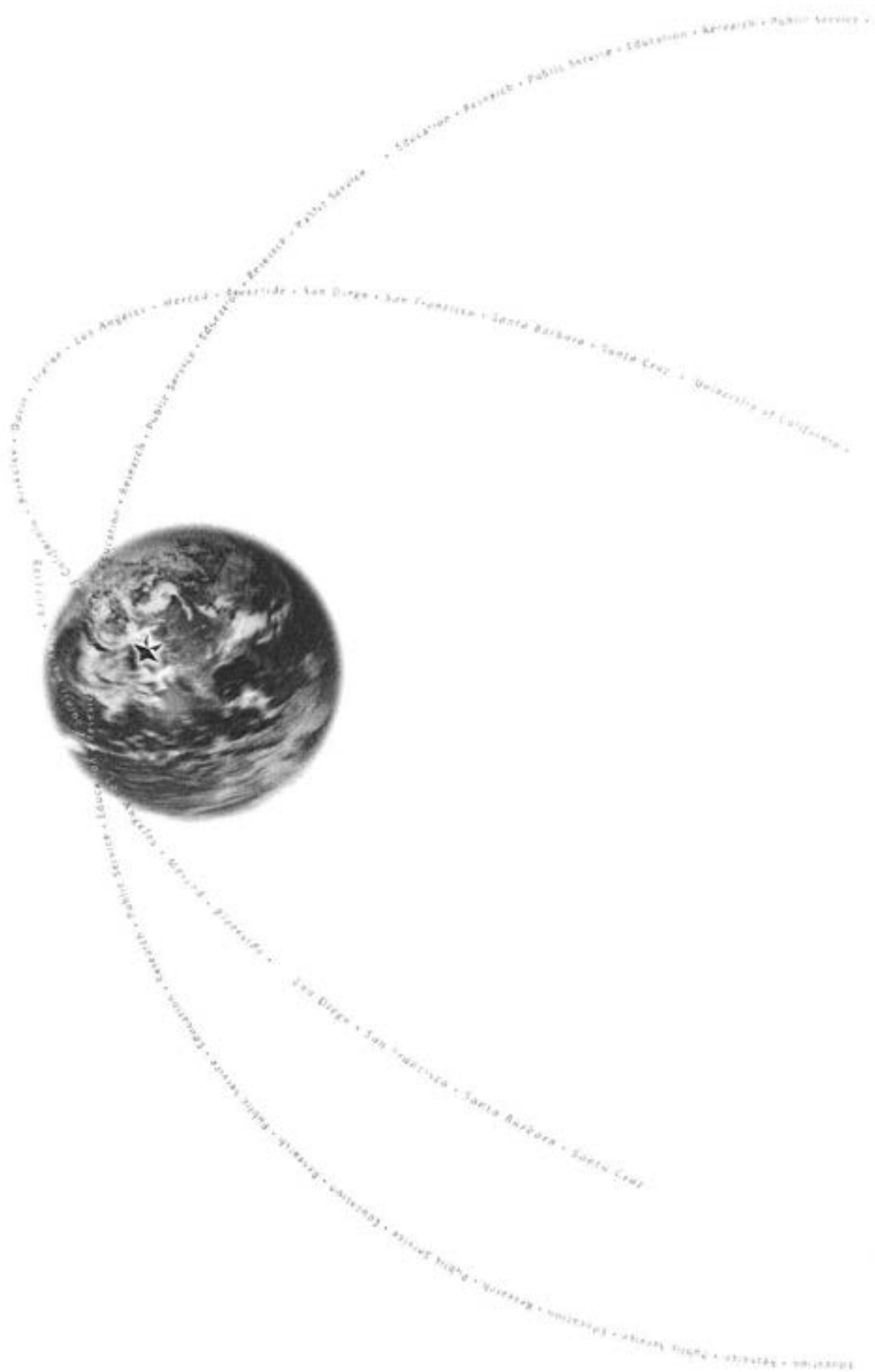


**Audited UC Financial Statements
June 30, 2005 and 2006**



REPORT OF INDEPENDENT AUDITORS

To The Regents of the University of California:

In our opinion, based upon our audits and the reports of other auditors, the financial statements listed in the accompanying table of contents on page 1, which collectively comprise the financial statements of the University of California (the "University"), a component unit of the State of California, present fairly, in all material respects, the respective financial position and plans' fiduciary net assets of the University, its aggregate discretely presented component units and the University of California Retirement System (the "Plans"), respectively, at June 30, 2006 and 2005, and the respective changes in financial position and cash flows of the University and its component units, and the changes in the Plans' fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the UC San Diego, UC Davis, UC Riverside and UC Irvine foundations, which represent 22 percent, 24 percent, and 27 percent of the assets, net assets, and operating revenues of the University of California campus foundations as of and for the year ended June 30, 2006; we also did not audit the financial statements of the UC San Diego, UC Davis, UC Riverside and UC Irvine foundations, which represent 21 percent, 23 percent and 31 percent of the assets, net assets, and operating revenues of the University of California campus foundations as of and for the year ended June 30, 2005. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of California campus foundations component units, is based upon the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinions.

