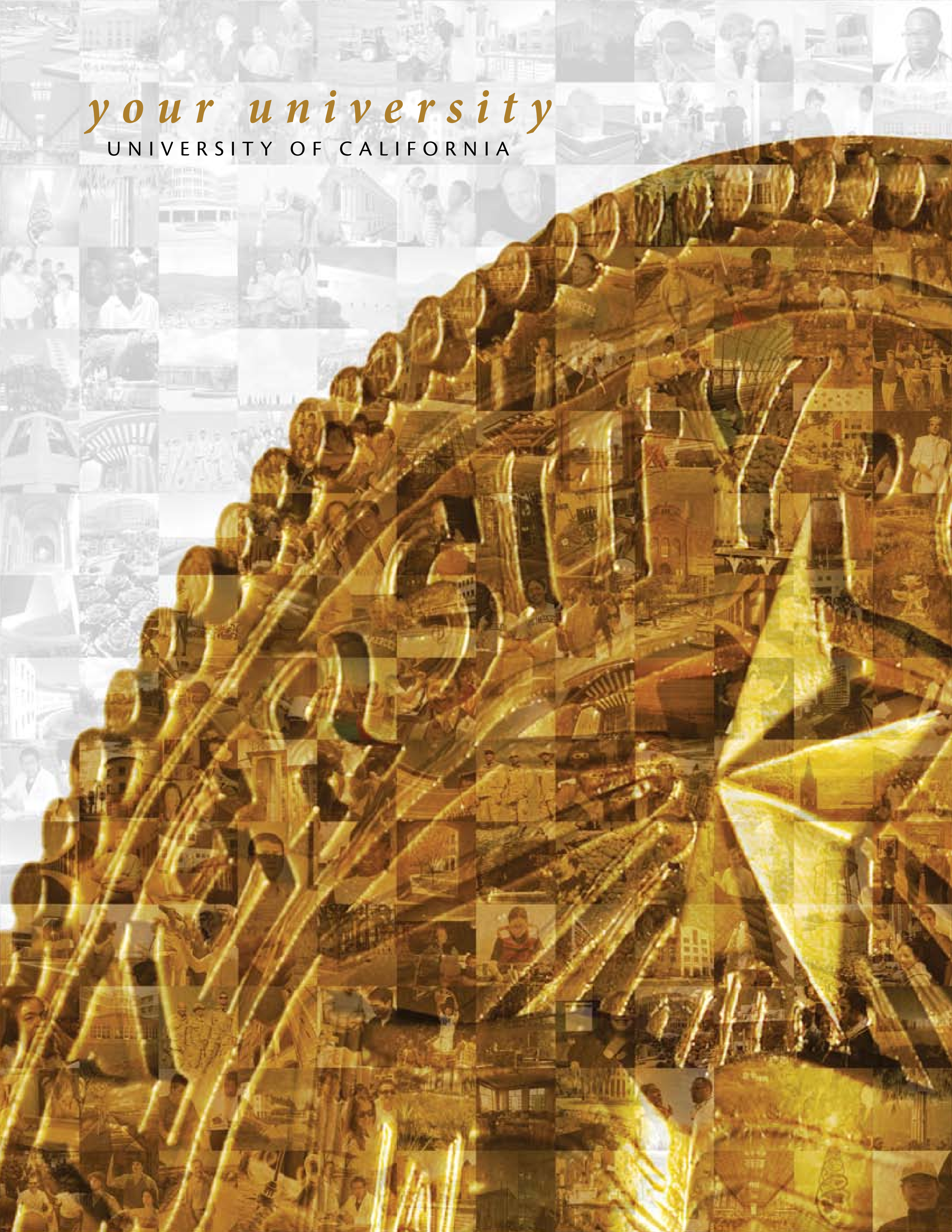
your university

UNIVERSITY OF CALIFORNIA



The University of California delivers world-class education with benefits for all Californians. In the classroom or in the community, your university is

Transforming lives by educating more young Californians to soar beyond their expectations

Inspiring innovation as we tackle the world's biggest threats, from global warming to terrorism

Empowering creativity as we train new generations of artists and musicians

Driving prosperity through our partnerships with industry and agriculture to strengthen the economy and create more jobs

Advancing health as we discover cures, save lives and educate a work force of skilled and committed health care professionals

Serving communities when we show our students the value of using their knowledge to make a difference

At the University of California, we're working to build a better future for your family, your neighbors and the generations that will come after. Our commitment is strong, our passion unsurpassed, our determination unshakable.

We're working hard because this is your university.

The University of California, founded in 1868, is a system of 10 campuses with a mission of teaching, research and public service. With 214,000 graduate and undergraduate students, UC is the world's premier public university. UC has three law schools, five medical schools and the nation's largest continuing education program. The University, on behalf of the U.S. Department of Energy, also is involved in the management of three national laboratories that are engaged in energy and environmental research. Its Natural Reserve System manages approximately 130,000 acres of natural habitats for research, teaching and outreach activities.

CAMPUSES

1 Berkeley
2 Davis
3 Irvine
4 Los Angeles
5 Merced
6 Riverside
7 San Diego
8 San Francisco
9 Santa Barbara
10 Santa Cruz

NATIONAL LABORATORIES

A E.O. Lawrence Berkeley National Laboratory
B Lawrence Livermore National Laboratory
C Los Alamos (N.M.) National Laboratory

Throughout its history, the University of California has been dedicated to improving the lives of people in California and around the world.

What began in the 19th century as a regional institution focused on agriculture and mechanic arts has, in the 21st century, become one of the world's leading centers of intellectual inquiry and scientific innovation across a dazzling spectrum of fields. Its contributions as a public university extend far beyond the boundaries of its campuses – literally into the homes and lives of every Californian.

Your University of California today is educating a spectacular new generation of students, pursuing new discoveries to enhance our quality of life and expand economic growth, and providing health care on the cutting edge of medical discovery. It's reaching into our state's public schools to help give students a better shot at college, and it's working with farmers to enrich our food supply. It's bringing fresh ideas into our community life and our political discourse.

In this report, you'll read about a small sampling of the people whose lives your university is touching. You'll quickly see that UC's impact is felt not only in our classrooms and laboratories, but also in schools and concert halls, in businesses and health clinics, on the Web and in the skies above our planet.

In American higher education, the University of California has a unique competitive advantage: It is one system of 10 campuses, each of them a world-class institution with its own strengths and distinctions. As I prepare to step down as UC's president in the coming months, I believe it is more important than ever for California to sustain and nurture the model of a single university with its complementary campuses of differentiated profile.

California has gained immensely from the contributions of this system. For 80 years now, since the University's "Southern Branch" became a full-fledged UCLA in 1927, each new UC campus has attained excellence in research and teaching, and each has transformed its surrounding region in every conceivable way. For UC to continue contributing to a bright future for California, it must harness the strengths of the campuses in even more coordinated and collaborative ways.

Proud to serve California and the world with distinction. Proud to be public. That is your University of California, and it has been my honor to serve it.

Thank you for your continued support of the University.

Robert C. Dynes

From cashier job to lab fellowship

First-generation college student finds his calling in molecular biology.

With not a grade-school diploma between them, Jose and Jacinta Rodriguez knew nothing about higher education in California when they left their home in rural Mexico for a new life in Los Angeles County. But of this they were certain: If their children studied hard, they could make something of themselves.

But Jacinta worried about the eldest of her five children. Jose was bright but floundering in school. Monolingual when he left Mexico at age 5, he struggled with English. "I was a little lazy," he admitted.

Jacinta knew her son could do better. "You really need to focus if you're going to do something with your life," she told him. "This is all up to you."

Jose buckled down. He took AP courses, joined the science club and volunteered in the community, juggling it all with a cashier's job at Wal-Mart. When application time came, Jose aimed high. He applied to four UC campuses. He won admission to all, but his choice was UCLA, close to the family home in Paramount.

In his sophomore year, Jose attended a lecture on immunology, a recruitment event for a National Institutes of Health program called Minority Access to Research Careers. After the talk, he approached Dr. Manuel Penichet, then a UCLA associate researcher, and peppered him with questions. Penichet, now an assistant professor and deeply committed to mentoring underrepresented students, sensed something special in this inquisitive teenager. "Jose was very, very interested, and that's the most important thing," Penichet said.

The more Jose found out about immunology, the more he wanted to know. Finally, Penichet said: "Why don't you come to my lab and see if you can find out some of the answers for yourself?"

Jose started spending most of his free time at the lab. Encouraged by Penichet, he won admission to the minority researcher program. By the time he donned cap and gown last spring, with a bachelor's in biophysics, he had won a prestigious Gilliam Graduate Fellowship from the Howard Hughes Medical Institute, co-authored four journal articles and would soon see a fifth published — this time as first author. More impressive yet, he has returned to UCLA for a four-year doctoral program as the first Whitcome Fellow in molecular biology.

"I'm not sure exactly what I'll end up doing," he said, "but definitely something involving research, possibly teaching."

Penichet is fond of warning his graduate students about the rigors of a career in research: "You have to be committed," he tells them, "so committed that even if you won $300 million in the lottery, you would still want to do it." Jose doesn't play the lottery. But if he won it, he knows what he'd do. "Oh yeah, I'd still do this. I love it."

T R A N S F O R M I N G   L I V E S

Teens sweat the small stuff

High school students experience the rigors of nanoscience with summer research.

For many California teens, summer means sleeping late, hanging with friends and catching a new blockbuster movie. But for science-savvy high schoolers in Santa Barbara County, “school’s out!” brings something far more rewarding: UCSB’s program for aspiring young researchers.

Housed at the University’s California NanoSystems Institute, the Apprentice Researchers Program each year offers high school students an opportunity to do university-level research in fields ranging from biology to chemistry to experimental design. Since its inception 17 years ago, the program has become so popular that scores of teens from throughout Santa Barbara County compete for the dozen slots available each year.

The monthlong program exposes high schoolers to the rigors of a real job in the sciences. Participants work alongside graduate-student mentors in a science or engineering lab. Most mentors work under faculty members associated with the NanoSystems Institute, the joint UCLA-UC Santa Barbara endeavor that seeks to develop technologies at science’s hottest new frontier, the nano — or microscopically small — scale. Joining the teens each year is one high school teacher, who can experience working in a university research lab while also gleaning ideas for incorporating the emerging field of nanoscience into the high school curriculum.

The goal of the Apprentice Researchers Program, said coordinator Wendy Ibsen, is to humanize and demystify the work of scientists and lab researchers so that teens of all types — not just the kids who enter science fairs and know the periodic table — start thinking about careers in these fields.

Oftentimes, Ibsen said, students who show early aptitude and interest in science and engineering are turned off by stereotypical images of crazed scientists toiling in dreary isolation amid a clutter of test tubes. Through the program, participants learn that science and engineering are collaborative and exciting fields. Of the 200 students who have completed the program, about 85 percent have pursued science degrees in college.

For the science-loving Silverman siblings of Santa Barbara, the program has become a family tradition. Oldest sibling Craig was the first to attend in 2003, followed by Danny, Carly and finally Brett, now in his final year at Santa Barbara High School.

Brett Silverman had so much fun that he stayed on when the program ended to continue his research into the production of blue-green Gallium nitride light-emitting diodes, or LEDs, those super long-lasting lights used in traffic signals, motorcycle headlights and flashlights. He and mentor Kelly McGroddy generated data suggesting the LEDs may be more efficiently produced using oxygen rather than nitrogen in the heating process.

“For a high school student like me, that was a once-in-a-lifetime experience,” he said.

TRANSFORMING LIVES

Securing our skyways

Lab scientists refine aviation screening systems to detect terrorist explosives.

Scientists at Lawrence Livermore National Laboratory are helping the federal government evaluate screening systems that would point the way to narrowing a gap in the nation's aviation security: the risk of a cargo-borne bomb downing a passenger plane.

The threat that a terrorist weapon will escape detection by the nation's 1.5 million shippers and 3,800 freight forwarders makes the air carrier's freight depot the last line of defense against a potential disaster. Because no one method of airport screening is considered adequate for all cargo commodities, the goal is to combine high-tech sensors, canine sniffers and human inspectors while greatly expanding the amount of cargo screened by at least one of these methods.

The U.S. Department of Homeland Security's Science and Technology Directorate and the Transportation Security Administration are evaluating one approach to screening air cargo at San Francisco International Airport, aided by Lawrence Livermore and other national labs. The $30 million Air Cargo Explosives Detection Pilot Program, which includes projects at two other airports, is designed to measure how well existing explosives detection systems, originally developed for screening checked baggage for explosives, perform in screening cargo. The data collected by the program will help the federal agencies shape technological and operational standards for screening at a major air cargo warehouse.

"We're collecting large amounts of data to see what could work," said lab project manager Amy Waters.

The SFO prototype systems include explosives detection systems, explosive trace detectors, stations for physical inspection and staging areas for canine explosives detection teams. Part of the challenge is to see if these approved technologies are appropriate for cargo or if new types of sensors need to be developed.

The percentage of cargo screened has grown since 9/11, but so has the tonnage shipped. A worried Congress, citing the 9/11 Commission's recommendations, has recently passed legislation requiring 100 percent screening of air cargo within three years.

"We've been ramping up and we hope to reach 100 percent," Waters said.

In a separate project, Lawrence Livermore National Laboratory is working with Homeland Security to develop an industrial-grade system to detect a U-235 or plutonium bomb hidden in a shipping container. The method bombards the container with neutrons, which generate fission and subsequent gamma radiation after hitting the fissile material.

At Los Alamos National Laboratory, scientists are studying how to detect concealed nuclear materials by measuring how cargo deflects cosmic rays. Nuclear materials and shielding materials are more strongly deflected than normal cargo.

The projects to reduce the nation's risk of being hit by a terrorist weapon concealed in air or maritime cargo are examples of how UC and the three national labs affiliated with it are contributing operational and technological know-how to help the federal government manage the threat of terrorism. The work includes managing the nation's nuclear weapons stockpile, analyzing bioagents and pathogens, assessing weapons-of-mass destruction activities by foreign states, and modeling military tactics to protect cities, industrial sites and critical U.S. infrastructure against terrorist attack.

Green revolution revisited

UC researchers attack global warming with renewed dedication to clean fuels.

