UC may also make contributions on behalf of certain members of management. UC established a SDC Plan to accept employer contributions on behalf of certain designated employees.

The 403(b) and 457(b) Plans accept pre-tax employee contributions. Berkeley may also make contributions on behalf of certain members of management. Berkeley made no employer contributions to those plans in 2013 and 2012.

Additional information on the retirement plans can be obtained from the 2012-13 annual reports of the UC, the UCRP, the UCRSP and the UC PERS-VERIP.

NOTE 11: RETIREE HEALTH BENEFIT COSTS

UC administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision, to eligible retirees and their eligible family members (retirees) of UC and its affiliates, including Berkeley. The Regents has the authority to establish and amend the plans. Additional information can be obtained from the 2012-13 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.

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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. Berkeley's contributions were \$20.5 million and \$26.3 million, respectively, for the years ended June 30, 2013 and 2012. Berkeley's accruals of unfunded obligation for retiree health benefits were \$108.6 million and \$92.7 million for the years ended June 30, 2013 and 2012, respectively.

Additional information on the retiree health plans can be obtained from the 2012–2013 annual reports of the UC and the University of California Health and Welfare Program.

NOTE 12: ENDOWMENTS AND GIFTS

Endowments are administered either by UC or by the campus foundation. The book value and market value for endowments for the years ended June 30, 2013 and 2012 are as follows:

(in thousands of dollars)

	2013		2012	
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE
Endowment - regental	\$648,550	\$2,052,522	\$657,380	\$1,905,074
Endowment - foundation	1,036,005	1,278,030	956,944	1,126,822
Total	\$1,684,555	\$3,330,552	\$1,614,324	\$3,031,896

The value of endowments and gifts reflected in Berkeley's statement of net position, exclusive of income for operating purposes, at June 30, 2013 and 2012 is as follows:

(in thousands of dollars)

	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
<i>At June 30, 2013</i>				
Endowments	\$390,017	\$749,629		\$1,139,646
Funds functioning as endowments		908,763		908,763
Annuity and life income	4,113			4,113
Gifts		316,700	7,388	324,088
Total endowments and gifts	\$394,130	\$1,975,092	\$7,388	\$2,376,610
<i>At June 30, 2012</i>				
Endowments	\$376,711	\$670,647		\$1,047,358
Funds functioning as endowments		852,628		852,628
Annuity and life income	5,088			5,088
Gifts		305,906	9,010	314,916
Total endowments and gifts	\$381,799	\$1,829,181	\$9,010	\$2,219,990

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

from year to year. UC's policy is to retain the realized and unrealized appreciation with the endowment after the annual income distribution has been made.

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

Campus Foundation

Under University policies approved by The Regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the mission of the campus and UC. Although independent boards govern The Berkeley Foundation, its assets are dedicated for the benefit of the Berkeley campus. During the years ended June 30, 2013 and 2012, gifts of \$143.6 million (\$41.8 million from endowment investments and \$101.8 million from current funds) and \$115.3 million (\$37.1 million from endowment investments and \$78.2 million from current funds), respectively, were transferred to Berkeley from the Foundation.

NOTE 13: COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled \$553.5 million and \$638.2 million at June 30, 2013 and 2012, respectively.

Berkeley leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2013 and 2012 were \$17.5 million and \$16.4 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
2014	\$10,115
2015	6,719
2016	4,316
2017	2,730
2018	1,183
2019 and thereafter	2,449
Total	\$27,512

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.