PricewaterhouseCoopers LLP

San Francisco, California
October 9, 2006

UNIVERSITY OF CALIFORNIA
STATEMENTS OF NET ASSETS

AT JUNE 30, 2006 AND 2005 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2006	2005	2006	2005
ASSETS				
Cash and cash equivalents	\$ 202,026	\$ 164,457	\$ 126,024	\$ 79,669
Short-term investments	4,019,551	3,889,940	332,033	341,603
Investment of cash collateral	2,227,050	1,846,094	198,670	222,369
Investments held by trustees	59,026	69,044		
Accounts receivable, net	1,954,675	1,745,854	6,816	9,512
Pledges receivable, net	32,592	34,370	105,149	127,343
Current portion of notes and mortgages receivable, net	28,758	35,672	389	844
Inventories	129,210	123,829		
Department of Energy receivable	148,107	391,000		
Other current assets	119,475	89,445	7,752	9,053
Current assets	8,920,470	8,389,705	776,833	790,393
Investments	9,224,614	8,184,960	3,031,965	2,608,487
Investment of cash collateral	1,228,274	732,092	81,790	65,532
Investments held by trustees	700,701	879,338		
Pledges receivable, net	61,421	68,793	324,385	299,307
Notes and mortgages receivable, net	264,466	250,320	121	69
Department of Energy receivable	27,473	49,390		
Capital assets, net	16,665,001	15,530,305		
Other noncurrent assets	156,233	142,607	16,240	19,293
Noncurrent assets	28,328,183	25,837,805	3,454,501	2,992,688
Total assets	37,248,653	34,227,510	4,231,334	3,783,081
LIABILITIES				
Accounts payable	1,322,076	1,098,067	5,878	9,443
Accrued salaries and benefits	385,915	636,086		
Deferred revenue	678,820	611,451	1,453	1,472
Collateral held for securities lending	3,455,800	2,577,544	280,460	287,901
Commercial paper	550,000	550,000		
Current portion of long-term debt	407,888	450,013		
Funds held for others	252,762	236,258	71,053	61,433
Department of Energy laboratories' liabilities	138,936	389,097		
Other current liabilities	798,279	759,174	22,936	20,914
Current liabilities	7,990,476	7,307,690	381,780	381,163
Federal refundable loans	193,098	189,574		
Self-insurance	374,912	403,315		
Obligations under life income agreements	20,456	20,124	141,761	141,752
Long-term debt	7,918,360	6,945,272		
Other noncurrent liabilities	351,328	383,918	32,924	10,224
Noncurrent liabilities	8,858,154	7,942,203	174,685	151,976
Total liabilities	16,848,630	15,249,893	556,465	533,139
NET ASSETS				
Invested in capital assets, net of related debt	8,535,316	8,108,355		
Restricted:				
Nonexpendable:				
Endowments and gifts	872,707	823,497	1,526,885	1,360,238
Expendable:				
Endowments and gifts	4,657,857	4,260,682	2,131,606	1,873,361
Other, including debt service, loans, capital projects and appropriations	398,332	294,088		
Unrestricted	5,935,811	5,490,995	16,378	16,343
Total net assets	\$20,400,023	\$18,977,617	\$3,674,869	\$3,249,942