UC Berkeley chemical engineer Harvey Blanch remembers scientists working on biofuels under a federal initiative more than 30 years ago amid the Mideast oil crisis.

"Then when oil prices changed, the research emphasis changed," Blanch said. "It's kind of interesting now to see it resurfacing with perhaps much more commitment to making it work."

That commitment is strong at the University of California, which is becoming the nation's scientific crossroads in the push to exploit plant sources for cheap, cleaner-burning alternatives to fossil-based liquid fuels.

Centered at UC Berkeley and Lawrence Berkeley National Laboratory, the biofuels push is growing into a full-fledged campaign: When the more than $50 million-a-year public and private effort is fully funded by 2008, some 350 scientists will be attacking the problem, the largest such group in the United States.

If they're successful, within five years cars and trucks will have cost-competitive biofuels to burn in their tanks instead of only gasoline and expensive grain-based ethanol. Aircraft will fly on high-energy biofuels distilled from plant cellulose rather than only fossil distillates.

Berkeley Lab Director Steven Chu's Helios Project is the framework for marshaling $1 billion in public and private resources for breakthrough science on liquid fuels and solar electricity.

Of the 350 scientists now funded in the Berkeley-centered effort, 200 will be in the Energy Biosciences Institute backed by BP and hosted by UC Berkeley, Berkeley Lab and the University of Illinois.

The other 150 will work under UC Berkeley chemical and bioengineering professor Jay Keasling at the U.S. Energy Department's newly formed $125 million Joint BioEnergy Institute, which includes Berkeley Lab, UC Berkeley, UC Davis, Lawrence Livermore National Laboratory, Sandia National Laboratories and Stanford University.

Blanch, the venture's chief science and technology officer, said small economic gains at each step in the process will add up to enough savings to bring a gallon of cellulose-based fuel in line with the cost of a gallon of gas at the pump by 2012, meeting a goal set by President Bush.

JBEI's task includes developing a renewable carbon pool to compete with the non-renewable pool of underground fossil fuels. The most exciting research focuses on perennial crops grown for their cellulose.

But the cellulose pool is of little value against global warming unless it can be cheaply broken down chemically. This process, called deconstruction, presents JBEI scientists with their biggest test: turbo-charging enzymes to dissolve plant cell walls into fermentable sugars. Much has changed since Blanch first worked on cellulosic biofuels in the 1970s, but deconstruction remains a daunting hurdle. The young scientists and students he works with at the University have a strong motivation for conquering those hurdles this time around.

"They're more involved in this than the old generation," Blanch said. "They'll have to deal with a hot planet long after we're gone."

INSPIRING INNOVATION

Transfigured by technology

Pulitzer Prize-winning professor redefines music through Calit2 collaborations.

E M P O W E R I N G   C R E A T I V I T Y

In fall 1983, composer and UC San Diego faculty member Roger Reynolds startled colleagues with the announcement that he planned to compose a piece for orchestra, solo flute and computer-processed sound.

At the time, computer music was in its infancy. Sound-file editing — simple enough today with even a low-end PC — was inaccurate and clumsy. Moreover, UCSD's Computer Audio Research Lab, where the composer would digitally transform flute solos on a time-shared 16-bit computer, had only just opened its doors. Indeed, Reynolds himself was not sure how it would work out.

All doubts vanished the following spring. *Transfigured Wind II* enthralled an audience at the New York Philharmonic's annual contemporary music festival, as did *Transfigured Wind III* at the 1984 Los Angeles Cultural Olympics. Before the decade was out, Reynolds would win a Pulitzer Prize for a string orchestra composition, *Whispers Out of Time*.

While *Whispers Out of Time* was a purely instrumental work, Reynolds in later years would return to technology. In the 1996 work *Two Voices — an allegory*, for example, the composer used computers to simulate auditory illusions, the sound equivalent of optical illusions.

So diverse and interdisciplinary as to defy categorization, Reynolds' work has "redefined what it means to be a composer," said Ramesh Rao, director of the UCSD division of Calit2, the California Institute for Telecommunications and Information Technology.

Earlier this year, when Calit2 sought its first composer-in-residence, it found the ideal candidate in Reynolds, who in 2009 will mark 40 years on the music faculty. The two-year appointment calls for Reynolds to present at least two public events a year. At his disposal are Calit2's audio spatialization lab, 100-seat black-box theater and other specialized facilities.

For Reynolds—who sees the responsibility of the artist to be "as alive as possible to what is happening in the world"— Calit2 affords an unparalleled opportunity to create fresh, multilayered and multisensory experiences for music and theater audiences.

"Up until about 20 or 30 years ago, there were things that you could imagine but not experience," Reynolds said. "But because of the capacity of computers to model the phenomenon in our world, we can now actually experience things that were previously only the province of our imaginations. In that sense, all that the computer is doing is giving people a larger interface with their own humanity, with the things they observe and think and feel in their everyday lives."

This interface will be on display in *Chatter/Clatter*, a collaboration between Reynolds and colleague Steve Schick, founder of the UCSD percussion ensemble red fish blue fish. Reynolds digitally replicates percussion sounds—a clink here, a bonk there—into thousands upon thousands of repetitions, each slightly different from another and movable in space and time.

Like looking up at a sky full of starlings in flight, the effect, Reynolds said, "can be quite astonishing."

Shakespeare to Go

Santa Cruz festival brings the Bard to a new generation of theater lovers.

Mike Ryan saw his first Shakespeare play in a park when he was 13.

“It was Romeo and Juliet, and I was blown away by it,” he said. So blown away that he signed up for an acting class and began performing with a Shakespeare in the Park company. That was the start of his career as a professional stage actor and drama teacher. Today, as director of UC Santa Cruz’s Shakespeare to Go program, he helps thousands of school children experience that same feeling he had the first time he heard the great playwright’s words projected across a stage.

“They’re going through all the stuff Shakespeare is about,” said Ryan of his young audiences. “Conflicts with family, love, what it’s like to be a man. The topics are so real to them.”

Funded through a National Endowment for the Arts initiative called Shakespeare for a New Generation, the university’s Shakespeare to Go program performs abridged versions of plays in local middle and high schools. Each year Ryan adapts a 50-minute version of a play selected from the upcoming summer season of Shakespeare Santa Cruz, the acclaimed professional repertory company housed at the University. Ryan is both a lecturer in the university’s theater department and an equity actor with Shakespeare Santa Cruz.

Students in his winter quarter acting class work on the production, and in the spring they load their sets and costumes into a van and take the show on the road, performing three to six times a week.

The aim is to introduce kids to Shakespeare and to provide teachers with classroom materials, guest lectures and opportunities to bolster their English lessons with live theater.

Last spring, the student troupe performed *The Tempest* at 30 schools and five community events for more than 6,000 audience members. For many of the school children, it was the first time they’d ever seen live theater.

“They really respond to the play,” Ryan said. “Sometimes they want to talk back to the actors. They don’t have any preconceived notions about what live theater is.”

Ryna Currier, a seventh-grade English teacher at Rolling Hills Middle School in Los Gatos, brings Shakespeare to Go to her school in conjunction with its annual Renaissance Faire. The plays have become one of the most popular activities with her students.

“Kids can really appreciate Shakespeare at a very young age, if you teach them something about it,” she said.

She prepares them with teaching materials the university program provides and makes sure they understand the plot. For students studying the fundamentals of writing and language skills, Currier said, live Shakespeare truly enhances their learning experience.

EMPOWERING CREATIVITY

DRIVING PROSPERITY

Browse, click, buy

Entrepreneurial scholars link students to booming Internet retailing industry.

Online retail is not just big business; it's a fertile field for research. And UC Riverside is on the cutting edge of this field, buoyed by pioneering Internet retail scholars Donna Hoffman and Tom Novak.

Professors Hoffman and Novak, who co-directed the Sloan Center for Internet Retailing at Vanderbilt University, joined UC Riverside in July 2006. They have moved the Sloan Center with them to Riverside, where they have been working to expand their online retailing research and build up the A. Gary Anderson Graduate School of Management.

"(This was) an opportunity to do something unique – to help build or reformulate a business school in the UC system, which I consider the greatest public research institution in the world," Hoffman said.

As they bolster the business school, Hoffman and Novak are looking to keep making their mark in online retail research.

"Donna is one of those unique people who has their finger on the pulse of the industry," said Scott Silverman, executive director of Shop.org. "We can all feel confident that she is going to know the right questions to ask."

New opportunities abound. Online retail is growing about 20 percent annually, with industry sales expected to reach $259 billion in 2007, said Silverman. "Anyone that's coming out of a program that's focused on Internet retailing absolutely has a leg up in getting a job in (online retail)."

While preparing students for marketing careers, the Sloan Center is also focusing on improving online retailing for merchants big and small. Its backers include the Alfred P. Sloan Foundation and founding partners Walmart.com and Lands' End.

"To our knowledge, our center and lab are the only such of their kind in a business school (or any other professional school) that focus on Internet retailing," according to Hoffman.

Online is "the wave of the future" for marketing, said Julie Lemaster, who received her MBA from UC Riverside in the spring after taking classes with Hoffman and Novak. The Sloan Center will be "a great career boost for students," she said.

UC Riverside students can take Internet retailing classes as part of their MBA coursework. A doctorate program is planned, Novak said.

Bill Bass is chief executive of Fair Indigo, a fair trade clothing company that uses customer reviews — after Hoffman's research a decade ago showed their effectiveness. Bass used to head e-commerce for Sears and Lands' End, where Sloan students did internships and several became employees.

"If they re-create what they did at Vanderbilt, it will be a very good thing," Bass said.

When the cows come home

Farmers team with UC researchers to curb pollution from California's dairy herds.

A partnership between agricultural leaders and UC Merced aims to help California farmers maintain the environment and the economy.

California is the nation's leading dairy state, generating $5.2 billion in milk and cream sales a year. While that keeps the state's 1.7 million dairy cows busy making milk, they also produce plenty of manure. The manure is filled with nutrients that farmers can use as fertilizer, but it also can pollute the environment.

Looking for help, a group of San Joaquin Valley agricultural leaders turned to UC Merced. Agriculturalists for Scientific Environmental Research teamed this spring with the University, which is testing sensors that could provide a high-tech solution to manure management.

Alejandro Castillo, an AFSER member and UC Cooperative Extension farm advisor in Merced, is assisting on the project. "We have to take care of the environment, especially the soil and the water," Castillo said. "It's a big issue, but I think there are solutions."

UC Merced engineering professor Tom Harmon is leading the research, which involves testing at fields next to two dairies.

"These dairies are doing quite well, but they obviously have to manage the waste problems," Harmon said.

Many dairies store manure in lagoons. The material can be used to irrigate crops that are fed to cows, but nitrogen levels are a concern — too much can degrade water quality.

Next to a dairy near the Merced River, wireless sensors measure soil moisture and temperature in an alfalfa field. UC Merced graduate student Heidi Dietrich studies the sensors to figure how best to deploy them so farmers can check real-time data from a laptop computer.

"We want to know how far down the water is going," Dietrich said. "We are trying to see if it goes into the groundwater."

Other sensors monitor soil levels of nitrate and ammonia. But these chemical sensors are finicky, labor-intensive and cost about $400 each, so the researchers are seeking simpler, less expensive alternatives.

The Merced County Community Foundation is contributing a grant of nearly $200,000 for the multiyear project. Additional funding is sought.

"We want accurate, scientific information on the impacts we are having on the environment," said Merced dairy owner Henry te Velde, who heads the group.

The research could help show how to maintain groundwater quality and use manure more beneficially, he said.

D R I V I N G   P R O S P E R I T Y

On the battlefield

Military surgeons deploy UC Davis training in saving soldiers' lives.

A 1 percent to 2 percent fatality rate is remarkably low for any combat trauma unit, but that is the result UC-trained Air Force Maj. Dustin Zierold's team achieved over six months in Iraq in 2005.

Zierold and his group of 55 medics at the 506th Expeditionary Medical Services Squadron hospital in Kirkuk treated 130 casualties and performed 78 surgeries to stabilize patients, including many with severe damage from high-velocity penetrating and blast injuries. The team saved all but one.

Zierold, who shortly begins his second six-month tour of duty overseas, this time leading a combat trauma team in Afghanistan, said his success had much to do with the training he received at UC Davis Medical Center in Sacramento — first as a surgical resident and later in a two-year fellowship through Travis Air Force Base.

"I don't think there's any stateside training that can prepare you for what happens over there because the weapons are usually high-velocity and very powerful," said Zierold. "However, what's important to me is Davis does an enormous volume of trauma patients. That trained me to get used to having four or five patients coming through the door all at the same time.

"The second point is, I've been through a lot of different training programs, but Davis has always stood out as the best I've ever been to in how organized their trauma teams are."

Team members know their roles and are productive amid the chaos of dealing with multiple casualties. Zierold said Davis training also made a difference in how quickly team members stabilized patients.

"Teaching them how to approach the first five minutes of a trauma patient's life — Davis is very good at that," he said.

Another UC Davis-trained military surgeon, Navy Cmdr. Jay Grove, was deployed to Fallujah, Iraq, during the first assault in 2004.

"The busy tempo at UCDMC helped prepare me for triaging multiple casualties," he wrote in an e-mail from Djibouti, Africa, where he is currently deployed. "In Iraq, casualties would come in groups between one and 20. The most helpful surgical techniques were 'damage control,' which goes back to the way the Navy keeps battle-damaged ships afloat."

UC Davis Medical Center's high volume of trauma cases and the quality of its teaching staff are the prime draws for military surgeons, said Dr. Felix Battistella, a UC Davis surgery professor. A third factor is the opportunity to learn the Davis system of organizing trauma care.

"Rather than teaching individuals two or three ways of attacking the same problem, we teach them one way," Battistella said. "It's nice to learn how to master things one way, and it gives you the basis for developing your own techniques."

In 2005, the David Grant USAF Medical Center at Travis Air Force Base merged its residency program with that of UC Davis. At any given time, 12 or more military residents are going through the Davis trauma training.

Kids in crisis

WATCH Clinic helps families in the struggle to conquer life-threatening obesity.

When he was 12, Jesse Manek was carrying around the kind of baggage that goes with being big for his age, the euphemism adults often use for overweight children.

