



UNIVERSITY OF CALIFORNIA, BERKELEY

**Annual Financial Report
2014-15**

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UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF NET POSITION (unaudited)

At June 30, 2015 and 2014 (In Thousands of Dollars)

	CAMPUS *		FOUNDATION	
	2015	2014	2015	2014
ASSETS				
Cash and cash equivalents	\$ 358,657	\$ 496,840	\$ 2,668	\$ 1,704
Short-term investments			64,950	65,676
Investments held by trustees	1,801	2,409		
Accounts receivable, net	244,708	177,336		
Pledges receivable, net	2,726	5,674	27,345	25,651
Notes and mortgages receivable, net	4,950	4,830		
Inventories	5,041	4,533		
Other current assets	2,964	8,019	963	2,946
Current assets	620,847	699,641	95,926	95,977
Investments	3,460,043	3,374,500	1,738,675	1,661,018
Investments held by trustees	7,826	31,218		
Restricted bond proceeds held by UC	40,779	179,486		
Pledges receivable, net	7,533	19,778	91,534	104,230
Notes and mortgages receivables, net	26,223	25,287		
Capital assets, net	3,918,971	3,746,187		
Other noncurrent assets	1,067		1,669	1,806
Noncurrent assets	7,462,442	7,376,456	1,831,878	1,767,054
Total assets	8,083,289	8,076,097	1,927,804	1,863,031
DEFERRED OUTFLOWS OF RESOURCES	506,099	369,529		
LIABILITIES				
Accounts payable	103,013	114,549	555	594
Accrued salaries	113,499	100,953		
Employee benefits	26,163	25,745		
Unearned revenue	189,673	176,319		
Commercial paper	67,323	67,793		
Current portion of long-term debt	99,865	99,232		
Funds held for others	1,588	1,414	15,204	15,229
Other current liabilities	102,551	102,752		
Current liabilities	703,675	688,757	15,759	15,823
Federal refundable loans	23,134	23,193		
Obligations under life income agreements			76,437	77,200
Long-term debt	2,165,701	2,155,079		
Pension obligations	1,122,991	833,793		
Obligations for retiree health benefits	830,034	754,145		
Other noncurrent liabilities	29,822	38,841		
Noncurrent liabilities	4,171,682	3,805,051	76,437	77,200
Total liabilities	4,875,357	4,493,808	92,196	93,023
DEFERRED INFLOWS OF RESOURCES	468,220	594,418		
NET POSITION				
Net investment in capital assets	1,652,325	1,508,704		
Restricted:				
Nonexpendable: Endowments and gifts	379,926	409,239	955,461	886,952
Expendable: Endowments and gifts	2,409,009	2,323,431	878,939	883,009
Expendable: Other, including debt service, loans, capital projects and appropriations	105,089	225,770		
Unrestricted	(1,300,538)	(1,109,744)	1,208	47
Total net position	\$ 3,245,811	\$ 3,357,400	\$ 1,835,608	\$ 1,770,008

* See accompanying Notes to Financial Statements

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

Years Ended June 30, 2015 and 2014 (In Thousands of Dollars)	CAMPUS *		FOUNDATION	
	2015	2014	2015	2014
OPERATING REVENUES				
Student tuition and fees, net	\$ 730,157	\$ 691,267		
Grants and contracts, net:				
Federal	417,309	373,625		
State	82,952	92,866		
Private	189,967	188,325		
Local	8,111	7,338		
Educational activities, net	85,936	81,315		
Auxiliary enterprises, net	183,822	175,209		
Campus foundation private gifts			\$ 104,300	\$ 109,525
Other operating revenues, net	92,711	82,260	550	3,482
Total operating revenues	1,790,965	1,692,205	104,850	113,007
OPERATING EXPENSES				
Salaries and wages	1,173,895	1,105,063		
Pension benefits	142,083	130,793		
Retiree health benefits	99,510	105,275		
Other employee benefits	274,785	256,447		
Supplies and materials	160,335	166,153		
Depreciation and amortization	201,562	192,914		
Scholarships and fellowships	136,946	131,911		
Utilities	36,920	38,563		
Campus foundation grants			148,916	142,009
Other operating expenses	454,558	429,940	6,091	5,948
Total operating expenses	2,680,594	2,557,059	155,007	147,957
Operating loss	(889,629)	(864,854)	(50,157)	(34,950)
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	332,786	318,500		
State financing appropriations	23,335	12,082		
Build America Bonds federal interest subsidies	9,754	9,670		
Federal Pell grants	39,431	38,988		
Private gifts, net	216,734	184,112		
Investment income:				
Short-Term Investment Pool and other, net	53,394	27,856		
Endowment, net	26,429	22,874		
Campus foundation			9,729	10,961
Net (depreciation) appreciation in fair value of investments	70,855	394,623	41,488	179,425
Adjustment to gift annuities and trust liabilities			(1,397)	16,501
Interest expense	(73,213)	(80,028)		
Other nonoperating revenues, net	7,770	3,384		
Net nonoperating revenues	707,275	932,061	49,820	206,887
(Loss) income before other changes in net position	(182,354)	67,207	(337)	171,937
OTHER CHANGES IN NET POSITION				
Capital gifts and grants, net	8,956	36,091		
State capital appropriations		152		
Permanent endowments			65,937	89,467
Transfers from UC, net	61,809	190,028		
(Decrease) Increase in net position	(111,589)	293,478	65,600	261,404
NET POSITION				
Beginning of year, as previously reported	3,357,400	3,689,097	1,770,008	1,508,604
Cumulative effect of change in accounting treatment		(625,175)		
Beginning of year, as restated	3,357,400	3,063,922	1,770,008	1,508,604
End of year	\$ 3,245,811	\$ 3,357,400	\$ 1,835,608	\$ 1,770,008

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF CASH FLOWS (unaudited)

Years Ended June 30, 2015 and 2014 (In Thousands of Dollars)