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2006 AND 2005 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2006	2005	2006	2005
OPERATING REVENUES				
Student tuition and fees, net	\$ 1,662,948	\$ 1,557,828		
Grants and contracts, net				
Federal	2,814,091	2,739,414		
State	423,506	411,214		
Private	744,352	680,817		
Local	162,627	145,104		
Medical centers, net	4,205,635	3,833,364		
Educational activities, net	1,122,765	1,062,723		
Auxiliary enterprises, net	893,248	846,608		
Department of Energy laboratories	4,231,922	4,146,261		
Campus foundation private gifts			\$ 387,814	\$ 332,474
Other operating revenues, net	508,539	376,296	1,182	7,433
Total operating revenues	16,769,633	15,799,629	388,996	339,907
OPERATING EXPENSES				
Salaries and wages	7,879,858	7,440,520		
Benefits	1,608,156	1,483,478		
Scholarships and fellowships	357,965	363,161		
Utilities	349,788	310,620		
Supplies and materials	1,826,954	1,706,728		
Depreciation and amortization	997,023	954,878		
Department of Energy laboratories	4,197,685	4,112,077		
Campus foundation grants			416,248	343,388
Other operating expenses	2,299,274	2,107,948	13,115	11,335
Total operating expenses	19,516,703	18,479,410	429,363	354,723
Operating loss	(2,747,070)	(2,679,781)	(40,367)	(14,816)
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	2,572,565	2,463,075		
State financing appropriations	146,816	120,667		
Private gifts, net	624,052	536,995		
Investment income:				
Short-Term Investment Pool and other, net	307,937	213,054		
Endowment, net	133,345	129,941		
Securities lending, net	5,376	4,577	435	506
Campus foundations			68,330	60,696
Net appreciation in fair value of investments	315,422	278,144	234,439	150,769
Interest expense	(347,172)	(295,312)		
Loss on disposal of capital assets	(5,814)	(36,715)		
Other nonoperating revenues (expenses)	(14,167)	(5,930)	2,782	340
Net nonoperating revenues	3,738,360	3,408,496	305,986	212,311
Income before other changes in net assets	991,290	728,715	265,619	197,495
OTHER CHANGES IN NET ASSETS				
State capital appropriations	220,158	189,295		
Capital gifts and grants, net	166,502	217,218		
Permanent endowments	44,456	47,995	159,308	122,095
Increase in net assets	1,422,406	1,183,223	424,927	319,590
NET ASSETS				
Beginning of year	18,977,617	17,794,394	3,249,942	2,930,352
End of year	\$20,400,023	\$18,977,617	\$3,674,869	\$3,249,942

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2006 AND 2005 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2006	2005	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	\$ 1,654,279	\$ 1,560,856		
Grants and contracts	4,228,316	3,966,616		
Medical centers	4,105,737	3,823,905		
Educational activities	1,117,729	1,070,890		
Auxiliary enterprises	899,250	854,447		
Collection of loans from students and employees	59,557	72,701		
Campus foundation private gifts			\$ 384,981	\$ 337,616
Payments to employees	(8,115,186)	(7,391,480)		
Payments to suppliers and utilities	(4,479,424)	(4,030,513)		
Payments for benefits	(1,636,389)	(1,543,699)		
Payments for scholarships and fellowships	(357,941)	(363,088)		
Loans issued to students and employees	(66,345)	(60,794)		
Payments to campuses and beneficiaries			(429,702)	(369,796)
Other receipts (payments)	389,231	217,929	(2,950)	3,745
Net cash used by operating activities	(2,201,186)	(1,822,230)	(47,671)	(28,435)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	2,577,962	2,468,066		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes	39,634	46,405	141,461	107,354
Other private gifts	587,942	503,121		
Student direct lending receipts	452,299	453,640		
Student direct lending payments	(452,299)	(453,640)		
Other receipts	15,882	31,549		
Net cash provided by noncapital financing activities	3,221,420	3,049,141	141,461	107,354
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Commercial paper financing:				
Proceeds from issuance	522,862	271,904		
Payments of principal	(522,862)	(271,904)		
Interest paid	(17,250)	(9,328)		
State capital appropriations	226,311	159,884		
State financing appropriations	3,421	4,483		
Capital gifts and grants	131,149	194,797		
Proceeds from debt issuance	1,886,469	1,184,268		
Proceeds from the sale of capital assets	19,476	13,023		
Proceeds from insurance recoveries	1,024	4,040		
Purchase of capital assets	(1,682,065)	(2,094,088)		
Refinancing or prepayment of outstanding debt	(814,943)	(337,286)		
Scheduled principal paid on debt and capital leases	(201,203)	(169,058)		
Interest paid on debt and capital leases	(324,226)	(241,799)		
Net cash used by capital and related financing activities	(771,837)	(1,291,064)		
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments:				
Short-Term Investment Pool	63,559,787	59,541,654		
Other investments	3,415,784	4,012,865	679,159	496,911
Purchase of investments:				
Short-Term Investment Pool	(64,037,298)	(58,675,274)		
Other investments	(3,573,965)	(4,064,654)	(798,646)	(645,654)
Investment income, net of investment expenses	424,864	342,684	72,052	60,802
Net cash provided (used) by investing activities	(210,828)	157,275	(47,435)	(87,941)
Net increase (decrease) in cash	37,569	93,122	46,355	(9,022)
Cash and cash equivalents, beginning of year	164,457	71,335	79,669	88,691
Cash and cash equivalents, end of year	\$ 202,026	\$ 164,457	\$ 126,024	\$ 79,669