A lover of fast food and daily infusions of ice cream, Jesse, always the biggest in his class, had gotten used to the teasing and disappointments like not being allowed on a football team because he was too large to play with kids his age.

Then his physician delivered an alarming prediction – one that would turn Jesse's world around.

"I was so overweight my doctor told me I wouldn't live beyond my 20s," said Jesse, who at the time weighed 283 pounds. "I'd be diabetic or have a heart attack."

The warning spurred Jesse and his family into action. In 2004, he enrolled in the Weight Assessment for Teen and Child Health Clinic at UC San Francisco Children's Hospital. The WATCH Clinic is one of several University of California pediatric treatment and research centers tackling the growing crisis of childhood obesity.

In the last 30 years the number of overweight and obese kids has grown so rapidly that many health professionals consider this the greatest public health crisis. A 2005 study from the California Center for Public Health Advocacy found more than 28 percent of California kids in grades 5, 7 and 9 are overweight or obese. As a result, children are now suffering weight-related chronic conditions such as type 2 diabetes and liver disease that in the past were seldom seen in kids.

Pediatric endocrinologist Robert Lustig, director of the WATCH clinic, blames the obesity epidemic on what he calls the "toxic environment" the food and beverage industry has created. A diet riddled with high-sugar, low-fiber drinks and processed foods, he said, creates an insulin imbalance that causes people to eat more and exercise less.

With some WATCH patients like Jesse, Lustig prescribes medication to lower insulin levels. He treats obesity as a medical condition while teaching kids to change their diets and boost their physical activity.

It hasn't been easy for Jesse these last three years, but the efforts are paying off. He's now a stickler for healthy food, works out five days a week and is a gold medalist in competitive jujitsu.

When he started clinic visits, Jesse's body mass index registered at 41.6, a number, Lustig said, that would classify an adult as obese let alone a child. At Jesse's recent visit to the clinic, his BMI had dropped to 29.9 – a remarkable improvement.

Now 15 and a sophomore in high school, Jesse appreciates the improvement in his health status. But just as important, he said, is the change in attitude people have about him: "I don't get teased because I'm the big, fat kid anymore."

Hungry minds, healthy diets

MBA students use economic expertise to feed hungry Ghanaian school children.

SERVING COMMUNITIES

Thousands of school children in the West African nation of Ghana are enjoying better nutrition, under a boldly entrepreneurial feeding program aided by UC Berkeley MBA students.

Eleven students spent three weeks in Ghana last summer as consultants on the project, which has the ambitious aim of distributing locally grown food to 4 million school children, or a third of Ghana's school-age population.

The project is unprecedented in its goal of creating a sustainable school-nutrition business on a national scale. The core idea is simple: use locally grown food and local distributors instead of donations from relief organizations.

The obstacles are great but the potential rewards are global, not only in improving health and education but in building a foundation for economic development in impoverished nations worldwide, said Sebastian Teunissen, an adjunct professor at UC Berkeley's Haas School of Business and executive director of the Clausen Center for International Business and Policy.

"Nothing like this has happened anywhere else in the world," he said. "This is the first national school feeding program. A lot is riding on it."

An MBA student team, as part of the International Business Development Program at Haas, first visited Ghana in 2005 to develop a strategy to expand an existing feeding program at eight schools near Kumasi. UC Berkeley alumnus Richard Beahrs, a member of the UN Millennium Project's Task Force on Hunger, funded the trip.

Beahrs liked the students' report and presented it to the task force. Another task force member, Hans Eenhoorn, recommended it to the Dutch Minister for Development. The result was a commitment by the Dutch government to spend $25 million a year on the project over 10 years.

Today, two years later, the program has grown from the initial eight schools to more than 1,000.

Three student teams returned last year, assigned to advise their Ghanaian clients on financial, management and logistical problems confronting the program's national expansion.

On arrival the students found that their clients were interested less in macroeconomic analysis than in such pressing matters as school gardens, cookware and warehousing.

"It's a lot more complicated when you're on the ground talking to local people about implementation than it is when you're reading a document here in Berkeley," student Julia Ponce said.

Student Cliff Dank learned much by talking to schoolchildren individually.

Dank recalled, "One child came up to me and said, 'I want to tell you that the food is very good. But we want breakfast. We're hungry in the morning … and we want soccer balls and jerseys. We have to borrow from other schools and it's embarrassing.'"

At that moment Dank realized both how successful the feeding program was and how far it had to go.

Med school treats culture gap

Future doctors build bridges to underserved Latino communities.

As a physician's assistant working in a low-income neighborhood in Los Angeles, Bryan Ellerson saw first hand how hard it was for Latinos to get good health care. Poverty and the scarcity of providers made it difficult to get into a clinic or hospital. Once inside, doctor-patient communication often was not good.

Even Ellerson, who had picked up Spanish as a teenager and worked in health care on both sides of the border, wasn't as effective as he hoped. "I was so overwhelmed by the need of the population, I thought I'd go back to school and try to learn more," said the University of North Carolina graduate, who holds a master's degree in health science from Duke University.

Ellerson found exactly what he was looking for in the UC Irvine School of Medicine's Program in Medical Education for the Latino Community, or PRIME-LC. Launched in 2004, PRIME-LC is working to close the Latino health-care gap by training physicians and advocates who are sensitive to the needs of this underserved population.

California has a lot of catching up to do. Latinos will comprise the majority of Californians by 2042. Today, however, there is only one Latino physician for every 2,900 Latinos—nearly 10 times the ratio in the non-Latino population.

PRIME-LC is a five-year, dual-degree program that melds the regular medical-school curriculum with Latino-centric coursework and clinical training.

Participants start off with five weeks in Cuernavaca, Mexico, where they live with a local family, shadow doctors and familiarize themselves with the culture and history. Back at UC Irvine, students augment the regular curriculum with specialized courses that look at the epidemiology of diseases with high prevalence in the Latino community or health-related beliefs and practices that are passed down from generation to generation.

For example, students find out that Latinos with diabetes are sometimes afraid to take insulin out of fear that the medication causes blindness. (In fact, it's the untreated disease that leads to blindness.) They learn about susto, a culture-bound fright sickness that causes anxiety, fatigue, headaches and weight loss.

"What we're really interested in doing is treating the whole patient from a culturally aware standpoint," said Dr. Charles Vega, director of PRIME-LC. As part of their fieldwork, students work with patients at the UCI Family Health Center in Santa Ana, where Vega's practice is located. The clinic is one of Orange County's major providers of safety-net care.

During their fourth year, students leave behind medical school to pursue a master's degree in a field of their choosing. Ellerson will earn an MBA while others will study public health and public policy. The idea behind the dual degree, says Jose Rea, PRIME-LC's co-director, is to empower physicians to not only heal the sick but become community researchers, advocates and leaders.

S E R V I N G   C O M M U N I T I E S

AIDS care where it counts

Disease expert takes treatment to men of color and aging patients.

San Francisco resident Antoine Mahan has lived a rocky life – serving time in prison, being addicted to drugs and being HIV positive.

But the future is looking brighter for Mahan, 40. He has cleaned himself up and, for the past five years, has received compassionate care through UC San Francisco's Men of Color Program.

"They are very sensitive to the people with HIV," Mahan said. "It's a wonderful program."

Despite advancements in treatment, AIDS remains an urgent problem, particularly among African Americans, who account for about half of new U.S. AIDS cases and 40 percent of the 1 million Americans living with the disease.

"It's the epidemic of our time," said Dr. Malcolm John, director of 360: The Positive Care Center and 360's Men of Color Program at UCSF.

Founded in 2002, the Men of Color Program treats HIV-positive adults in San Francisco. Clients have access to not only a doctor and nurse but also a social worker, case manager, peer advocate, dietitian and pharmacist.

"I decided to stay because the clients/patients really need to see an African-American man doing social work," case manager Donnie Gayfield said. "When they see people who look like them, they are more likely to come in."

Clients do stick with the program, which receives funding from the San Francisco Department of Public Health and private foundations. According to a survey, 94 percent rate the program as excellent. Mahan praised the staff and its hilltop setting.

"I love it there," said Mahan, whose health has improved since entering the program.

Meanwhile, the program is expanding as part of the Southeast Partnership for Health Center of Excellence. The $1.5 million collaborative includes the Bayview Hunters Point Foundation, Southeast Health Center and Westside Community Services.

"I think it's a great relationship between the community and academia," said Charlotte Smith, the center's director. "You get to bring the resources of an institution such as UC behind a much-needed program."

Clients can visit clinics in their neighborhood or at UCSF. But some patients don't like visiting a public medical facility. To address privacy concerns and increase access for low-income AIDS patients, UCSF is launching a telemedicine project with a $250,000 grant from the Blue Shield of California Foundation and $100,000 from the U.S. Health Resources and Services Administration.

John also plans to start an HIV aging initiative in 2008. As AIDS patients get older, they face a variety of health problems. Research into HIV and aging could have implications for treating diseases from lupus to Alzheimer's, he said.

"It takes a community," which is 360's motto, John said. "That's really the philosophy – what I believe it takes to stop HIV."

Year in review *2006-2007*

Undergraduate science research at UCLA, UC San Diego, UC Berkeley and UC San Francisco gets boost from $1 million Amgen Foundation grants.

United Nations draws on experts from UC San Diego's Scripps Institution of Oceanography for its climate change assessment report.

NASA funds Scripps Institution of Oceanography instrument for proposed 2013 space mission to probe for life on Mars.

Researchers in the Philippines and at the University of California's Riverside and Davis campuses discover gene that enables rice crops to survive flooding.

UC San Francisco celebrates 100th anniversary of its School of Nursing.

The Milken Institute names the UC system most successful worldwide in biotechnology transfer with $100 million in research licensing revenue.

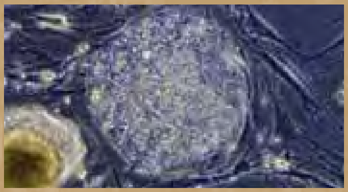
UC Santa Barbara and Intel develop world's first hybrid silicon laser.

The Ronald Reagan UCLA Medical Center – the largest UC construction project ever – is dedicated.

Scientists from Lawrence Livermore National Laboratory and the Joint Institute for Nuclear Research in Russia discover element 118, the newest super heavy element.

UC Berkeley cosmologist George Smoot wins the 2006 Nobel Prize in Physics.

University of Virginia provost Gene D. Block appointed chancellor of UCLA.



UC receives $42 million for stem cell research from the California Institute for Regenerative Medicine.

Los Alamos National Laboratory builds first machine capable of taking X-ray mini-movies of mock nuclear weapon implosions, part of the nuclear stockpile stewardship program.

Regents approve school of law at UC Irvine.

BP selects UC Berkeley, Lawrence Berkeley National Laboratory and the University of Illinois at Urbana-Champaign, to lead $500 million energy research effort.

Shakespeare Santa Cruz celebrates 25th anniversary.

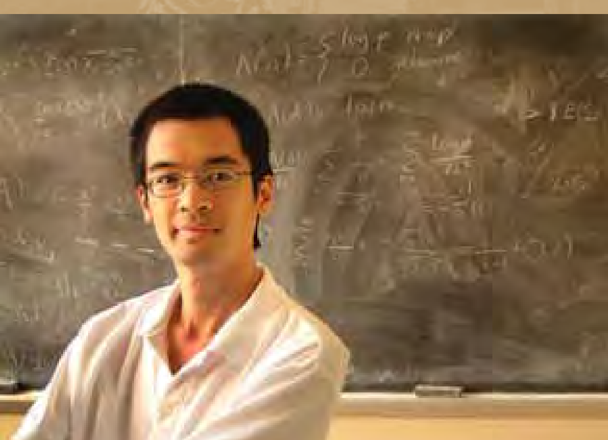
California Hazards Institute, a multicampus UC research program housed at UC Davis, opens to study natural disasters.

Systemwide academic planning initiative gets under way.

Regents announce actions to provide greater oversight and understanding about UC compensation policies and practices.

Writings of naturalist Henry David Thoreau find permanent home at UC Santa Barbara.

56 UC researchers elected as fellows of the American Association for the Advancement of Science.



UCLA math professor Terence Tao awarded the prestigious Fields Medal in mathematics.

Regents add two UC employees as advisors to the board.

UC-led team wins contract to manage Lawrence Livermore National Laboratory.

Helios Project launched at Lawrence Berkeley National Laboratory to create sustainable, carbon-neutral sources of energy.

UC Davis launches biogas energy plant that processes San Francisco restaurant food scraps.

UC Santa Barbara engineering professor Shuji Nakamura awarded 2006 Millennium Technology Prize for his invention of revolutionary new light sources.

UC Santa Cruz engineering dean Sung-Mo “Steve” Kang appointed chancellor of UC Merced.