	CAMPUS *		FOUNDATION	
	2015	2014	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	\$ 730,687	\$ 688,107		
Grants and contracts	626,743	666,373		
Educational activities	85,372	81,538		
Auxiliary enterprises	184,863	171,042		
Collection of loans from students and employees	8,169	8,184		
Campus foundation private gifts			\$ 97,014	\$ 103,537
Payments to employees	(1,158,775)	(1,101,297)		
Payments to suppliers and utilities	(624,003)	(601,346)	(5,954)	(5,960)
Payments for pension benefits	(128,440)	(104,042)		
Payments for retiree health benefits	(23,621)	(27,381)		
Payments for other employee benefits	(274,477)	(255,470)		
Payments for scholarships and fellowships	(137,042)	(131,716)		
Loans issued to students and employees	(8,993)	(7,498)		
Payments to campus and beneficiaries			(157,003)	(149,971)
Other receipts	70,915	82,860	3,330	6,045
Net cash used by operating activities	(648,602)	(530,646)	(62,613)	(46,349)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	332,744	318,722		
Federal Pell grants	40,078	38,782		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes			59,807	78,311
Other private gifts	222,917	197,944		
Student direct lending receipts	131,413	134,663		
Student direct lending payments	(131,413)	(134,663)		
Other receipts	51,019	61,770		
Net cash provided by noncapital financing activities	646,758	617,218	59,807	78,311
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
State capital appropriations		(516)		
State financing appropriations	23,335	7,849		
Build America Bonds federal interest subsidies	9,755	9,766		
Capital gifts and grants	17,183	25,261		
Proceeds from debt issuance	226,302	317,113		
Proceeds from the sale of capital assets	429	133		
Purchase of capital assets	(369,621)	(481,425)		
Refinancing or prepayment of outstanding debt	(51)	(3,537)		
Scheduled principal paid on debt and capital leases	(18,733)	(16,349)		
Interest paid on debt and capital leases	(90,073)	(79,854)		
Net cash used by capital and related financing activities	(201,474)	(221,559)		
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of investments, net of proceeds from sales and maturities of investments	(19,031)	(329,037)	(5,959)	(43,962)
Investment income, net of investment expenses	84,166	35,479	9,729	10,961
Net cash provided (used) by investing activities	65,135	(293,558)	3,770	(33,001)
Net decrease in cash and cash equivalents	(138,183)	(428,545)	964	(1,039)
Cash and cash equivalents, beginning of year	496,840	925,385	1,704	2,743
Cash and cash equivalents, end of year	\$ 358,657	\$ 496,840	\$ 2,668	\$ 1,704

* See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA, BERKELEY

STATEMENTS OF CASH FLOWS (continued)

Years Ended June 30, 2015 and 2014 (In Thousands of Dollars)

	CAMPUS *		FOUNDATION	
	2015	2014	2015	2014
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating loss	\$ (889,629)	\$ (864,854)	\$ (50,157)	\$ (34,950)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation and amortization expense	201,562	192,914		
Noncash gifts			(16,959)	(9,747)
Allowance for uncollectible accounts	(2,734)	274	(3,365)	839
Change in assets and liabilities:				
Accounts and pledges receivables	(71,834)	(1,214)	14,708	9,973
Investments held by trustees	158	(978)		
Notes and mortgages receivable	(120)			
Inventories	(508)	540		
Other assets	3,988	(5,476)	(467)	77
Accounts payable	(2,413)	7,835	(39)	309
Accrued salaries	12,546	2,537		
Employee benefits	417	4,158		
Unearned revenue	13,354	3,549	1,054	(737)
Pension obligations	12,813	24,975		
Obligations for retiree health benefits	75,889	77,894		
Other liabilities	(2,091)	27,200	(7,388)	(12,113)
Net cash used by operating activities	\$ (648,602)	\$ (530,646)	\$ (62,613)	\$ (46,349)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired through capital leases	\$ 3,930	\$ 1,390		
Capital assets acquired with a liability at year-end	12,268	24,008		
Gifts of capital assets	2,773	5,592		
Other noncash gifts			\$ 25,334	\$ 18,548
Debt service for, or refinancing of, lease revenue bonds:				
Principal paid		(123,710)		
Interest paid		(1,626)		
Proceeds from general revenue bonds used to refinance lease revenue bonds		121,330		

* See accompanying Notes to Financial Statements

University of California, Berkeley
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
YEARS ENDED JUNE 30, 2015 AND 2014

ORGANIZATION

Founded in 1868, the University of California, Berkeley (Berkeley) is a campus of the University of California (UC) statewide university system. UC is administered by The Regents of the University of California (The Regents), of which, under the formation documents of UC, administrative authority with respect to Berkeley is vested in the President of UC. Berkeley is a public teaching and research university.

FINANCIAL REPORTING ENTITY

The financial statements of Berkeley present the financial position and the changes in financial position and cash flows of only that portion of UC that is attributable to the transactions of Berkeley.

The financial position and operating results of certain other legally separate organizations related to Berkeley that are not significant or for which Berkeley is not financially accountable, such as booster and alumni organizations and the Lawrence Berkeley National Laboratory (LBNL), are not included in the Berkeley reporting entity. The United States Department of Energy (DOE) is financially responsible for substantially all of the current and future costs incurred at LBNL although LBNL is operated and managed by UC under contract directly with the DOE.

Berkeley has a legally separate, tax-exempt, affiliated campus foundation, The University of California, Berkeley Foundation (Foundation). The economic resources received or held by the Foundation are entirely for the benefit of Berkeley. Because of the nature and significance of its relationship with Berkeley, including its ongoing financial support, the Foundation is reported as a discretely presented component unit of Berkeley in the financial statements. However, the Notes to Financial Statements pertain only to the Berkeley campus. Additional information on the Foundation can be obtained from its 2014-2015 annual financial report.

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 statements of the Governmental Accounting Standards Board (GASB). The proprietary fund method of accounting is followed and uses the economic resources measurement focus and the accrual basis of accounting.