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA
STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2006 AND 2005 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2006	2005	2006	2005
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating loss	\$ (2,747,070)	\$ (2,679,781)	\$ (40,367)	\$ (14,816)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation and amortization expense	997,023	954,878		
Noncash gifts			(18,543)	(24,547)
Allowance for doubtful accounts	(3,254)	(1,152)	1,147	(2,314)
Loss on impairment of capital assets	672	2,491		
Change in assets and liabilities:				
Investments			(6,863)	(875)
Accounts receivable	(173,685)	(29,704)	2,511	(3,746)
Pledges receivable			(4,095)	28,134
Investments held by trustees	(53,490)	(69,706)		606
Inventories	(5,381)	(252)		
Other assets	(29,471)	(7,771)	3,066	1,786
Accounts payable	(12,559)	(11,234)	456	(7,355)
Accrued salaries and benefits	(250,171)	(39,283)		
Deferred revenue	62,992	27,931	22,019	(16)
Self-insurance	(37,607)	(5,134)		
Obligations to life beneficiaries			(6,580)	(1,871)
Other liabilities	50,815	36,487	(422)	(3,421)
Net cash used by operating activities	\$ (2,201,186)	\$ (1,822,230)	\$ (47,671)	\$ (28,435)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired through capital leases	\$ 84,155	\$ 53,501		
Capital assets acquired with a liability at year-end	84,496	103,130		
Investments held by trustees	(167,599)	205,242		
State financing appropriations	143,395	116,184		
Gifts of capital assets	18,399	54,880	\$ 9,570	\$ 25,265
Other noncash gifts	25,629	5,750	54,376	41,006
Loss on the disposal of capital assets	(5,814)	(36,715)		
Debt service for lease revenue bonds	(157,772)	(127,287)		
Refinancing of interim loans under lease-purchase agreements	(124,425)	(172,559)		
Securities lending activity	878,256	(1,037,217)	(6,746)	16,858

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM
STATEMENTS OF PLANS' FIDUCIARY NET ASSETS

AT JUNE 30, 2006 AND 2005 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA RETIREMENT PLAN	UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PLANS	UNIVERSITY OF CALIFORNIA PERS-VOLUNTARY EARLY RETIREMENT INCENTIVE PLAN	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2006	2006	2006	2006	2005
ASSETS					
Investments	\$ 44,199,460	\$ 9,588,967	\$ 77,892	\$ 53,866,319	\$ 51,372,279
Participants' interest in external mutual funds		3,018,557		3,018,557	2,358,936
Investment of cash collateral	10,445,933	3,546,652		13,992,585	10,893,857
Participant 403(b) loans		81,819		81,819	70,620
Accounts receivable:					
Contributions	74,022	442		74,464	108,322
Investment income	139,546	39,633		179,179	150,797
Security sales and other	289,339	58,342		347,681	129,866
Total assets	55,148,300	16,334,412	77,892	71,560,604	65,093,677
LIABILITIES					
Payable for securities purchases	1,302,132	313,495		1,615,627	844,823
Member withdrawals, refunds and other payables	37,045	1,234	62	38,341	126,959
Collateral held for securities lending	10,446,899	3,547,163		13,994,062	10,891,365
Total liabilities	11,786,076	3,861,892	62	15,648,030	11,863,147
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Members' defined benefit plan benefits	43,362,224		77,830	43,440,054	41,935,273
Participants' defined contribution plan benefits		12,472,520		12,472,520	11,295,257
Total net assets held in trust for pension benefits	\$43,362,224	\$12,472,520	\$ 77,830	\$55,912,574	\$53,230,530