FACTS IN BRIEF

	2007	2006	2005	2004	2003
STUDENTS					
Undergraduate fall enrollment	163,302	159,066	158,431	159,486	154,979
Graduate fall enrollment	50,996	50,014	49,478	48,905	46,318
Total fall enrollment	**214,298**	**209,080**	**207,909**	**208,391**	**201,297**
University Extension enrollment	294,976	302,388	332,842	338,084	353,843
FACULTY AND STAFF (full-time equivalents)	**127,368**	**123,997**	**121,726**	**120,786**	**118,533**
SUMMARY FINANCIAL INFORMATION (IN THOUSANDS OF DOLLARS, EXCEPT RETIREMENT PLAN PARTICIPATION)					
UNIVERSITY OF CALIFORNIA					
PRIMARY REVENUE SOURCES					
Student tuition and fees, net [1]	$ 1,737,597	$ 1,662,948	$ 1,557,828	$ 1,377,923	$ 1,096,609
Grants and contracts, net	4,315,595	4,144,576	3,976,549	3,826,641	3,531,343
Medical centers, educational activities and auxiliary enterprises, net	6,788,289	6,221,648	5,742,695	5,274,553	5,010,040
State educational, financing and capital appropriations	3,243,492	2,939,539	2,773,037	2,972,879	3,247,831
Private gifts, net	681,277	624,052	536,995	544,853	485,242
Capital gifts and grants, net	216,783	166,502	217,218	319,852	389,852
Department of Energy laboratories	2,188,475	4,231,922	4,146,261	4,115,635	4,173,017
OPERATING EXPENSES BY FUNCTION					
Instruction	3,520,435	3,212,552	3,046,225	2,873,614	2,752,994
Research	3,156,541	3,035,949	2,916,534	2,791,777	2,623,300
Public service	420,760	400,844	371,209	394,066	426,696
Academic support	1,188,204	1,139,201	1,014,002	1,050,099	1,042,932
Student services	499,791	470,283	436,050	415,218	406,380
Institutional support	857,733	764,165	652,646	603,220	649,290
Operation and maintenance of plant	475,638	451,882	415,096	393,765	367,181
Student financial aid [2]	406,520	363,635	369,424	358,048	358,711
Medical centers	4,085,642	3,675,271	3,423,315	3,176,373	3,070,140
Auxiliary enterprises	807,271	719,551	695,310	646,458	610,794
Depreciation and amortization	1,049,008	997,023	954,878	899,811	837,520
Department of Energy laboratories	2,169,750	4,197,685	4,122,077	4,082,089	4,139,681
Other	86,416	88,662	72,644	61,315	45,011
FINANCIAL POSITION					
Investments, at fair value	14,210,035	13,244,165	12,074,900	11,557,368	11,031,876
Capital assets, at net book value	18,105,332	16,665,001	15,530,305	14,167,202	12,653,546
Outstanding debt, including capital leases	9,363,730	8,876,248	7,945,285	6,912,989	6,354,193
Net assets	22,404,180	20,400,023	18,977,617	17,794,394	16,447,893
UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS					
PRIMARY REVENUE SOURCES					
Private gifts, net	457,814	387,814	332,474	407,661	280,364
PRIMARY EXPENSES					
Grants to campuses	451,290	416,248	343,388	390,254	293,009
FINANCIAL POSITION					
Investments, at fair value	4,036,489	3,363,998	2,950,090	2,597,250	2,223,046
Pledges receivable, net	450,342	429,534	426,650	452,543	402,681
Net assets	4,371,495	3,674,869	3,249,942	2,930,352	2,507,231
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM					
PLAN PARTICIPATION					
Plan membership	225,623	220,307	213,242	203,329	190,480
Retirees and beneficiaries currently receiving payments	47,682	45,442	41,477	39,738	37,867
PRIMARY REVENUE SOURCES					
Contributions	$ 1,061,968	$ 1,024,262	$ 923,788	$ 809,433	$ 698,904
Interest, dividends and other investment income, net	1,860,845	1,718,593	1,505,731	1,298,036	1,189,429
Net appreciation (depreciation) in the fair value of investments	7,863,875	2,140,449	3,180,646	4,564,427	1,067,838
PRIMARY EXPENSES					
Benefit payments	1,630,244	1,375,183	1,229,569	1,070,240	992,679
Participant and member withdrawals	939,768	791,046	463,033	389,803	260,931
FINANCIAL POSITION					
Investments, at fair value	59,685,467	53,866,319	51,372,279	47,003,436	42,324,557
Members' defined pension plan benefits	48,191,497	43,440,054	41,935,273	39,263,399	35,398,263
Participants' defined contribution plan benefits	14,453,480	12,472,520	11,295,257	10,076,614	8,757,931
Actuarial value of assets	43,433,936	41,972,000	41,085,000	41,293,000	41,429,000
Actuarial accrued liability	41,436,576	40,302,000	37,252,000	35,034,000	32,955,000

Certain revisions in classifications, or restatements, have been made to prior year information in order to conform to current year presentation.

[1] Scholarship allowances, including both financial aid and fee waivers that are not paid directly to students, are recorded primarily as a reduction of student tuition and fees in the statement of revenues, expenses and changes in net assets.

[2] Includes only student aid paid directly to students. The state-administered California grant awards are not included as expenses since the government determines grantees. College work study expenses are shown in the programs in which the student worked.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The objective of Management's Discussion and Analysis is to help readers of the University of California's financial statements better understand the financial position and operating activities for the year ended June 30, 2007, with selected comparative information for the years ended June 30, 2006 and 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements. Unless otherwise indicated, years (2005, 2006, 2007, 2008, etc.) in this discussion refer to the fiscal years ended June 30.

The University of California's financial report communicates financial information for the University of California (the University), the University of California campus foundations (campus foundations) and the University of California Retirement System (the UCRS) through five primary financial statements and notes to the financial statements. Three of the primary statements, the statements of net assets, the statements of revenues, expenses and changes in net assets and the statements of cash flows, present the financial position, changes in financial position and cash flows for the University and the affiliated campus foundations. The financial statements for the campus foundations are presented discretely from the University. Two of the primary statements, the statements of plans' fiduciary net assets and statements of changes in plans' fiduciary net assets, present the financial position and operating activities for the UCRS. The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements.

THE UNIVERSITY OF CALIFORNIA

The University of California, one of the largest and most acclaimed institutions of higher learning in the world, is dedicated to excellence in teaching, research and public service. The University has annual resources of nearly $20 billion and encompasses ten campuses, five medical schools and medical centers, three law schools and a statewide Division of Agriculture and Natural Resources. The University is also involved directly or indirectly in the operation and management of three national laboratories for the U.S. Department of Energy.

Campuses. The ten campuses are located in Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara and Santa Cruz. All of the campuses offer undergraduate, graduate and professional education; the San Francisco campus is devoted exclusively to the health sciences.

Health sciences. The University operates one of the nation's largest health science and medical training programs. The instructional program is conducted in 15 health sciences schools on six campuses. They include five medical, two dental, two nursing, two public health and two pharmacy schools, in addition to a school of optometry and a school of veterinary medicine. The University's medical schools play a leading role in the development of health services and advancement of medical science and research.

Law schools. The University has law schools at Berkeley, Davis and Los Angeles. Also, the Hastings College of the Law in San Francisco is affiliated with the University, although not included in the financial reporting entity.

Agriculture and Natural Resources. The Division of Agriculture and Natural Resources is a statewide research and public service organization that serves a large and diverse agricultural community. The division conducts studies on the Berkeley, Davis and Riverside campuses, on nine research and extension centers and on private land in cooperation with California producers. In addition, research and educational programs are conducted in each of the state's 58 counties.

University Extension. The foremost continuing education program of its kind in size, scope and quality of instruction, University Extension offers more than 18,000 self-supporting courses statewide and in several foreign countries.

National laboratories. Under contract with the U.S. Department of Energy (DOE), the University operates and manages the Ernest Orlando Lawrence Berkeley National Laboratory (LBNL) and the Lawrence Livermore National Laboratory (LLNL) in California. The University is a member in the Los Alamos National Security, LLC (LANS), a joint venture that operates and manages the Los Alamos National Laboratory (LANL) in New Mexico. The laboratories conduct broad and diverse basic and applied research in nuclear science, energy production, national defense and environmental and health areas.

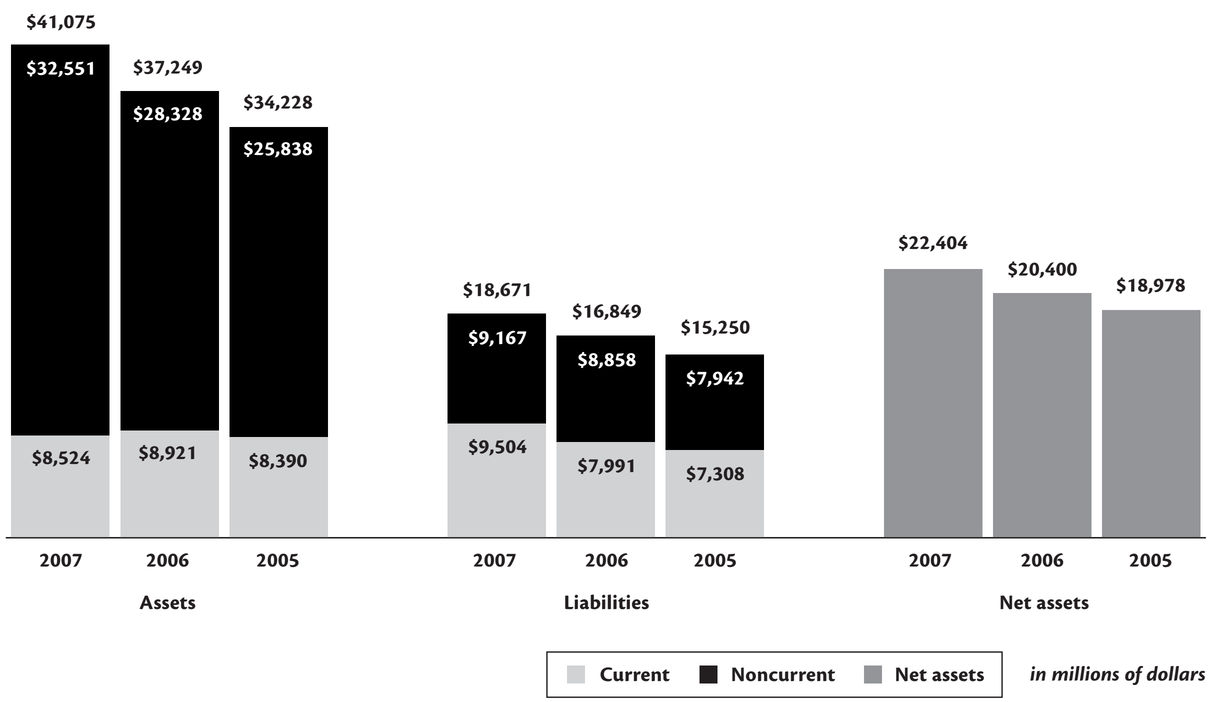
Adoption of New Accounting Standards

The University's financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America established by the Governmental Accounting Standards Board (GASB).

During 2007, the University adopted GASB Statement No. 48, *Sales and Pledges of Receivables and Intra-Entity Transfers of Assets*, and Statement No. 50, *Pension Disclosures*. Statement No. 48 establishes criteria to ascertain whether certain transactions should be recorded as sales or collateralized borrowings. Statement No. 50 enhances pension information disclosed in financial statements or presented as required supplementary information. The implementation of these Statements had no effect on the University's net assets or changes in net assets in 2007 and there was no effect in 2006.

During 2006, the University adopted GASB Statement No. 47, *Accounting for Termination Benefits*. 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 in 2006 and there was no effect in 2005.

The University's Financial Position



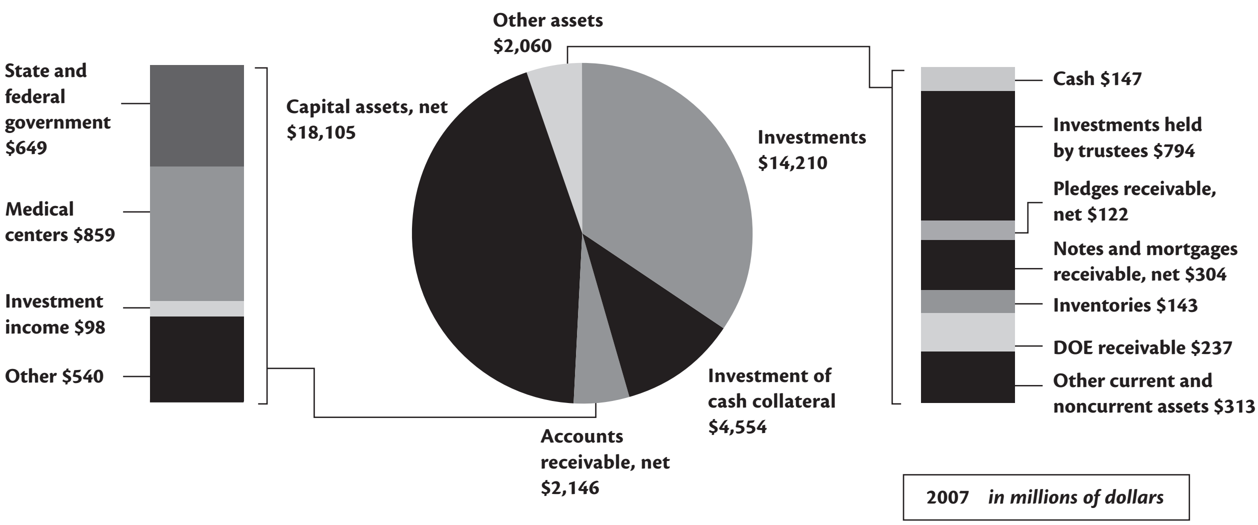
The statement of net assets presents the financial position of the University at the end of each year. It displays all of the University's assets and liabilities. The difference between assets and liabilities is net assets, representing a measure of the current financial condition of the University. At June 30, 2007, the University's assets were over $41 billion, liabilities were nearly $19 billion and net assets were over $22 billion, an increase of $2 billion from 2006. Net assets increased by $1.42 billion at the end of 2006 from 2005.

The major components of the assets, liabilities and net assets as of 2007, 2006 and 2005 are as follows:

(in millions of dollars)

	2007	2006	2005
ASSETS			
Investments	$ 14,210	$ 13,244	$ 12,075
Investment of cash collateral	4,554	3,455	2,578
Accounts receivable, net	2,146	1,955	1,746
Capital assets, net	18,105	16,665	15,530
Other assets	2,060	1,930	2,299
Total assets	**41,075**	**37,249**	**34,228**
LIABILITIES			
Debt, including commercial paper	9,364	8,876	7,945
Securities lending collateral	4,554	3,456	2,578
Other liabilities	4,753	4,517	4,727
Total liabilities	**18,671**	**16,849**	**15,250**
NET ASSETS			
Invested in capital assets, net of related debt	9,102	8,535	8,108
Restricted:			
Nonexpendable	920	873	823
Expendable	5,856	5,056	4,556
Unrestricted	6,526	5,936	5,491
Total net assets	**$22,404**	**$20,400**	**$18,978**

The University's Assets



The University's total assets have grown to $41.08 billion in 2007, compared to $37.25 billion in 2006 and $34.23 billion in 2005, primarily from increases in investments, including related securities lending activities, and capital assets, although a substantial portion of the capital assets was financed.