Bond proceeds from the sale of revenue bonds issued by UC are held by UC to be used for financing certain Berkeley capital asset projects. In 2015, Berkeley changed its financial reporting on its share of bond proceeds held by UC to include it in its financial statements. As a result, Berkeley's statements of net position as of June 30, 2014, and statements of revenues, expenses and changes in net position for the year ended June 30, 2014, were restated as follows:

<i>(in thousands of dollars)</i>	YEAR ENDED JUNE 30, 2014		
	As Previously Reported	Bond Proceeds Held by UC	As Restated
Statements of Net Position			
Bond proceeds held by UC	\$ -	\$ 179,486	\$ 179,486
Noncurrent assets	7,196,970	179,486	7,376,456
Net position: restricted expendable, other	46,284	179,486	225,770
Total net position	\$ 3,177,914	\$ 179,486	\$ 3,357,400
Statements of Revenues, Expenses and Changes in Net Position			
Transfers from UC, net (other changes in net position)	\$ 81,483	\$ 108,545	\$ 190,028
Increase in net position	184,933	108,545	293,478
Cumulative effect of change in accounting treatment	(696,116)	70,941	(625,175)
Net position, beginning of year	2,992,981	70,941	3,063,922
Net position, end of year	\$ 3,177,914	\$ 179,486	\$ 3,357,400

The significant accounting policies of Berkeley are as follows:

Cash and cash equivalents

Berkeley, like all UC operating entities, maximizes the return on its cash balances by investing in a Short Term Investment Pool (STIP) managed by the Treasurer of The Regents. The Regents are responsible for managing UC's STIP and establishing the investment policy, which is carried out by the Treasurer of The Regents.

Substantially all of Berkeley's cash is deposited into the STIP, and all Berkeley deposits into the STIP are considered demand deposits. Unrealized gains and losses associated with the fluctuation in the fair value of the investments included in the STIP (which are predominantly held to maturity) are not recorded by Berkeley but are absorbed by UC, as the manager of the pool. None of these amounts are insured by the Federal Deposit Insurance Corporation. To date, Berkeley has not experienced any losses on these accounts.

Interest income is reported as non-operating revenue in the statements of revenues, expenses and changes in net position.

Additional information on cash and investments can be obtained from the 2014-2015 annual report of UC.

Investments

Investments are reported at fair value. Berkeley's investments consist of investments in UC's Total Return Investment Pool (TRIP) and General Endowment Pool (GEP). The basis of determining the fair value of pooled funds or mutual funds is determined as the number of units held in the pool multiplied by the price per unit share, computed on the last day of the month. Securities are generally valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or by utilizing an industry standard pricing service, when available. Securities for which no sale was reported as of the close of the last business day of the fiscal year are valued at the quoted bid price of a dealer who regularly trades in the security being valued. Certain securities may be valued on a basis of a price provided by a single source.

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. Gifts of securities are recorded at estimated fair value at the date of donation.

Accounts receivable, net

Accounts receivable, net of allowance for uncollectible amounts, include reimbursements due from federal, state, and local government and private sponsors of externally funded research, customers of educational activities and 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. Berkeley recognizes contribution revenue when all eligibility requirements have been met.

Notes and mortgages receivable, net

Loans to students, net of allowance for uncollectible amounts, are provided from federal student loan programs and from other sources. Home mortgage loans, primarily to faculty, are provided from 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, 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 value. 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. Incremental costs, including salaries and employee benefits, directly related to the acquisition, development and installation of major software projects are included in the cost of the capital assets. 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:

	<u>YEARS</u>
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 on tax-exempt borrowings during the temporary investment of project related borrowings.

Service concession arrangements

Berkeley has entered into service concession arrangements with third parties for student housing and certain other faculty and student services. Under these arrangements, Berkeley enters into ground leases with third parties at minimal or no cost, and gives the third party the right to construct, operate and maintain a facility, primarily for the benefit of students and faculty at competitive rates. Rate increases for use of the facilities are subject to certain constraints and ownership of the facilities reverts to Berkeley upon expiration of the ground lease. The facilities are reported as capital assets by Berkeley when placed in service, and a corresponding deferred inflow of resources is reported. Berkeley has not provided guarantees on financing obtained by the third parties under these arrangements.

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 for housing and dining services.

Funds held for others

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

Federal refundable loans

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

Self-insurance programs

UC is self-insured or insured through a wholly owned captive insurance company 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 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 present value of the anticipated future payments. While Berkeley participates in the self-insurance programs, they are administered by UC's Office of the President. Accordingly, the self-insurance funding and liabilities are not included in the accompanying financial statements.

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 that 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, 2015 reducing the pollution remediation liability.

Deferred outflows of resources and deferred inflows of resources

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

Payments received or to be received by Berkeley from service concession arrangements are reported as deferred inflows of resources.

Changes in net pension liability not included in pension expense, including proportionate shares of collective pension expense from the University of California Retirement Plan, are reported as deferred outflows of resources or deferred inflows of resources related to pensions for Berkeley.

Net position

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

Net investment in capital assets

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

Restricted

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

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

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

Unrestricted

The net position that is not subject to externally imposed restrictions governing their use are classified as unrestricted net position. Unrestricted net position may be designated for specific purposes by management or the Regents. Substantially all unrestricted net position is allocated for academic and research initiatives or programs, for capital programs or for other purposes.

Expenses are charged to either restricted or unrestricted net position based upon a variety of factors, including consideration of prior and future revenue sources, the type 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.

Private gift or capital gift revenues associated with Foundation grants to Berkeley are recorded by Berkeley as gifts when the Foundation transfers the gifts to 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 appreciation or depreciation in the fair value of investments, interest expense and other nonoperating revenues.

State capital appropriations, capital gifts and grants, and transfers from UC 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 third parties on behalf of the student. Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

University of California, Berkeley
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
YEARS ENDED JUNE 30, 2015 AND 2014

Scholarship allowances are netted against student tuition and fees in the statements of revenues, expenses and changes in net position for the years ended June 30 are as follows:

(in thousands of dollars)

	2015	2014
Student tuition and fees	\$ 180,413	\$ 172,814
Auxiliary enterprises	32,876	31,367
Scholarship allowances	\$ 213,289	\$ 204,181

State appropriations

The state of California provides appropriations to UC on an annual basis. Berkeley's allocated share of state educational appropriations from UC is recognized as nonoperating revenue; however, the related expenses for educational or other specific operating purposes are reported as operating expenses. 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, 2015, the facilities and administrative cost recovery totaled \$118.7 million, \$82.6 million from federally sponsored programs and \$36.1 million from other sponsors. For the year ended June 30, 2014, the facilities and administrative cost recovery totaled \$118.3 million, \$80.3 million from federally sponsored programs and \$38.0 million from other sponsors.