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLANS' FIDUCIARY NET ASSETS

YEARS ENDED JUNE 30, 2006 AND 2005 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA RETIREMENT PLAN	UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PLANS	UNIVERSITY OF CALIFORNIA PERS-VOLUNTARY EARLY RETIREMENT INCENTIVE PLAN	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2006	2006	2006	2006	2005
ADDITIONS (REDUCTIONS)					
Contributions:					
Participants		\$ 1,001,850		\$ 1,001,850	\$ 917,332
Members	\$ 1,746			1,746	1,653
Employer	13	20,653		20,666	4,803
Total contributions	1,759	1,022,503		1,024,262	923,788
Investment income (expense), net:					
Net appreciation in fair value of investments	1,698,374	436,646	\$ 5,429	2,140,449	3,180,646
Interest, dividends and other investment income	1,253,783	440,571		1,694,354	1,489,361
Securities lending income	453,281	137,239		590,520	238,997
Investment expenses	(434,284)	(131,997)		(566,281)	(222,627)
Total investment income, net	2,971,154	882,459	5,429	3,859,042	4,686,377
Interest income from contributions receivable	6,506			6,506	6,865
Total additions	2,979,419	1,904,962	5,429	4,889,810	5,617,030
DEDUCTIONS					
Benefit payments:					
Retirement payments	930,530		5,364	935,894	829,373
Member withdrawals	70,865			70,865	70,560
Cost-of-living adjustments	176,181			176,181	160,925
Lump sum cashouts	193,999			193,999	172,144
Prereirement survivor payments	27,758			27,758	26,366
Disability payments	34,771			34,771	33,434
Death payments	6,580			6,580	6,888
Other benefit payments					439
Participant withdrawals		720,181		720,181	392,473
Total benefit payments	1,440,684	720,181	5,364	2,166,229	1,692,602
Expenses:					
Plan administration	32,883	7,518	8	40,409	32,837
Other	1,128			1,128	1,074
Total expenses	34,011	7,518	8	41,537	33,911
Total deductions	1,474,695	727,699	5,372	2,207,766	1,726,513
Increase in net assets held in trust for pension benefits	1,504,724	1,177,263	57	2,682,044	3,890,517
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Beginning of year	41,857,500	11,295,257	77,773	53,230,530	49,340,013
End of year	\$ 43,362,224	\$ 12,472,520	\$ 77,830	\$ 55,912,574	\$ 53,230,530

See accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2006 AND 2005

ORGANIZATION

The University of California (the University) was founded in 1868 as a public, state-supported institution. The California State Constitution provides that the University shall be a public trust administered by the corporation, "The Regents of the University of California," which 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-member independent governing board (The Regents) are appointed by the Governor and approved by the State Senate. Various University programs and capital outlay projects are funded through appropriations from the state's annual Budget Act. The University's financial statements are discretely presented in the state's general purpose financial statements as a component unit.

FINANCIAL REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES**Financial Reporting Entity**

The University's financial statements include the accounts of ten campuses, five medical centers, a statewide agricultural extension program and the operations of most student government or associated student organizations as part of the primary financial reporting entity because The Regents has certain fiduciary responsibilities for these organizations. In addition, the financial position and operating results of certain other legally separate organizations are included in the University's financial reporting entity on a blended basis if The Regents is determined to be financially accountable for the organization. Organizations that are not significant or financially accountable to the University, such as booster and alumni organizations, are not included in the reporting entity. However, cash invested with the University by these organizations, along with the related liability, is included in the statement of net assets. The statement of revenues, expenses and changes in net assets excludes the activities associated with these organizations.

Specific assets and liabilities and all revenues and expenses associated with two major Department of Energy (DOE) laboratories operated and managed by the University under contracts directly with the United States Department of Energy are also included in the financial statements. In addition, the University is a member in a joint venture, Los Alamos National Security, LLC (LANS), that operates and manages the Los Alamos National Laboratory (LANL) under a contract directly with the United States Department of Energy. The University has an ongoing financial interest and financial responsibility in the separate entity, along with the other members, and the organization is jointly controlled by the University and one member. Accordingly, assets and liabilities and revenues and expenses of the joint venture are not included in the University's financial statements.

The University has ten legally separate, tax-exempt, affiliated campus foundations. The combined financial statements of the University of California campus foundations (campus foundations) are presented discretely in the University's financial statements because of the nature and significance of their relationship with the University, including their ongoing financial support of the University. Campus foundations may invest all or a portion of their investments in University-managed investment pools. Securities in these investment pools are included in the University's securities lending program. Accordingly, the campus foundations' investments in University-managed investment pools and their allocated share of the securities lending activities have been excluded from the University's financial statements and displayed in the campus foundations' column.