Investments *(in millions of dollars)*

The University's investments totaled $14.21 billion at the end of 2007, $2.57 billion classified as a current asset and $11.64 billion as a noncurrent asset. Investments classified as current assets are generally fixed or variable income securities in the Short Term Investment Pool (STIP) with a maturity date within one year. Maturities were slightly extended in 2007 relative to 2006. Noncurrent investments are generally securities in the General Endowment Pool (GEP) or other pools, in addition to fixed or variable income securities in the STIP with a maturity date beyond one year. The University's investments, by investment pool, are as follows:

(in millions of dollars)

	2007	2006	2005
STIP	$ 7,578	$ 7,424	$ 6,907
GEP	6,176	5,390	4,738
Other	456	430	430
University investments	**$14,210**	**$13,244**	**$12,075**

Overall, investments increased by $966 million in 2007. Investments in the STIP increased by $154 million primarily due to $330 million of STIP investment income and $57 million of net appreciation in the fair value of STIP investments held at the end of 2007, partially offset by the routine timing of cash collections and payments. Investments in the GEP and other securities increased by $812 million as a result of $178 million of investment income, $892 million of net appreciation in the fair value of investments, and new permanent endowments of $39 million, partially offset by participant withdrawals of $104 million and $193 million of annual income distributions to be used for operating purposes in 2008.

Investments in 2006 of $13.24 billion grew from $12.08 billion in 2005, an increase of $1.17 billion. Investments in the STIP increased by $517 million primarily due to $293 million of STIP investment income and the routine timing of cash collections and payments, partially offset by $112 million of net depreciation in the fair value of STIP investments held at the end of 2006 as short-term interest rates continued to rise throughout the year. Investments in the GEP and other securities increased by $652 million as a result of $150 million of investment income, $426 million of net appreciation in the fair value of investments, and new permanent endowments and other participant contributions of $261 million, partially offset by $185 million of annual income distributions to be used for operating purposes in 2007.

The total investment return based upon unit value for the GEP, representing the combined income plus net appreciation or depreciation in the fair value of investments, during 2007 and 2006 was 19.8 percent and 11.6 percent, respectively. The investment return for the STIP distributed to participants during 2007 and 2006 was 4.7 percent and 4.2 percent, respectively.

Investment of cash collateral *(in millions of dollars)*

The University participates in a securities lending program incorporating securities owned by both the University and the UCRS as a means to augment income. It is managed as a single program. For financial reporting purposes, cash collateral and the associated liability related to securities specifically owned by either the University or the UCRS and lent to borrowers are directly reported in the appropriate entity. Cash collateral and the associated liability related to securities in investment pools jointly owned by both the University and the UCRS and lent to borrowers are allocated to each entity on the basis of their proportional ownership.

At the end of 2007, the investment of cash collateral increased from 2006 by $1.10 billion in response to increased lending availability in classes of fixed income securities sought by borrowers that resulted from extending maturities in 2007. Also during 2007, interest rates were substantially above 2006 levels leading to a significant increase in both gross income and rebates, and a slight increase in net income for the overall program.

At the end of 2006, the investment of cash collateral increased from 2005 by $877 million. Two additional securities lending agents provided additional activity under the University's program. During 2006, interest rates were substantially above 2005 levels leading to a considerable increase in both gross income and rebates, and a slight increase in net income for the overall program.

Accounts receivable, net *(in millions of dollars)*

Accounts receivable are from the state and federal governments, patients for care at the medical centers, investment activity and from others, including those related to private and local government grants and contracts and student tuition and fees.

Receivables increased by $191 million in 2007. Federal and state government receivables increased by $112 million primarily as a result of additional federal grants and contracts receivables ($27 million); receivables attributable to state educational appropriations ($24 million), state capital appropriations ($9 million) and grants and contracts ($15 million); and growth in pending reimbursements from the state for various construction projects ($35 million). Medical center receivables grew by $79 million corresponding to growth in patient revenue. Investment income receivables grew by $20 million. Various other receivables collectively declined by $20 million primarily due to the timing of clearing trades upon the sale of investments ($54 million), partially offset by additional private and local grants and contracts receivables ($30 million).

In 2006, accounts receivable increased by $209 million from 2005. Federal and state government receivables declined by $23 million as the University was reimbursed for various construction projects, medical center receivables grew by $101 million due to growth in patient revenue and receivables for investment income grew by $9 million. Various other receivables collectively increased by $122 million primarily due to the timing of clearing trades upon the sale of investments ($41 million), private and local grants and contracts ($25 million), student tuition and fees ($14 million), insurance refunds ($15 million) and legal settlements ($12 million) .

Capital assets, net *(in millions of dollars)*

Capital assets include land, infrastructure, buildings and improvements, equipment, libraries, collections and construction in progress. Capital assets, net of accumulated depreciation, increased by $1.44 billion to $18.11 billion in 2007 and by $1.14 billion to $16.67 billion in 2006.

Capital asset activity consists of the following:

(in millions of dollars)

	2007	2006
Capital expenditures:		
Land and infrastructure	$ 99	$ 98
Buildings and improvements	1,171	1,660
Equipment	461	404
Libraries and special collections	146	132
Construction in progress, net	660	(135)
Capital expenditures	**2,537**	**2,159**
Depreciation and amortization expense	(1,049)	(997)
Asset disposals, net	(48)	(27)
Increase in capital assets, net	**$1,440**	**$1,135**

After having dipped slightly over the prior two years, capital spending resumed at a brisk pace in order to provide the facilities necessary to accommodate current and future enrollment growth and for patient care. These facilities include core academic buildings, libraries, student services, housing and auxiliary enterprises, health science centers, utility plants and infrastructure, and remote centers for educational outreach, research and public service. Overall, capital spending increased by 17.5 percent in 2007, including a significant amount of spending for projects still under construction. At the end of 2007, the cost of projects under construction increased by $660 million bringing construction in progress at the end of the year to $3.84 billion, including $1.99 billion for campus projects and $1.85 billion for health care facilities.

Capital spending declined in 2006 and 2005 by 8.9 percent and 3.9 percent, respectively. Construction in progress was $3.18 billion at the end of 2006 and $3.31 billion at the end of 2005.

Accumulated depreciation and amortization was $11.71 billion in 2007, $10.98 billion in 2006 and $10.25 billion in 2005. Depreciation and amortization expense was $1.05 billion for 2007, $997 million for 2006 and $955 million for 2005. Disposals in both years generally were for equipment that was fully depreciated or had reached the end of its useful life.

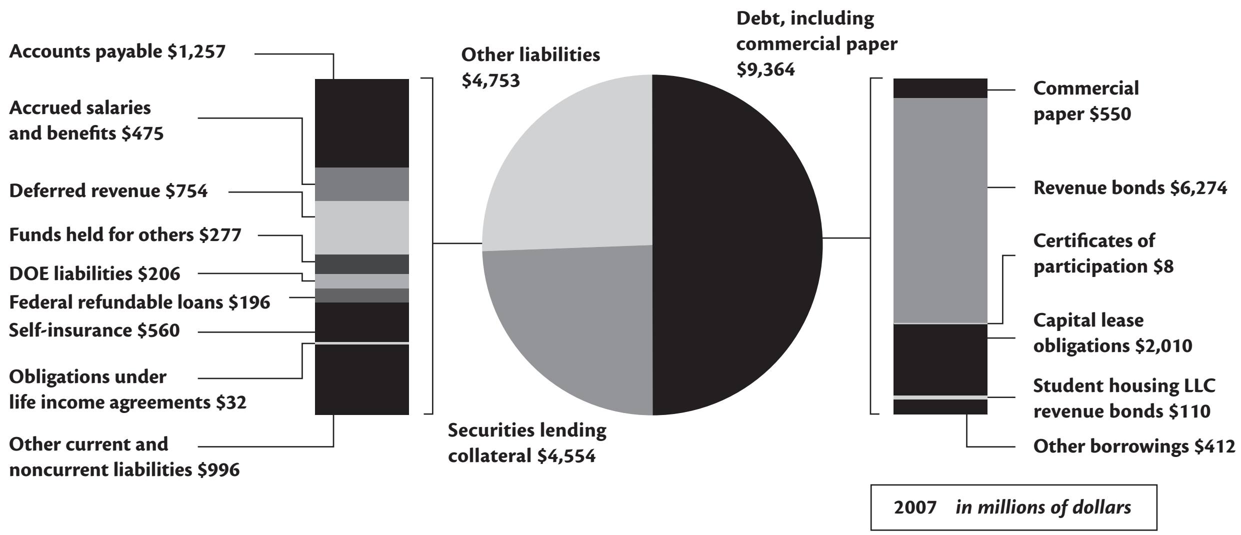
Other assets *(in millions of dollars)*

Other assets, including cash, investments held by trustees, pledges receivable, notes and mortgages receivable, inventories and a receivable from the DOE, increased by $130 million in 2007.

Investments held by trustees grew at the end of 2007 by $34 million, primarily trustee-held investments associated with self-insurance programs as the contributions to the trusts were greater than claim payments made this year. The receivable from the DOE increased by $62 million, generally consisting of $17 million of contributions to the UCRP for employees who formerly worked at LANL and $40 million for operating and employee liabilities at LLNL and LBNL. Pledges receivable grew by $28 million, notes and mortgages receivables by $10 million, inventories by $14 million and other assets by $38 million, primarily undistributed equity in earnings from LANS and deferred costs of debt issued during the year. Partially offsetting these increases was a reduction in cash awaiting investment in the STIP of $55 million.

In 2006, other assets decreased by $369 million. The receivable from the DOE declined by $265 million at the end of 2006 with the transition to LANS of the contract to manage and operate LANL. Investments held by trustees also declined at the end of 2006 by $188 million. Trustee-held investments associated with self-insurance programs were $54 million higher, although trustee-held investments associated with long-term debt declined by $242 million, $74 million related to proceeds from University debt offerings and $168 million for spending on capital projects supported by lease-purchase financing with the state of California. Proceeds from the sale of the state's lease revenue bonds are held and invested by the trustee, then distributed to the University as the projects are constructed.

The University's Liabilities



The University's liabilities grew to $18.67 billion in 2007, compared to $16.85 billion in 2006 and $15.25 billion in 2005, principally as a result of debt issued to finance capital expenditures.

Debt, including commercial paper *(in millions of dollars)*

Capital assets are financed from a variety of sources, including University equity contributions, federal and state support, revenue bonds, certificates of participation, bank loans, leases or structures that involve separate legal entities. Commercial paper and bank loans provide interim financing. The University's debt used to finance capital assets, including $550 million of commercial paper outstanding at the end of all three years, grew to $9.36 billion at the end of 2007, compared to $8.88 billion at the end of 2006 and $7.95 billion at the end of 2005. Capital lease obligations under lease-purchase agreements with the state have accounted for over one-quarter, or $650 million, of the $2.45 billion increase in debt over the past three years.

Commercial paper is classified as a current liability. The current portion of long-term debt, excluding commercial paper, increased to $630 million in 2007 from $408 million in 2006, primarily as a result of a $137 million increase in interim loans from the state for capital projects to be refinanced by the state's issuance of lease revenue bonds. At the end of 2007, the current portion of long-term debt still includes nearly $203 million of these interim loans from the state for capital projects that will be refinanced as lease revenue bonds are issued by the state in the near future.

Outstanding debt increased by $488 million in 2007 and $931 million in 2006. A summary of the activity follows:

(in millions of dollars)

	2007	2006
ADDITIONS TO OUTSTANDING DEBT		
General Revenue Bonds	$ 1,366	$ 911
Limited Project Revenue Bonds		617
Medical Center Pooled Revenue Bonds	537	
Capital leases	473	240
Student Housing LLC Revenue Bonds		99
Other borrowings	244	243
Bond premium	53	53
Additions to outstanding debt	**2,673**	**2,163**
REDUCTIONS TO OUTSTANDING DEBT		
Refinancing and prepayments	(1,844)	(939)
Scheduled principal payments	(270)	(244)
Payments on other borrowings	(34)	(23)
Other, including deferred financing costs, net	(37)	(26)
Reductions to outstanding debt	**(2,185)**	**(1,232)**
Net increase in outstanding debt	**$ 488**	**$ 931**

During 2007, additions to outstanding debt totaled $2.67 billion, including bond premiums of $53 million.

General Revenue Bonds totaling $1.37 billion were issued in January and June 2007 to refinance certain facilities and projects of the University. Combined proceeds, including a bond premium of $49 million, were used to refund $1.13 billion of outstanding Multiple Purpose Projects Revenue Bonds, $179 million of Research Facilities Revenue Bonds and $39 million of certificates of participation.

Medical Center Pooled Revenue Bonds totaling $537 million, plus a bond premium of $4 million, were issued in January 2007 to finance or refinance certain improvements to each of the five medical centers. The bonds include $441 million with a fixed interest rate and $96 million with a variable interest rate. Proceeds were used to refund $93 million of Medical Center Revenue Bonds. In connection with the variable interest rate bonds, the University entered into an interest rate swap agreement with the intention that the variable interest rate it pays to the bondholders will approximate the variable payments it receives from the interest rate swaps, resulting in a fixed interest rate of 3.6 percent paid to the swap counterparty.

The University entered into a lease-purchase agreement with the state in October 2006, recorded as a capital lease, totaling $80 million to finance the construction of a University project. The state provides financing appropriations to the University to satisfy the annual lease requirement. At the conclusion of the lease term, ownership transfers to the University. In April 2007, the state of California issued $337 million of lease revenue refunding bonds to refinance certain facilities leased to the University. Proceeds were used to refund $357 million of outstanding lease revenue bonds. The state of California provided the University with the economic advantages of the refunding through amendments to the lease agreements. As a result, the University reduced its capital lease obligations and recorded a $20 million gain as nonoperating revenue.

In addition to lease-purchase agreements with the state, other new capital lease obligations during 2007 totaled $56 million, primarily for equipment.

Other newly originated borrowings in 2007 totaled $244 million, primarily loans from the state or from commercial banks to provide interim financing as a supplement to commercial paper or for capital projects supported by gifts to be received in the near future.