Pension obligations

The University of California Retirement Plan (UCRP) provides retirement benefits to retired employees of Berkeley. Berkeley is required to contribute to UCRP at a rate set by The Regents. Pension obligations include Berkeley's share of UC's net pension liability for UCRP and its liability to UC for additional deposits in UCRP made by UC. The additional deposits in UCRP made by UC resources were to make up the gap between the approved contribution rates and the required contributions based on The Regents' funding policy. These deposits, carried as internal loans by UC, are being repaid by Berkeley, plus accrued interest, over a thirty-year period through a supplemental pension assessment. Supplemental pension assessments and changes in Berkeley's share of the internal loans are reported as pension expense in the statements of revenues, expenses and changes in net position.

Berkeley's share of pension obligations, deferred inflows of resources, deferred outflows of resources and pension expense have been determined based upon its proportionate share of covered compensation for the fiscal year. The fiduciary net position and changes in the fiduciary net position of UCRP have been measured consistent with the accounting policies used by the plan. For purposes of measuring UCRP's fiduciary net position, investments are reported at fair value and benefit payments are recognized when due and payable in accordance with the benefit terms.

Retiree health benefits and obligations for retiree health benefits

The University of California Retiree Health Benefit Trust (UCRHBT) provides retiree health benefits to retired employees of Berkeley. Contributions from Berkeley to the UCRHBT are effectively made to a single-employer health plan administered by UC as a cost-sharing plan. Berkeley is required to contribute at a rate assessed each year by UC. As a result, Berkeley's required contributions are recognized as an expense in the statements of revenues, expenses and changes in net position.

Transactions with UC and UC Affiliates

Berkeley has various transactions with the UC and UC affiliates. UC, as the primary reporting entity, has at its discretion the ability to transfer cash from Berkeley at will (subject to certain restrictive covenants or bond indentures) and to use that cash at its discretion.

Certain revenues and expenses are allocated from UC to Berkeley. Allocated revenues and expenses reported in the statements of revenues, expenses and changes in net position are management's best estimates of Berkeley's arms-length receipt and payment of such amounts for its circumstances.

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 Prudent 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

UC is recognized 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 UC is also exempt from federal tax under IRC Section 115(a). In addition, UC 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.

Reclassifications

Certain reclassifications have been made to the 2014 financial information to conform to the 2015 financial statement presentation.

New accounting pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, effective for Berkeley's fiscal year beginning July 1, 2015. This Statement establishes standards for accounting and financial reporting for fair value measurements. The Statement requires investments to be measured at fair value and permits the use of net asset value as the fair value when an investment does not have a readily determinable fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Statement No. 72 also requires certain disclosures related to all fair value measurements. Berkeley is evaluating the effect that Statement No. 72 will have on its financial statements.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for Berkeley's fiscal year beginning July 1, 2015. This Statement establishes requirements for those pensions and pension plans that were not covered by Statements 67 and 68, specifically those not administered through a trust meeting specified criteria. Berkeley is evaluating the effect that Statement 73 will have on its financial statements.

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In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for Berkeley's fiscal year beginning July 1, 2017. This Statement revises existing standards for measuring and reporting retiree health benefits provided by Berkeley to its employees. This Statement requires recognition of a liability equal to the net retiree health benefit liability, which is measured as the total retiree health benefit liability, less the amount of the UCRHBT's fiduciary net position. The total retiree health benefit liability is determined based upon discounting projected benefit payments based on claims costs, the benefit terms and legal agreements existing at the UCRHBT's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return of investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. The Statement requires that most changes in the net retiree health benefit liability be included in the retiree health benefit expense in the period of change. As of June 30, 2015 Berkeley reported a retiree health benefit obligation of \$830 million. Under Statement No. 75, Berkeley's OPEB obligation is expected to increase. Berkeley is evaluating the effect that Statement 75 will have on its financial statements.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for Berkeley's fiscal year beginning July 1, 2015. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. Berkeley is evaluating the effect that Statement 76 will have on its financial statements.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*, effective for Berkeley's fiscal year beginning July 1, 2016. This statement requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments that reduce the reporting government's tax revenues. The purpose of this statement is to increase transparency in regards to tax abatements governments enter into and make the impact of these agreements more apparent to users of the financial statements. Berkeley is evaluating the effect that Statement 77 will have on its financial statements.

NOTE 1: CASH AND CASH EQUIVALENTS

UC maintains centralized management for substantially all of its cash and cash equivalents. Cash and cash equivalents consists of cash in Berkeley's demand deposit accounts and cash in UC's STIP.

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, 2015 and 2014, the carrying amount of Berkeley's demand deposits, generally held in nationally recognized banking institutions, was \$8.5 million and \$1.8 million, respectively. Berkeley's deposits in demand deposit accounts are uninsured and uncollateralized.

Berkeley does not have a significant exposure to foreign currency risk in demand deposit accounts. Accounts held in foreign countries maintain minimum operating balances with the intent to reduce potential foreign exchange risk while providing an adequate level of liquidity to meet the obligations of the academic programs established abroad. The equivalent U.S. dollar balance required to support research groups in foreign countries was \$0.7 million at June 30, 2015 and \$0.2 million at June 30, 2014.

A portion of Berkeley's cash is deposited by UC into the STIP. STIP allows Berkeley to maximize its returns on its 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 is invested in STIP. At June 30, 2015 and 2014, the carrying amount of Berkeley's STIP was \$349.4 million and \$494.9 million, respectively.

NOTE 2: INVESTMENTS

The Regents, as the governing Board of UC, 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, GEP, and other investment pools managed by UC's Chief Investment Officer, or are separately invested.

Berkeley's share of STIP is classified as cash and cash equivalents in the statements of net position.