The Regents has fiduciary responsibility for the University of California Retirement System (the UCRS) that includes two defined benefit plans, the University of California Retirement Plan (the UCRP) and the University of California Public Employees Retirement System (PERS) – Voluntary Early Retirement Incentive Plan (the PERS-VERIP) and three defined contribution plans in the University of California Retirement Savings Program (the UCRSP), consisting of the Defined Contribution Plan (the DC Plan), the Tax Deferred 403(b) Plan (the 403(b) Plan) and the Tax Deferred 457(b) Plan (the 457(b) Plan). The UCRS statements of plans' fiduciary net assets and changes in plans' fiduciary net assets are also presented discretely in the University's financial statements.

Significant Accounting Policies

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

GASB Statement No. 47, *Accounting for Termination Benefits*, was adopted during the year ended June 30, 2006.

Statement No. 47 requires benefits such as early retirement incentives or severance to employees who are involuntarily terminated to be recognized in the period the University becomes obligated to provide the benefits. Benefits provided to employees who voluntarily terminate must be recognized when the termination offer is accepted.

The effect of the implementation of GASB Statement No. 47 was not significant on the University's net assets or changes in net assets for the year ended June 30, 2006. There was no effect on the University's net assets or changes in net assets for the year ended June 30, 2005.

The significant accounting policies of the University are as follows:

Cash and cash equivalents. The University and campus foundations consider all balances in demand deposit accounts to be cash. The University classifies all other highly liquid cash equivalents as short-term investments. Certain campus foundations classify their deposits in the University's Short Term Investment Pool as a cash equivalent.

Investments. Investments for the University and campus foundations are primarily recorded at fair value. Generally, securities, including derivative investments, are valued at the last sale price on the last business day of the fiscal year, as quoted on a recognized exchange or an industry standard pricing service. 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. Interests in venture capital partnerships are based upon valuations provided by the general partners of the respective partnerships as of March 31, adjusted for cash receipts, cash disbursements and securities distributions through June 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because the venture capital partnerships are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investments existed. Investments in registered investment companies are valued based upon the reported net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value. Estimates of the fair value of interests in externally held irrevocable trusts where the University is the beneficiary of either the income or the remainder that will not become a permanent endowment upon distribution to the University are based upon the present value of the expected future income or, if available, the University's proportional interest in the fair value of the trust assets.

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 based on fair value at date of donation.

Participants' interest in external mutual funds. Participants in the University's defined contribution retirement plans may invest their contributions in, and transfer plan accumulations to, funds managed by the University's Chief Investment Officer or to external mutual funds/brokerage firms on a custodial plan basis.

Foreign currency translation. Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments and their related income are translated at the rate of exchange on the respective transaction dates. Realized and unrealized gains and losses resulting from foreign currency changes are included in the University's statement of revenues, expenses and changes in net assets.

Accounts receivable. Accounts receivable include reimbursements due from state and federal sponsors of externally funded research, patient billings, accrued income on investments and other receivables. Other receivables include local government and private grants and contracts, educational activities and amounts due from students, employees and faculty for services.

Pledges receivable. Unconditional pledges of private gifts to the University or to the campus foundations in the future 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. Loans to students are provided from federal student loan programs and from other University sources. Home mortgage loans, primarily to faculty, are provided from the University's Short Term Investment Pool and from other University sources. Mortgage loans provided by the Short Term Investment Pool are classified as investments and loans provided by other sources are classified as mortgages receivable in the statement of net assets.

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.

Contracts directly with the United States Department of Energy. The University operates and manages two major DOE national laboratories under contracts directly with the United States Department of Energy.

The University's statement of net assets includes the DOE laboratories' liabilities associated with vendor, employee-related and certain other costs, along with the corresponding receivable from the DOE to satisfy these liabilities. Other assets, such as cash, property and equipment and other liabilities of these laboratories are owned by the United States government rather than the University and, therefore, are not included in the statement of net assets.

The statement of revenues, expenses and changes in net assets includes the operational results from the DOE laboratories under University contracts directly with the DOE. The statement of cash flows excludes the cash flows associated with the DOE laboratories since all cash transactions are recorded in bank accounts owned by the DOE.

Investment in Los Alamos National Security, LLC (LANS). LANS is a joint venture between the University and industrial members that operates and manages LANL under a contract directly with the DOE. The University's investment in LANS is accounted for using the equity method. Under the equity method, the statement of net assets includes the University's equity interest in LANS, adjusted for the equity in undistributed earnings or losses. The statement of revenues, expenses and changes in net assets includes the University's equity in current earnings or losses of LANS.

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

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

Estimated economic lives are generally as follows:

Infrastructure	25 years
Buildings and improvements	15–33 years
Equipment	2–20 years
Computer software	3–7 years
Library books and material	15 years

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

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