Reductions to outstanding debt in 2007 were $2.19 billion, primarily consisting of $1.84 billion for one-time principal payments for the refinancing or refunding of previously outstanding University revenue bonds ($1.40 billion), University certificates of participation ($39 million), capital leases ($357 million), payments on interim loans from the state as lease revenue bonds were sold ($9 million) and refinancing of previously outstanding bank loans ($39 million); $270 million for principal payments associated with scheduled debt service on revenue bonds, certificates of participation and capital lease obligations; and $34 million for scheduled payments on other borrowings.

Subsequent to 2007, Medical Center Pooled Revenue Bonds totaling $197 million, $7 million with a fixed interest rate and $190 million with a variable interest rate were issued to refinance certain improvements to one of the medical centers. Proceeds were used to refund $188 million of Medical Center Revenue Bonds. In connection with the variable interest rate bonds, the University entered into four interest rate swap agreements with a financial institution, such that the variable interest it pays to the bondholders matches the variable payments it receives from the interest rate swaps, resulting in a weighted average fixed interest rate of 4.7 percent paid to the swap counterparty. These swap transactions do not result in any basis or tax risk to the University.

In October 2007, the University proceeded with an offering statement for the sale of Limited Project Revenue Bonds to finance and refinance certain auxiliary enterprises of the University. Proceeds approximating $415 million would be available to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds.

The University's General Revenue Bond ratings are currently affirmed at AA by Standard & Poor's with a stable outlook. Subsequent to year end, Moody's Investors Service upgraded the University's General Revenue Bond rating to Aa1 with a positive outlook from Aa2 with a positive outlook. Moody's also upgraded five other University ratings, including its Medical Center Pooled Revenue Bonds and Limited Project Revenue Bonds.

During 2006, additions to outstanding debt totaled $2.16 billion, including bond premiums of $53 million.

General Revenue Bonds totaling $558 million were issued in July 2005 to refinance certain facilities and projects of the University. Proceeds, together with certain University funds, were used to refund $439 million of outstanding Multiple Purpose Projects Revenue Bonds, $43 million of Research Facilities Revenue Bonds and $81 million of certificates of participation. In October 2005, General Revenue Bonds totaling $353 million were sold to finance certain facilities of the University, pay issuance costs and repay interim financing incurred prior to the issuance of the bonds.

Limited Project Revenue Bonds totaling $617 million were issued in October 2005 to finance certain auxiliary enterprises of the University, pay issuance costs and repay interim financing incurred prior to the issuance of the bonds.

The University entered into a lease-purchase agreement with the state in December 2005, recorded as a capital lease, totaling $156 million to finance the construction of various University projects. In addition, other new capital lease obligations during 2006 for equipment and a capitalized ground lease totaled $84 million.

In April 2006, a legally separate, non-profit corporation that has developed and owns a student housing project on a campus through the use of a single-project limited liability corporation, through its conduit issuer, issued Student Housing Refunding Revenue Bonds totaling $99 million to partially refinance the construction of a student housing facility. Proceeds were used to refund $95 million of previously outstanding Student Housing Revenue Bonds. Neither the initial bonds, nor the refunding bonds, are collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues of the student housing project, and do not constitute general obligations of the University. Further, the University is not responsible for any payments related to the ownership, operation or financing of the student housing. However, under GASB requirements, the financial position and operating results of the legally separate organization are incorporated into the University's financial reporting entity.

Other newly originated borrowings in 2006 totaled $243 million, primarily loans from the state or from commercial banks to provide interim financing as a supplement to commercial paper or for capital projects supported by gifts to be received in the near future.

Reductions to outstanding debt in 2006 were $1.23 billion, primarily consisting of $939 million for one-time principal payments for the refinancing or refunding of previously outstanding University revenue bonds ($482 million), University certificates of participation ($81 million), a portion of the LLC's Student Housing Revenue Bonds ($95 million), payments on interim loans from the state as lease revenue bonds were sold ($124 million) and refinancing of previously outstanding bank loans ($157 million); $244 million for principal payments associated with scheduled debt service on revenue bonds, certificates of participation and capital lease obligations; and $23 million for scheduled payments on other borrowings.

The state of California, primarily through state financing appropriations, provided $162 million and $165 million in 2007 and 2006, respectively, of the University's debt service requirements, mainly under the terms of lease-purchase agreements.

Securities lending collateral *(in millions of dollars)*

Under the securities lending program, the University records a liability to the borrower for cash collateral received and held by the University for securities on loan at the end of the year. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of the securities lent. Securities lending collateral grew by $1.10 billion in 2007 and by $878 million in 2006. The amount of the securities lending collateral liability fluctuates directly with the investment of cash collateral as previously discussed.

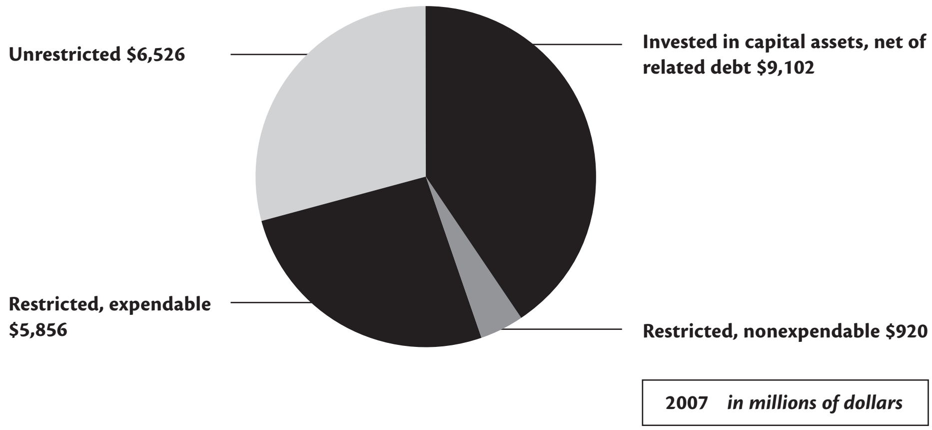
Other liabilities *(in millions of dollars)*

Other liabilities consist of accounts payable, accrued salaries and benefits, deferred revenue, funds held for others, the DOE laboratories' liabilities, federal refundable loans, self-insurance and obligations under life income agreements.

Other liabilities grew by $236 million in 2007, generally as a result of increases in accrued salaries and benefits of $89 million, including $17 million for contributions to the UCRP for employees who formerly worked at LANL; deferred revenue related to grants and contracts of $75 million; funds held for others of $24 million; DOE laboratories' liabilities of $40 million for operating and employee liabilities at LLNL and LBNL; self-insurance liabilities of $35 million; compensated absences of $19 million and obligations under life income agreements of $12 million were partially offset by decreases in accounts payable of $65 million. While payables for goods and services grew in 2007 by over $100 million, settlement liabilities associated with the purchase of investments declined by $174 million compared to 2006.

In 2006, other liabilities dropped by $210 million, primarily as a result of decreases in accrued salaries and benefits of $250 million as the monthly payroll was paid prior to the end of the year in 2006; DOE laboratories' liabilities of $272 million with the transition of the LANL contract to LANS; and self-insurance liabilities of $38 million, partially offset by increases in accounts payable of $224 million, particularly settlement liabilities for the purchase of investments of $216 million; deferred revenue of $68 million; funds held for others of $17 million; and compensated absences of $19 million.

The University's Net Assets



Net assets represent the residual interest in the University's assets after all liabilities are deducted. The University's net assets are $22.40 billion in 2007, compared to $20.40 billion in 2006 and $18.98 billion in 2005. Net assets are reported in four major categories: invested in capital assets, net of related debt; restricted, nonexpendable; restricted, expendable; and unrestricted.

Invested in capital assets, net of related debt *(in millions of dollars)*

The portion of net assets invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of these capital assets, is $9.10 billion in 2007, compared to $8.54 billion in 2006 and $8.11 billion in 2005. The increase represents the University's continuing investment in its physical facilities in excess of the related financing and depreciation expense and accounts for a significant portion of the University's overall increase in its net assets for both 2007 and 2006.

Restricted, nonexpendable *(in millions of dollars)*

Restricted, nonexpendable net assets include the corpus of the University's permanent endowments and the estimated fair value of planned giving arrangements. Substantially all of the increase in both years is from new permanent endowment gifts received.

Restricted, expendable *(in millions of dollars)*

Restricted, expendable net assets are subject to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include endowment income and gains, subject to the University's spending policy; support received from gifts, appropriations or capital projects; trustee held investments; or other third party receipts. In 2007, net unrealized appreciation in the fair value of investments contributed $416 million to the value of endowments and gifts; restricted expendable endowments, funds functioning as endowments and annuity and life income funds grew by $284 million; and restricted gifts and grants grew by $96 million. In 2006, net unrealized appreciation in the fair value of investments contributed $178 million to the value of endowments and gifts and restricted net assets available for capital assets grew by $460 million.

Unrestricted *(in millions of dollars)*

Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, substantially all of these net assets are allocated for academic and research initiatives or programs, for capital purposes or for other purposes. Unrestricted net assets include funds functioning as endowments of $1.29 billion and $1.15 billion in 2007 and 2006, respectively.

The University's Results of Operations

The statement of revenues, expenses and changes in net assets is a presentation of the University's operating results. It indicates whether the financial condition has improved or deteriorated. In accordance with GASB requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the University are required to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income.

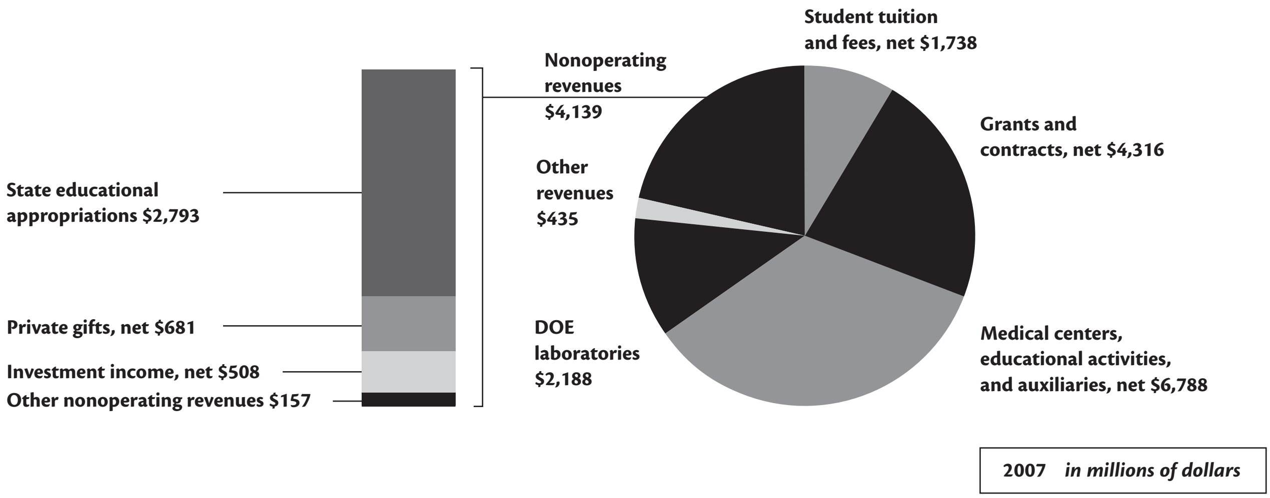
A summarized comparison of the operating results for 2007, 2006 and 2005, arranged in a format that matches the revenue supporting the core activities of the University with the expenses associated with core activities, is as follows:

(in millions of dollars)

	2007			2006			2005		
	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL
REVENUES									
Student tuition and fees, net	$ 1,738		$ 1,738	$ 1,663		$ 1,663	$ 1,558		$ 1,558
State educational appropriations		$ 2,793	2,793		$ 2,573	2,573		$ 2,463	2,463
Grants and contracts, net	4,316		4,316	4,145		4,145	3,977		3,977
Medical centers, educational activities, and auxiliary enterprises, net	6,788		6,788	6,222		6,222	5,744		5,744
Department of Energy laboratories	2,188		2,188	4,232		4,232	4,146		4,146
Private gifts, net		681	681		624	624		537	537
Investment income, net		508	508		446	446		348	348
Other revenues	435	157	592	508	147	655	376	121	497
Revenues supporting core activities	**15,465**	**4,139**	**19,604**	**16,770**	**3,790**	**20,560**	**15,801**	**3,469**	**19,270**
EXPENSES									
Salaries and benefits	10,313		10,313	9,488		9,488	8,924		8,924
Scholarships and fellowships	401		401	358		358	363		363
Utilities	372		372	350		350	311		311
Supplies and materials	1,910		1,910	1,827		1,827	1,707		1,707
Depreciation and amortization	1,049		1,049	997		997	955		955
Department of Energy laboratories	2,170		2,170	4,198		4,198	4,112		4,112
Interest expense		385	385		347	347		296	296
Other expenses	2,509	2	2,511	2,299	14	2,313	2.108	6	2,114
Expenses associated with core activities	**18,724**	**387**	**19,111**	**19,517**	**361**	**19,878**	**18,480**	**302**	**18,782**
Income (loss) from core activities	**$ (3,259)**	**$ 3,752**	**493**	**$ (2,747)**	**$3,429**	**682**	**$ (2,679)**	**$3,167**	**488**
OTHER NONOPERATING ACTIVITIES									
Net appreciation in fair value of investments			949			315			278
Gain (loss) on disposal of capital assets, net			13			(6)			(37)
Income before other changes in net assets			**1,455**			**991**			**729**
OTHER CHANGES IN NET ASSETS									
State capital appropriations			293			220			189
Capital gifts and grants, net			217			167			218
Permanent endowments			39			44			48
Increase in net assets			**2,004**			**1,422**			**1,184**
NET ASSETS									
Beginning of year			20,400			18,978			17,794
End of year			**$ 22,404**			**$20,400**			**$18,978**

Revenues Supporting Core Activities

Categories of both operating and nonoperating revenue that supported the University's core activities in 2007 are as follows:



Revenues to support the University's core activities, including those classified as nonoperating revenues, were $19.60 billion, $20.56 billion and $19.27 billion in 2007, 2006 and 2005, respectively. These diversified sources of revenue decreased in 2007 by $956 million, largely a result of a loss of over $2 billion of revenue from termination of the University's direct contract with the DOE to manage LANL. Revenues increased by $1.29 billion in 2006. State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of the University. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country. Gifts to the University allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Other significant revenues are from medical centers, educational activities and auxiliary enterprises such as student housing, food service operations and parking.