UC does not maintain the composition of investments by investment type by campus. UC managed commingled funds (UC pooled funds) serve as the core investment vehicle for Berkeley. A description of the funds used is as follows:

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 supplements STIP by investing in an intermediate-term, higher risk portfolio allocated across equities, fixed-income and liquid alternative strategies. It allows Berkeley to maximize its return on its long-term capital. Its objective is to generate a rate of return above the policy benchmark, after all costs and fees, consistent with liquidity, cash flow requirements and the risk. TRIP is considered to be an external investment pool from Berkeley's perspective. The fair value of Berkeley's investment in TRIP was \$1,033.0 million and \$1,004.5 million at June 30, 2015 and 2014, respectively.

Investments in TRIP are committed for a three-year lock-up period and would therefore not be available to Berkeley until the end of such lock-up period. After the lock-up period expires, one calendar quarter notice will be required for any redemptions or withdrawals. Withdrawals will occur on the last business day of the month. Investments into TRIP are subject to certain withdrawal guidelines such as limiting the withdrawals to 10% of the current value of TRIP in any one quarter.

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 of equities, fixed-income securities and alternative investments. The primary goal is to maximize long-term total return, growth of principal and a growing payout stream to ensure that future funding for endowment-supported activities can be maintained. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements. The fair value of Berkeley's investment in GEP was \$2,427.0 million and \$2,370.0 million at June 30, 2015 and 2014, respectively.

There are many factors that can affect the value of investments. In addition to market risk, credit risk, custodial credit risk, concentration of credit risk and foreign currency risk may affect both equity and fixed-income securities. Equity securities are affected by such factors as economic conditions, individual company earnings performance and market liquidity, while fixed-income securities are particularly sensitive to credit risk, inflation and changes in interest rates.

Additional information on UC's investments can be obtained from its 2014-2015 annual financial report.

NOTE 3: INVESTMENTS HELD BY TRUSTEES

Proceeds from the sale of the state of California's lease revenue bonds to be used for financing certain Berkeley capital projects were deposited in a commingled U.S. bond fund managed by the state of California Treasurer's Office, as trustee, and distributed to Berkeley as the projects are constructed. The fair value of these deposits was \$9.6 million and \$33.6 million at June 30, 2015 and 2014, respectively.

University of California, Berkeley
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NOTE 4: RESTRICTED BOND PROCEEDS HELD BY UC

Proceeds from the sale of UC revenue bonds to be used for financing certain Berkeley capital projects were deposited in a commingled fund managed by the Treasurer of the Regents and distributed to Berkeley as the projects are constructed. Berkeley's share of restricted bond proceeds held by UC was \$40.8 million at June 30, 2015 and \$179.5 million at June 30, 2014.

NOTE 5: ACCOUNTS RECEIVABLE

Accounts receivable and the allowance for uncollectible accounts at June 30 are as follows:

(in thousands of dollars)

	STATE & FEDERAL GOVERNMENT		LOCAL GOVT & PRIVATE GRANTS & CONTRACTS		OTHER		TOTAL
At June 30, 2015							
Accounts receivable	\$	154,701	\$	58,374	\$	36,799	\$ 249,874
Allowance for uncollectible accounts		(401)		(1,155)		(3,610)	(5,166)
Accounts receivable, net	\$	154,300	\$	57,219	\$	33,189	\$ 244,708
At June 30, 2014							
Accounts receivable	\$	109,653	\$	37,310	\$	37,928	\$ 184,891
Allowance for uncollectible accounts		(426)		(1,013)		(6,116)	(7,555)
Accounts receivable, net	\$	109,227	\$	36,297	\$	31,812	\$ 177,336

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

The expense for uncollectible accounts has either increased or (decreased) the following revenues for the years ended June 30:

(in thousands of dollars)

	2015		2014	
Student tuition and fees	\$	(58)	\$	(437)
Grants and contracts		(66)		(198)
Educational activities		69		104
Auxiliary enterprises		135		(209)
Other operating revenues		1,647		(391)
Expense for uncollectible accounts	\$	1,727	\$	(1,131)

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NOTE 6: PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2015 and 2014 is summarized as follows:

(in thousands of dollars)

	2015	2014
Total pledges receivable outstanding	\$ 24,958	\$ 41,285
Less: Unamortized discount to present value	(606)	(997)
Allowance for uncollectible pledges	(14,093)	(14,836)
Total pledges receivable, net	10,259	25,452
Less: Current portion of pledges receivable	(2,726)	(5,674)
Noncurrent portion of pledges receivable	\$ 7,533	\$ 19,778

Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2015 and thereafter are as follows:

(in thousands of dollars)

Year Ending June 30	
2016	\$ 14,120
2017	4,910
2018	2,825
2019	568
2020	265
2021-2025	1,270
Beyond 2025	1,000
Total payments on pledges receivable	\$ 24,958

Adjustments to the allowance for uncollectible pledges for Berkeley have decreased the following revenues for the years ended June 30, 2015 and 2014:

(in thousands of dollars)

	2015	2014
Private gifts	\$ (293)	\$ (9,173)
Capital gifts and grants	(8,119)	(220)

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NOTE 7: NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2015 and 2014, along with the allowance for uncollectible amounts, are as follows:

(in thousands of dollars)

	CURRENT	NONCURRENT		TOTAL
		NOTES	MORTGAGES	
At June 30, 2015				
Notes and mortgages receivable	\$ 5,001	\$ 25,868	\$ 2,170	\$ 28,038
Allowance for uncollectible amounts	(51)	(1,815)		(1,815)
Notes and mortgages receivable, net	\$ 4,950	\$ 24,053	\$ 2,170	\$ 26,223
At June 30, 2014				
Notes and mortgages receivable	\$ 4,937	\$ 24,857	\$ 2,533	\$ 27,390
Allowance for uncollectible amounts	(107)	(2,103)		(2,103)
Notes and mortgages receivable, net	\$ 4,830	\$ 22,754	\$ 2,533	\$ 25,287

NOTE 8: CAPITAL ASSETS

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

(in thousands of dollars)