Student tuition and fees, net *(in millions of dollars)*

Student tuition and fees revenue, net of scholarship allowances, increased by $75 million and $105 million in 2007 and 2006, respectively. Scholarship allowances were $461 million in 2007, $436 million in 2006 and $383 million in 2005. The new fee revenue over the past several years generally replaces state educational appropriations. Consistent with past practices, approximately one-third of the revenue generated from these fee increases was used for financial aid to mitigate the impact on needy students.

In 2007, enrollment grew by 2.5 percent. Resident undergraduate and graduate student fees were not increased in 2007. Certain professional school student fees increased by modest amounts. In addition to the resident student fees, nonresident undergraduate and graduate students pay tuition that increased by nearly 5 percent.

In 2006, enrollment grew by 0.6 percent. Resident undergraduate fees increased by 8 percent, graduate student fees by 10 percent and professional school student fees increased by varying amounts. Nonresident undergraduate and graduate student tuition was increased by 5 percent.

In 2005, enrollment was maintained at essentially the same level as in 2004. Fees for resident undergraduate and graduate students rose by 14 percent and 20 percent, respectively. Professional school fees rose by varying amounts and nonresident student tuition was increased by 20 percent.

State educational appropriations *(in millions of dollars)*

Educational appropriations from the state of California increased in 2007 by $220 million. In 2006, educational appropriations increased by $110 million and marked the end of several years of budget reductions from the state that began in 2003 and included a round of mid-year reductions in both 2003 and 2004. In the intervening years, a wide variety of areas and programs were affected including administration, maintenance, libraries, equipment, academic preparation, K-12 teacher development, public service and student services. In order to maintain the quality of instruction, student fees were increased to partially offset the reduction in educational appropriations.

Grants and contracts, net *(in millions of dollars)*

Highlighting the continued competitive and effective nature of the University's research enterprise, revenue from federal, state, private and local government grants and contracts, including an overall facilities and administration cost recovery of $743 million, $712 million and $679 million in 2007, 2006 and 2005, respectively, increased in both 2007 and 2006 as follows:

(in millions of dollars)

	2007	2006	2005
Federal	$ 2,881	$ 2,814	$ 2,740
State	449	424	411
Private	804	744	681
Local	182	163	145
Grants and contracts net revenue	**$4,316**	**$4,145**	**$3,977**

In 2007, federal grants and contracts revenue, including the federal facilities and administration cost recovery of $590 million and direct expenditures of $2.29 billion, grew by $67 million, or 2.4 percent. This revenue represents support from a variety of federal agencies as indicated below:

(in millions of dollars)

	2007	2006	2005
Department of Health and Human Services	$ 1,682	$ 1,644	$ 1,560
National Science Foundation	422	423	414
Department of Education	240	215	210
Department of Defense	164	163	172
National Aeronautics and Space Administration	84	101	119
Department of Energy (excluding national laboratories)	76	76	78
Other federal agencies	213	192	187
Federal grants and contracts net revenue	**$2,881**	**$2,814**	**$2,740**

State grants and contracts revenue was up by $25 million, or 5.9 percent. Although revenue from private grants and contracts at the campuses can be volatile from year to year, overall it rose by $60 million (8.1 percent), due particularly to a growing number of awards. Local government grants and contracts revenue grew by $19 million (11.7 percent).

In 2006, overall revenue from federal, state, private and local government grants and contracts increased by $168 million, or 4.2 percent. Federal grants and contracts revenue grew by $74 million, or 2.7 percent; state grants and contracts revenue increased by $13 million, or 3.2 percent; private grants and contracts revenue grew by $63 million, or 9.3 percent, and local government grants and contracts revenue grew by $18 million, or 12.4 percent.

Medical centers, educational activities and auxiliary enterprises, net *(in millions of dollars)*

Revenue from medical centers, educational activities and auxiliary enterprises increased by $566 million, or 9.1 percent, from 2006. In 2006, these revenues increased $478 million, or 8.3 percent, from 2005. Revenues for each activity are as follows:

(in millions of dollars)

	2007	2006	2005
Medical centers, net	$ 4,526	$ 4,206	$ 3,834
Educational activities, net	1,250	1,123	1,063
Auxiliary enterprises, net	1,012	893	847
Medical centers, educational activities and auxiliary enterprises net revenues	**$6,788**	**$6,222**	**$5,744**

Medical center revenue, net of allowances for doubtful accounts, increased by $320 million and $372 million in 2007 and 2006, respectively. The revenue growth in both years is primarily due to renegotiated contracts, rate adjustments, improved reimbursement rates and a modest increase in patient activity (a 2.8 percent and 1.0 percent increase in patient days for 2007 and 2006, respectively, and outpatient visits declined by 1.1 percent and 0.3 percent for 2007 and 2006, respectively).

Revenue from educational activities, primarily physicians' professional fees, net of allowances for doubtful accounts, grew by $127 million in 2007, or 11.3 percent, and by $60 million, or 5.6 percent, in 2006 and is generally associated with an expanded patient base and higher rates.

Revenue from auxiliary enterprises, net of scholarship allowances, grew by $119 million in 2007, or 13.3 percent, and by $46 million in 2006, or 5.4 percent, generally as a result of student demand for additional room capacity in new residence halls and fee increases to support new and remodeled facilities in both years. Scholarship allowances, substantially all for housing expenses, were $119 million in 2007, $109 million in 2006 and $85 million in 2005.

DOE laboratories *(in millions of dollars)*

The national laboratories operate on federally financed budgets. Revenue related to each laboratory in 2007, 2006 and 2005 is as follows:

(in millions of dollars)

	2007	2006	2005
Los Alamos National Laboratory	$ 17	$ 2,055	$ 2,007
Lawrence Livermore National Laboratory	1,643	1,649	1,640
Lawrence Berkeley National Laboratory	528	528	499
DOE laboratories revenue	**$2,188**	**$4,232**	**$4,146**

LANL revenue in 2007 is entirely associated with DOE contributions to the UCRP for retirement benefits for employees who formerly worked at LANL. Operating revenue was reported in the University's financial statements through May 31, 2006 when the contract to manage and operate the laboratory was directly between the DOE and the University. The contract transitioned to LANS effective June 1, 2006. As a result, revenue comparisons for LANL are affected by the partial year in 2006 and the curtailment of operations for several months during a review of security procedures in 2005.

At LLNL, changes in revenue for both 2007 and 2006 are primarily related to the fluctuation in capital spending requirements for the National Ignition Facility.

Compensation to the University under the contracts directly with the DOE is based, in part, on performance and totaled $19 million in 2007 and $34 million in 2006 and 2005. The first full-year of compensation to the University as a member of LANS totaled $16 million in 2007 and is recorded as other operating revenue. A substantial portion of the compensation is available for research activities directed by the laboratories.

Private gifts, net *(in millions of dollars)*

Gifts may be made directly to the University or through one of the University's campus foundations. Private gifts, substantially all restricted as to use, increased by $57 million in 2007, including an $8 million increase in deferred gift arrangements, and were substantially above the $537 million received in 2005. Nearly two-thirds of the increase in 2007 came to the University from the campus foundations.

The University continues to be aggressive in developing private revenue sources and gifts received from the campus foundations have generally increased over the past several years. In addition to private gifts for operating purposes, gifts are also received for capital purposes—recorded as capital gifts and grants—and for permanent endowments. The combined gifts for operating, capital and permanent endowment purposes totaled $937 million in 2007, $835 million in 2006 and $803 million in 2005.

Investment income, net *(in millions of dollars)*

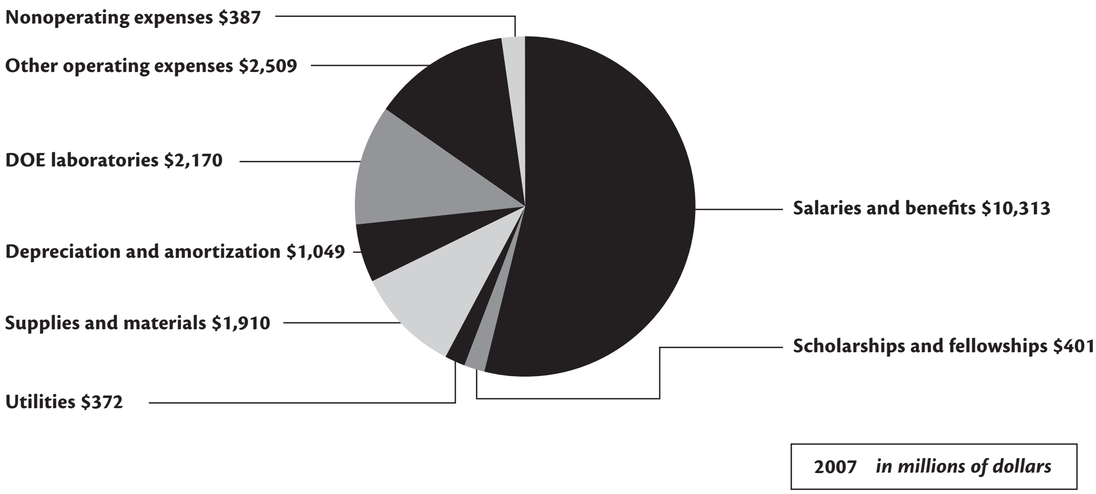
Investment income, principally consisting of $340 million primarily from the STIP and $162 million from endowments invested in the GEP, increased in 2007 by $62 million. Investment income from the STIP grew by $38 million and $95 million in 2007 and 2006, respectively, as short-term interest rates rose during the past two years. The 2007 investment return distributed to participants was 4.7 percent for the University's STIP (4.2 percent for 2006). Endowment income also grew by $29 million in 2007 and by $3 million in 2006.

Other revenues *(in millions of dollars)*

Other revenues are from a variety of sources, including state financing appropriations. Collectively, they declined by $63 million in 2007 after having increased by $158 million in 2006. Patent income dropped by $101 million compared to an increase in 2006 of $89 million that included a significant non-recurring legal settlement. State financing appropriations grew by $10 million and $26 million in 2007 and 2006, respectively, and the first full-year of compensation to the University as a member of LANS totaled $16 million in 2007.

Expenses Associated with Core Activities

Categories of both operating and nonoperating expenses related to the University's core activities in 2007 are as follows:



Expenses associated with the University's core activities, including those classified as nonoperating expenses, were $19.11 billion, $19.88 billion and $18.78 billion in 2007, 2006 and 2005, respectively. Expenses decreased in 2007 by $767 million, largely a result of a loss of over $2 billion of expenses from termination of the University's direct contract with the DOE to manage LANL, and increased in 2006 by $1.10 billion. Over one-half of the University's expenses are related to salaries and benefits and another 11.4 percent, or $2.17 billion, involve spending at the national laboratories. Salaries and benefits attributable to the employees working in the national laboratories are included as laboratory expenses.

Salaries and benefits *(in millions of dollars)*

There are over 127,000 full time equivalent (FTE) employees in the University, excluding employees who are associated with the national laboratories operated and managed directly by the University. FTE employees increased by approximately 3,400 over 2006. Over 50 percent of the increase was for academic and health sciences staff. The remaining increase in FTE employees was for staff to support the growth in research activities, as well as other activities of the University's mission.

Salaries and benefits for 2007, 2006 and 2005 are as follows:

(in millions of dollars)

	2007	2006	2005
Salaries and wages	$ 8,569	$ 7,880	$ 7,441
Benefits	1,744	1,608	1,483
Salaries and benefits	**$10,313**	**$9,488**	**$8,924**

During 2007, salaries and benefits grew by $825 million from 2006, or 8.7 percent, including $254 million at the University's five medical centers where the growth was 12.4 percent. Salaries and wages increased by $689 million, or 8.7 percent, generally related to new academic and administrative employees necessary to directly support the increase in academic and research programs and higher wages and costs associated with patient care activities. Benefit costs increased by $136 million, or 8.5 percent. Increases in health insurance costs of $99 million, the employer portion of payroll taxes of $45 million and worker's compensation costs of $29 million were partially offset by a reduction in compensated absences of $18 million and various other costs totaling $19 million.

In 2006, salaries and benefits grew by $564 million, or 6.3 percent. Salaries and wages increased by $439 million, or 5.9 percent, generally for the same reasons as indicated for 2007. Benefit costs increased by $125 million, or 8.4 percent. Increases in health insurance costs of $53 million, the employer portion of payroll taxes of $48 million and fee remissions for graduate student teaching assistants of $10 million were partially offset by declining workers' compensation expenses of $14 million.

Scholarships and fellowships *(in millions of dollars)*

Scholarships and fellowships, representing payments of financial aid made directly to students and reported as an operating expense, were higher by $43 million in 2007 than in 2006, an increase of 12.0 percent, and were lower by $5 million in 2006 than in 2005, a decrease of 1.4 percent. In addition, scholarship allowances, representing financial aid and fee waivers by the University, are also forms of scholarship and fellowship costs that increased in 2007 by $34 million, or 6.1 percent, to $587 million and increased in 2006 by 16.4 percent to $553 million. However, scholarship allowances are reported as an offset to revenue, not as an operating expense. On a combined basis, as the University continues its commitment to provide financial support for needy students, financial aid in all forms grew to $988 million in 2007 from $911 million in 2006 and $838 million in 2005, an increase of $150 million over the past two years, or 17.9 percent.

Utilities *(in millions of dollars)*

Utility costs rose by $22 million in 2007 and by $39 million in 2006. Almost three-quarters of the University's utility costs are for electricity and natural gas. In 2007, electricity costs grew by $27 million, after declining in 2006 by $1 million. Year-to-year comparisons are affected by the settlement in 2006 of outstanding litigation related to an electricity supply agreement. Natural gas costs dropped by $2 million in 2007, after growing by $30 million, or nearly 40 percent, in 2006.