	2013	ADDITIONS	DISPOSALS	2014	ADDITIONS	DISPOSALS	2015
ORIGINAL COST							
Land	\$ 110,989			\$ 110,989			\$ 110,989
Infrastructure	62,176	\$ 1,233	\$ (51)	63,358	\$ 6,342	\$ -	69,700
Buildings and improvements	4,111,071	103,607	(9,664)	4,205,014	307,942	(1,612)	4,511,344
Equipment, software and intangibles	505,181	29,160	(18,408)	515,933	43,312	(36,546)	522,699
Libraries and collections	946,060	32,648	(6,783)	971,925	33,226	(13,633)	991,518
Special collections	110,783	4,583		115,366	5,607		120,973
Construction in progress	247,528	157,692		405,220	(22,756)		382,464
Capital assets, at original cost	\$ 6,093,788	\$ 328,923	\$ (34,906)	\$ 6,387,805	\$ 373,673	\$ (51,791)	\$ 6,709,687
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure	\$ 24,130	\$ 2,378	\$ (22)	\$ 26,486	\$ 2,652	\$ -	\$ 29,138
Buildings and improvements	1,371,702	128,832	(6,596)	1,493,938	135,378	(2,753)	1,626,563
Equipment, software and intangibles	375,184	32,497	(16,192)	391,489	33,549	(36,078)	388,960
Libraries and collections	707,281	29,207	(6,783)	729,705	29,983	(13,633)	746,055
Accumulated depreciation and amortization	\$ 2,478,297	\$ 192,914	\$ (29,593)	\$ 2,641,618	\$ 201,562	\$ (52,464)	\$ 2,790,716
Capital assets, net	\$ 3,615,491			\$ 3,746,187			\$ 3,918,971

Service concession arrangements, reported as buildings and improvements, are \$19.1 million of original cost and no accumulated depreciation at June 30, 2015. No service concession arrangements were recorded at June 30, 2014.

NOTE 9: DEBT

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

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

(in thousands of dollars)

	INTEREST RATES	MATURITY YEARS	2015	2014
INTERIM FINANCING:				
Commercial paper	0.1459%		\$ 67,323	\$ 67,793
LONG-TERM FINANCING:				
UC general revenue bonds	0.1 - 7.6%	2016-2112	1,588,965	1,692,031
UC limited projects revenue bonds	0.6 - 6.3%	2016-2045	659,585	553,735
UC revenue bonds			2,248,550	2,245,766
Capital lease obligations	1.40 - 3.255%	2015-2019	6,934	5,522
Other borrowings	0.0 - 1.99%	2016-2025	10,082	3,023
Total outstanding debt			2,332,889	2,322,104
Less: Commercial paper			(67,323)	(67,793)
Current portion of outstanding debt			(99,865)	(99,232)
Noncurrent portion of outstanding debt			\$ 2,165,701	\$ 2,155,079

Interest expense associated with financing projects during construction, net of any investment income earned on tax-exempt bond proceeds during construction, is capitalized. Total interest expense during the years ended June 30, 2015 and 2014 was \$91.9 million and \$81.3 million, respectively. Interest expense, net of investment income, totaling \$18.7 million and \$1.3 million was capitalized during the years ended June 30, 2015 and 2014, respectively. The remaining \$73.2 million in 2015 and \$80.0 million in 2014 is reported as interest expense in the statement of revenues, expenses and changes in net position.

Outstanding Debt Activity

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

(in thousands of dollars)

	UC REVENUE BONDS	CAPITAL LEASE OBLIGATIONS	OTHER BORROWINGS	TOTAL
<i>Year ended June 30, 2015</i>				
Long-term debt and capital leases at June 30, 2014	\$ 2,245,766	\$ 5,522	\$ 3,023	\$ 2,254,311
New obligations	99,945	3,483	7,059	110,487
Refinancing or prepayment of outstanding debt				-
Scheduled principal payments	(97,161)	(2,071)		(99,232)
Long-term debt and capital leases at June 30, 2015	2,248,550	6,934	10,082	2,265,566
Less: Current portion	(97,177)	(2,627)	(61)	(99,865)
Noncurrent portion at June 30, 2015	\$ 2,151,373	\$ 4,307	\$ 10,021	\$ 2,165,701
<i>Year ended June 30, 2014</i>				
Long-term debt and capital leases at June 30, 2013	\$ 1,558,510	\$ 362,079	\$ 39,328	\$ 1,959,917
New obligations	704,919			704,919
Refinancing or prepayment of outstanding debt		(339,342)	(32,799)	(372,141)
Scheduled principal payments	(17,663)	(17,215)	(3,506)	(38,384)
Long-term debt and capital leases at June 30, 2014	2,245,766	5,522	3,023	2,254,311
Less: Current portion	(97,161)	(2,071)	-	(99,232)
Noncurrent portion at June 30, 2014	\$ 2,148,605	\$ 3,451	\$ 3,023	\$ 2,155,079

Commercial Paper

Commercial paper may be issued for interim/permanent financing for capital projects, interim financing of equipment, standby or interim financing for gift financed projects and working capital for Berkeley.

The program's liquidity is supported by available investments in STIP and TRIP. Commercial paper is collateralized by a pledge of the revenues derived from the ownership or operation of the projects financed and constitute limited obligations of

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UC. There is no encumbrance, mortgage or other pledge of property securing commercial paper, and the paper does not constitute general obligations of UC.

Berkeley's share of commercial paper outstanding, including interest rates, at June 30 is as follows:

<i>(in thousands of dollars)</i>				
	2015		2014	
	INTEREST RATES	OUTSTANDING	INTEREST RATES	OUTSTANDING
Taxable	0.1 - 0.15%	\$ 67,323	0.1 - 0.2%	\$ 67,793
Total outstanding		\$ 67,323		\$ 67,793

UC Revenue Bonds

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

General Revenue Bonds are collateralized solely by General Revenues as defined in the Indenture. General Revenues are certain operating and nonoperating revenues of UC consisting of gross student tuition and fees; facilities and administrative cost recovery from contracts and grants; revenues from educational, auxiliary and other activities; and other revenues, including unrestricted investment income. The General Revenue Bond Indenture requires UC to set rates, charges and fees each year sufficient for General Revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. General Revenues, as defined in the Indenture, have been amended to include certain state appropriations as to secure payment of the General Revenue Bonds. Berkeley's General Revenues for the years ended June 30, 2015 and 2014 were \$1.9 billion and \$1.7 billion, respectively. The pledge of General Revenues for interest rate swap agreements is on a parity basis with the University's General Revenue Bonds.

Limited Project Revenue Bonds are issued to finance auxiliary enterprises and are collateralized by a pledge consisting of the sum of the gross revenues of the specific projects. The Indenture requires UC to achieve the sum of gross project revenues equal to 1.1 times debt service and maintain certain other financial covenants. Berkeley's pledged revenues for the years ended June 30, 2015 and 2014 were \$189.0 million and \$177.8 million, respectively.

The pledge of revenues under Limited Project Revenue Bonds is subordinate to the pledge of revenues associated with General Revenue Bonds, but senior to pledges under commercial paper agreements or bank loans.

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

Capital Leases

UC entered into lease-purchase agreements with the state of California that were recorded as capital leases. The state sold lease revenue bonds to finance construction of certain state-owned buildings to be used by UC. At the conclusion of the lease term, ownership transferred to UC. In October 2013, UC refinanced all the lease revenue bonds issued by the state of California with University General Revenue Bonds and ownership of all the properties transferred to UC.

The state of California financing appropriation under the terms of the lease-purchase agreements pertaining to Berkeley, and recorded as nonoperating revenue, for the year ended June 30, 2014 was \$7.8 million.

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The scheduled principal and interest including accrued interest, reported in Berkeley's financial statements for the year ended June 30, 2014 contain amounts related to these lease-purchase agreements with the state of California as follows:

(in thousands of dollars)

	2014
Capital lease principal	\$ 3,104
Capital lease interest	2,285
Total	\$ 5,389

Berkeley's capital leases with other lessors, typically for equipment, totaled \$6.9 million and \$5.5 million for the years ended June 30, 2015 and 2014, respectively.

Other UC Borrowings

Other borrowings of \$10.0 million at June 30, 2015 and \$3.0 million at June 30, 2014, from UC's bank line of credit and loans with various expiration dates through 2025, were obtained to provide interim financing for buildings and equipment.

Future Debt Service

Berkeley's share of future debt service payments for each of the five fiscal years subsequent to June 30, 2015 and thereafter are as presented below:

(in thousands of dollars)

	COMMERCIAL PAPER	REVENUE BONDS	CAPITAL LEASES	OTHER BORROWINGS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year Ending June 30							
2016	\$ 67,421	\$ 191,834	\$ 2,744	\$ 62	\$ 262,061	\$ 167,189	\$ 94,872
2017		120,465	2,010	48	122,523	30,610	91,913
2018		119,992	1,475	48	121,515	30,569	90,946
2019		121,271	716	48	122,035	32,158	89,877
2020		126,992	224	48	127,264	38,662	88,602
2021-2112		3,812,432		10,021	3,822,453	2,033,701	1,788,752
Total future debt service	67,421	4,492,986	7,169	10,275	4,577,851	\$ 2,332,889	\$ 2,244,962
Less: Interest component of future payments		(98)	(2,244,436)	(235)	(193)	(2,244,962)	
Principal portion of future payments	\$ 67,323	\$ 2,248,550	\$ 6,934	\$ 10,082	\$ 2,332,889		

Additional information on UC's debt can be obtained in its 2014-2015 annual financial report.

NOTE 10: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

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

(in thousands of dollars)

	SERVICE CONCESSION ARRANGEMENTS	NET PENSION LIABILITY	LOSS ON DEBT REFUNDING	TOTAL
<i>At June 30, 2015</i>				
Deferred outflows of resources		\$ 446,837	\$ 59,262	\$ 506,099
Deferred inflows of resources	\$ 19,080	449,140		468,220
<i>At June 30, 2014</i>				
Deferred outflows of resources		\$ 315,730	\$ 53,799	\$ 369,529
Deferred inflows of resources		594,418		594,418

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

Most Berkeley employees participate in the University of California Retirement System (UCRS) that is administered by 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 pension 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. Additional information on the retirement plans can be obtained from the 2014-2015 annual reports of the University of California Retirement System.

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

Contributions

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

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.

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Contributions to UCRP for the years ended June 30 are as follows:

(in thousands of dollars)

	2015	2014
Contributions - employer	\$ 129,808	\$ 106,254
Contributions - employee	72,185	55,360
Total	\$ 201,993	\$ 161,614

Pension Obligations

Berkeley's pension obligations as of June 30, 2015 and 2014, are as follows:

(in thousands of dollars)

	2015	2014
Net pension liability to UCRP	\$ 879,681	\$ 650,399
Payable to UC	243,310	183,394
Pension obligations	\$ 1,122,991	\$ 833,793

Net Pension Liability to UCRP

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

(in thousands of dollars)

	2015	2014
Proportion of the net pension liability	9.1%	9.2%
Proportionate share of net pension liability	\$ 879,681	\$ 650,399

Berkeley's net pension liability was measured as of June 30, 2015 and 2014 and was based upon rolling forward the results of the actuarial valuations as of July 1, 2014 and 2013. Actuarial valuations represent a long-term perspective and involve estimates of the value of reported benefits and assumptions about the probability of occurrence of events far into the future. Berkeley's net pension liability was calculated using the following methods and assumptions:

	2015	2014
Inflation	3.0%	3.5%
Investment rate of return	7.3%	7.5%
Projected salary increases	3.8 - 6.2%	4.3 - 6.8%
Cost-of-living adjustments	2.0%	2.0%

Actuarial assumptions are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions were changed in 2015 based upon the results of an experience study conducted for the period of July 1, 2010 through June 30, 2014. For active members, inactive members and healthy retirees, the RP-2014 White Collar Mortality Tables are used (separate tables for males and females), projected with the two-dimensional MP2014 projection scale to 2029, and with ages then set forward one year. For disabled members, rates are based on the RP-2014 Disabled Retiree Mortality Table, projected with the two-dimensional MP2014 projection scale to 2029, and with ages then set back one year for males and set forward five years for females.

The actuarial assumptions used in 2014 were based upon the results of an experience study conducted for the period of July 1, 2006 through June 30, 2010. For active members, inactive members and healthy retirees, the RP-2000 Combined Healthy Mortality Table, projected with scale AA to 2025, with ages set back two years is used. For disabled members, rates are based on the RP-2000 Disabled Retiree Mortality Table, projected with scale AA to 2025, with ages set back two years for males.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	28.5%	6.1%
Developed International Equity	18.5	7.0
Emerging Market Equity	8.0	8.6
Core Fixed Income	12.5	0.8
High Yield Bonds	2.5	3.0
Emerging Market Debt	2.5	3.9
TIPS	4.5	0.4
Real Estate	5.5	4.8
Private Equity	8.0	11.2
Absolute Return/Hedge Funds/Real Assets	9.5	4.2
Total	100%	5.6%

Discount Rate

The discount rate used to estimate the net pension liability as of June 30, 2015 and 2014 was 7.25 and 7.5 percent, respectively. To calculate the discount rate, cash flows into and out of UCRP were projected in order to determine whether UCRS has sufficient cash in future periods for projected benefit payments for current members. For this purpose, Berkeley contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected Berkeley contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are not included. UCRP was projected to have assets sufficient to make projected benefit payments for current members for all future years as of June 30, 2015 and 2014.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

The following presents the June 30, 2015 net pension liability of Berkeley calculated using the June 30, 2015 discount rate assumption of 7.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate different than the current assumption:

(in thousands of dollars)

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
<i>As of June 30, 2015</i>			
Net pension liability - Berkeley	\$ 1,483,326	\$ 879,681	\$ 386,930

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources and deferred inflows of resources for pensions were related to the following sources for the years ended June 30:

(in thousands of dollars)

	2015	2014
Deferred Outflows of Resources:		
Changes in proportion and differences between Berkeley's contributions and proportionate share of contributions	\$ 25,500	\$ 32,967
Changes of assumptions or other inputs	256,833	191,042
Net difference between projected and actual earnings on pension plan investments	164,504	91,721
Total Deferred Outflows of Resources	\$ 446,837	\$ 315,730
Deferred Inflows of Resources:		
Changes in proportion and differences between Berkeley's contributions and proportionate share of contributions	\$ 21,965	\$ 16,598
Changes of assumptions or other inputs	125,502	172,747
Net difference between projected and actual earnings on pension plan investments	266,051	367,498
Difference between expected and actual experience	35,622	37,575
Total Deferred Inflows of Resources	\$ 449,140	\$ 594,418

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

(in thousands of dollars)

Year Ending June 30	
2016	\$ 14,752
2017	(32,420)
2018	(51,149)
2019	56,201
2020	10,313
Total	\$ (2,303)

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

NOTE 12: RETIREE HEALTH BENEFIT COSTS AND OBLIGATIONS

UC administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision benefits, 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.

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

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contribute toward the cost of other benefits available to retirees. 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. 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 by Berkeley after 1989 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum employer contribution, increasing to 100 percent after 20 years of service.

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

Participating UC campuses, such as Berkeley, are required to contribute at a rate assessed each year by UC. The contribution requirements are based upon projected pay-as-you-go financing requirements. The assessment rates were \$2.65 and \$3.24 per \$100 of UCRP-covered payroll effective July 1, 2015 and 2014, respectively.

Berkeley's retiree health benefits expense is its share, as determined by UC, of the actuarially-determined annual required contribution. The annual required contribution represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize unfunded actuarial liabilities over a period of up to 30 years. For the years ended June 30, 2015 and 2014, Berkeley's contributions for retiree health benefits was \$23.6 million and \$27.4 million, respectively, and Berkeley's accrual of unfunded obligations for retiree health benefits was \$75.9 million and \$77.9 million, respectively.

Information related to plan assets and liabilities as they relate to Berkeley campus is not readily available. Additional information on the retiree health plans can be obtained from the 2014–2015 annual reports of the the UC and the University of California Health and Welfare Program.

NOTE 13: ENDOWMENTS AND GIFTS

The value of endowments and gifts held and administered by UC but reflected in Berkeley's statements of net position at June 30, 2015 and 2014 is as follows:

(in thousands of dollars)

	RES TRICTED NONEXPENDABLE	RES TRICTED EXPENDABLE	UNRES TRICTED	TOTAL
<i>At June 30, 2015</i>				
Endowments	\$ 375,305	\$ 1,046,267	\$ 3,621	\$ 1,425,193
Funds functioning as endowments		1,065,869		1,065,869
Annuity and life income	4,621			4,621
Gifts		296,873	19,801	316,674
Total endowments and gifts	\$ 379,926	\$ 2,409,009	\$ 23,422	\$ 2,812,357
<i>At June 30, 2014</i>				
Endowments	\$ 404,441	\$ 980,523	\$ 1,597	\$ 1,386,561
Funds functioning as endowments		1,047,498		1,047,498
Annuity and life income	4,798			4,798
Gifts		295,410	17,505	312,915
Total endowments and gifts	\$ 409,239	\$ 2,323,431	\$ 19,102	\$ 2,751,772

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

appreciation available to meet future spending needs is subject to the approval of The Regents and amounted to \$981.3 million and \$913.3 million at June 30, 2015 and 2014, respectively.

The portion of investment returns earned on endowments and distributed at the end of each year to support current operations for the following year is based upon a rate that is approved by The Regents. The annual income distribution transferred to Berkeley from endowments held by UC was \$77.9 million and \$73.0 million for the years ended June 30, 2015 and 2014, respectively. The portion of this annual income distribution from accumulated capital gains, in addition to the dividend and interest income earned, was \$51.5 million and \$50.1 million, respectively, for the years ended June 30, 2015 and 2014.

NOTE 14: COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled \$203.8 million at June 30, 2015.

Berkeley leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the year ended June 30, 2015 were \$18.1 million. The terms of operating leases extend through 2026.

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

(in thousands of dollars)

Year Ending June 30	Minimum Annual Lease Payments
2016	\$ 9,712
2017	7,711
2018	5,991
2019	5,179
2020	4,415
2021-2025	9,462
2026-2030	1,952
Total	\$ 44,422

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.