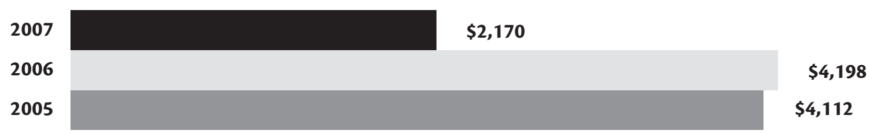
Supplies and materials *(in millions of dollars)*

During 2007, supplies and materials costs increased by $83 million, or 4.5 percent, and in 2006, by $120 million, or 7.0 percent. During the past two years, there has been inflationary pressure on the costs for medical supplies and laboratory instruments and higher costs for general supplies necessary to support expanded research activity and student enrollment. In addition, the University's capitalization threshold was increased in 2006 to the federal limit for research grants and contracts of $5,000 from $3,000 in the prior year resulting in $48 million, or 2.8 percent, of incremental expense.

Depreciation and amortization *(in millions of dollars)*

Higher capital spending over the past several years necessary to upgrade facilities and support both recent and anticipated enrollment growth resulted in depreciation and amortization expense increasing to $1.05 billion in 2007 from $997 million in 2006 and $955 million in 2005.

DOE laboratories *(in millions of dollars)*



DOE laboratories' expenses declined by $2.03 billion in 2007 and grew by $86 million in 2006. LANL expenses were reported in the University's financial statements through May 31, 2006 when the contract to manage and operate the laboratory was directly between the DOE and the University. The contract transitioned to LANS effective June 1, 2006. As a result, expenses were reduced in 2007 by over $2 billion, substantially all of the decline from 2006.

Salaries and benefits are the predominant expenses at the laboratories, totaling nearly $1.05 billion in 2007, and spending patterns for capital assets are generally responsible for most of the extreme year-to-year variations. In 2007, LBNL expenses increased by $7 million, although they were entirely offset by a $7 million decline at LLNL. In 2006, although managed and operated directly by the University for only eleven months of the year, expenses at LANL increased by $49 million compared to 2005 when operations were curtailed for several months during a review of security procedures. Expenses in 2006 at LBNL and LLNL grew by $27 million and $10 million, respectively.

Interest expense *(in millions of dollars)*

Interest expense, reported as a nonoperating expense, increased by $38 million in 2007 and by $51 million in 2006. In addition to lower capitalized interest in 2007 of $13 million, the University has incurred additional interest expense as a result of new bonds issued during the past three years, although the weighted average interest rate of the overall portfolio has decreased from two years ago due to refinancing previously outstanding bonds at lower rates.

Other expenses *(in millions of dollars)*

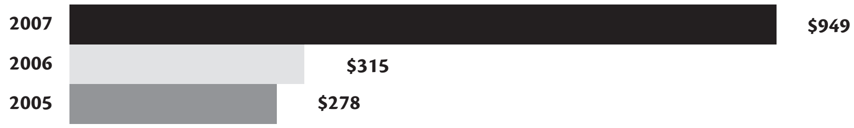
Other expenses, including other nonoperating expenses, increased by $198 million in 2007 and $199 million in 2006. In 2007 and in 2006, there were increases generally across a variety of expense categories, including travel, rent, insurance and repairs and maintenance. In addition, in 2006, the transition of LANL to being managed and operated directly by LANS rather than the University resulted in $21 million of expenses for reimbursements to the DOE associated with the transition of employees and their health benefits to LANS. Further, in 2006, nonoperating expenses included $16 million for infrastructure to be dedicated in conjunction with the purchase of land to be used to expand health care facilities.

In accordance with the GASB's reporting standards, operating losses were $3.26 billion in 2007, $2.75 billion in 2006 and $2.68 billion in 2005. However, these operating losses were more than offset by $3.75 billion, $3.43 billion and $3.17 billion of net revenue and expenses in 2007, 2006 and 2005, respectively, that are required by the GASB to be classified as nonoperating, but clearly support operating activities of the University. Therefore, revenue to support core activities exceeded the associated expenses by $493 million in 2007, $682 million in 2006 and $488 million in 2005. This income is restricted by either legal or fiduciary obligations, allocated for academic and research initiatives or programs, necessary for debt service or required for capital purposes.

Other Nonoperating Activities

The University's other nonoperating activities, generally noncash transactions and, therefore, not available to support operating expenses, are the net appreciation or depreciation in the fair value of investments and the gain or loss on the disposal of capital assets.

Net appreciation in fair value of investments *(in millions of dollars)*



In 2007, the University recognized net appreciation in the fair value of investments of $949 million compared to $315 million of net appreciation during 2006 and $278 million in 2005. As equity markets delivered substantial gains over the past two years, the equity portfolios appreciated in value. However, as short-term interest rates have generally risen over the past two years, the fair value of certain securities in the fixed-income portfolios has declined resulting in a modest net unrealized depreciation in these portfolios.

Gain (loss) on disposal of capital assets, net of proceeds *(in millions of dollars)*

Disposals and write-offs of capital assets resulted in a gain of $13 million in 2007 compared to a loss of $6 million in 2006. Typically, routine disposals result in a very slight gain or loss.

Other Changes in Net Assets

Similar to other nonoperating activities discussed above, other changes in net assets are also not available to support the University's operating expenses in the current year. State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital asset. Only income earned from gifts of permanent endowments is available in future years to support the specified program.

State capital appropriations *(in millions of dollars)*

The University's enrollment growth requires new facilities, in addition to continuing needs for renewal, modernization and seismic correction of existing facilities. Capital appropriations from the state of California increased by $73 million in 2007 and increased by $31 million in 2006. Capital appropriations are from bond measures approved by the California voters.

Capital gifts and grants, net *(in millions of dollars)*

Capital gifts and grants increased by $50 million in 2007 after having declined by $51 million in 2006. In 2007, the University received $30 million from the state for capital requirements to support patient care for children. Comparisons between 2007, 2006 and 2005 are affected by the timing of Federal Emergency Management Agency (FEMA) grants, primarily for the replacement hospitals at UCLA as the projects approach completion, along with the receipt of certain other significant gifts. Grants from FEMA increased by $7 million in 2007, although declined by $19 million and $61 million in 2006 and 2005, respectively. The University also received gifts of software licenses of $24 million in 2005.

Permanent endowments *(in millions of dollars)*

Gifts of permanent endowments to the University are a measure of the University's continuing emphasis on private giving. In addition to gifts directly to the University, many gifts of permanent endowments are made through the campus foundations in support of University activities. Combined gifts of permanent endowments to both the University and campus foundations totaled $210 million in 2007, $204 million in 2006 and $170 million in 2005.

The University's Cash Flows

The statement of cash flows presents the significant sources and uses of cash. A summary comparison of cash flows for 2007, 2006 and 2005 is as follows:

(in millions of dollars)

	2007	2006	2005
Cash received from operations	$ 13,100	$ 12,454	$ 11,567
Cash payments for operations	(15,299)	(14,655)	(13,389)
Net cash used by operating activities	**(2,199)**	**(2,201)**	**(1,822)**
Net cash provided by noncapital financing activities	3,472	3,221	3,049
Net cash used by capital and related financing activities	(1,721)	(772)	(1,291)
Net cash provided (used) by investing activities	393	(210)	157
Net increase (decrease) in cash	**(55)**	**38**	**93**
Cash, beginning of year	202	164	71
Cash, end of year	**$ 147**	**$ 202**	**$ 164**

The University's cash in demand deposit accounts declined by $55 million in 2007 and increased by $38 million and $93 million in 2006 and 2005, respectively. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis.

Nearly $2.20 billion of cash was used for operating activities in 2007, offset by $3.47 billion of cash provided by noncapital financing activities, resulting in $1.27 billion of cash before capital financing or investing activities. Similarly, in 2006, $2.20 billion of cash was used for operating activities, offset by $3.22 billion of cash provided by noncapital financing activities, resulting in $1.02 billion available for capital financing or investing activities. Noncapital financing activities, as defined by the GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operating activities.

Cash of $1.72 billion and $772 million in 2007 and 2006, respectively, was used for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments, partially offset by sources that include new external financing, state and federal (FEMA) capital appropriations and gifts for capital purposes. During 2007, purchases of capital assets were greater than 2006 by $745 million and proceeds from the issuance of debt, net of the refinancing of previously outstanding debt, were lower than 2006 by $255 million.

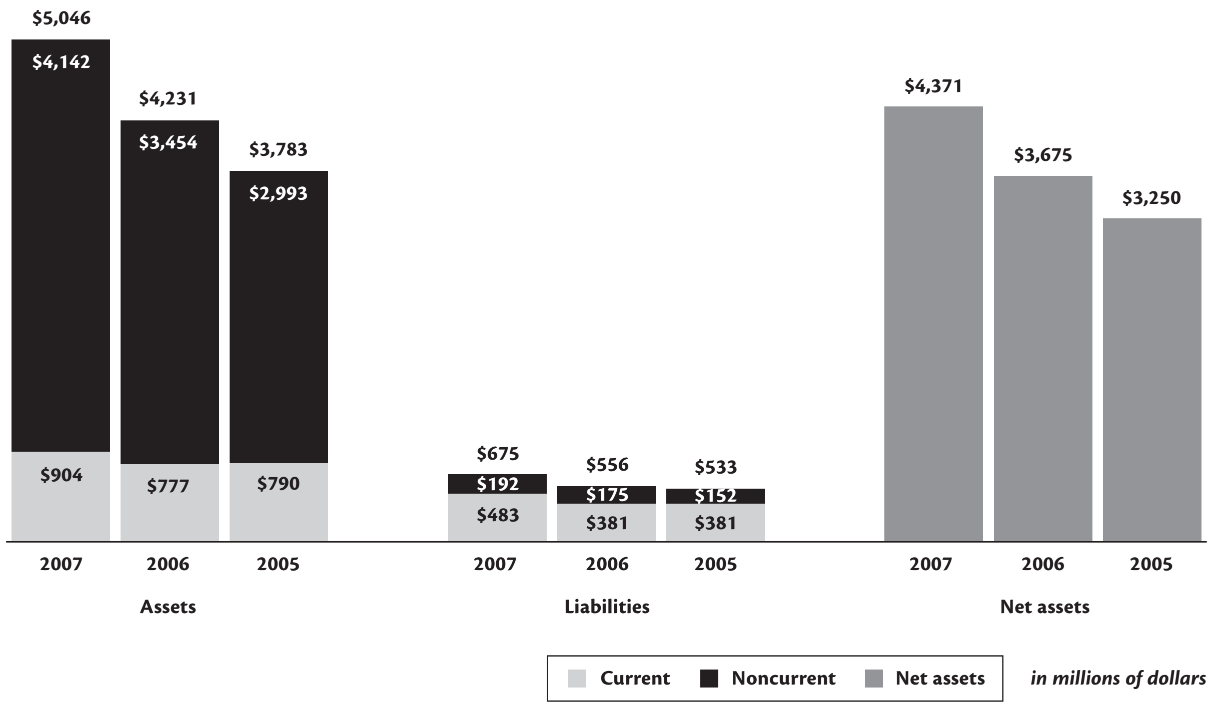
Cash provided by investing activities totaled $393 million in 2007 and $157 million in 2005, compared to cash used by investing activities of $210 million in 2006. The differences are a result of the routine timing of investment transactions and greater investment income.

THE UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS

Separate foundations at each individual campus provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although independent boards govern each of these ten foundations, they are affiliated with, and their assets are dedicated for, the benefit of the University of California.

The Campus Foundations' Financial Position

The campus foundations' statement of net assets presents their combined financial position at the end of the year. It displays all of the campus foundations' assets, liabilities and net assets. The difference between assets and liabilities are net assets, representing a measure of the current financial condition of the campus foundations.



The major components of the combined assets, liabilities and net assets of the campus foundations at 2007, 2006 and 2005 are as follows:

(in millions of dollars)

	2007	2006	2005
ASSETS			
Investments	$ 4,037	$ 3,364	$ 2,950
Investment of cash collateral	367	280	288
Pledges receivable, net	450	430	427
Other assets	192	157	118
Total assets	**5,046**	**4,231**	**3,783**
LIABILITIES			
Securities lending collateral	367	280	288
Obligations under life income agreements	181	163	162
Other liabilities	127	113	83
Total liabilities	**675**	**556**	**533**
NET ASSETS			
Restricted:			
Nonexpendable	1,728	1,527	1,360
Expendable	2,628	2,132	1,874
Unrestricted	15	16	16
Total net assets	**$4,371**	**$3,675**	**$3,250**

Assets. Investments in 2007 grew by $673 million. The significant changes were $172 million of new permanent endowments, $451 million of net appreciation in the fair value of investments and $79 million of investment income, partially offset by $31 million of net cash distributions as cash receipts from gifts were less than the foundations' grants to the University.

Investments in 2006 grew by $414 million, generally resulting from $159 million of new permanent endowments, $234 million of net appreciation in the fair value of investments and $68 million of investment income, partially offset by $48 million of net cash distributions.

The Board of Trustees for each campus foundation is responsible for its specific investment policy, although asset allocation guidelines are recommended to campus foundations by the Investment Committee of The Regents. The Boards of Trustees may determine that all or a portion of their investments will be managed by the University's Chief Investment Officer. The Chief Investment Officer managed $1.13 billion and $938 million of the campus foundations' investments at the end of 2007 and 2006, respectively.

The campus foundations' statement of net assets includes an allocation of the University's securities lending assets and liabilities at the end of each year and income and rebates for the year, in accordance with their respective investments with the University. One campus foundation participates directly in its own securities lending program. The investment of cash collateral and related securities lending liability allocated by the University to the campus foundations totaled $320 million and $230 million at the end of 2007 and 2006, respectively. The campus foundation with direct participation loaned securities for cash collateral of $46 million and $50 million at the end of 2007 and 2006, respectively.

Certain campuses and campus foundations have comprehensive fund-raising campaigns underway, raising both gifts and pledges. Pledges receivable, representing gifts to be received in the future, were $450 million at the end of 2007, up $20 million from last year. Pledges receivable were $430 million in 2006, an increase of $3 million from 2005.

Liabilities. Total campus foundations' liabilities were $675 million in 2007 compared to $556 million in 2006 and $533 million in 2005. The $119 million increase in 2007 is primarily related to securities lending activity that grew by $87 million. While securities lending activity declined in 2006 by $8 million, the Berkeley campus foundation deferred revenue from a conditional gift in 2006 that contributed to an overall increase in liabilities of $23 million in that year.

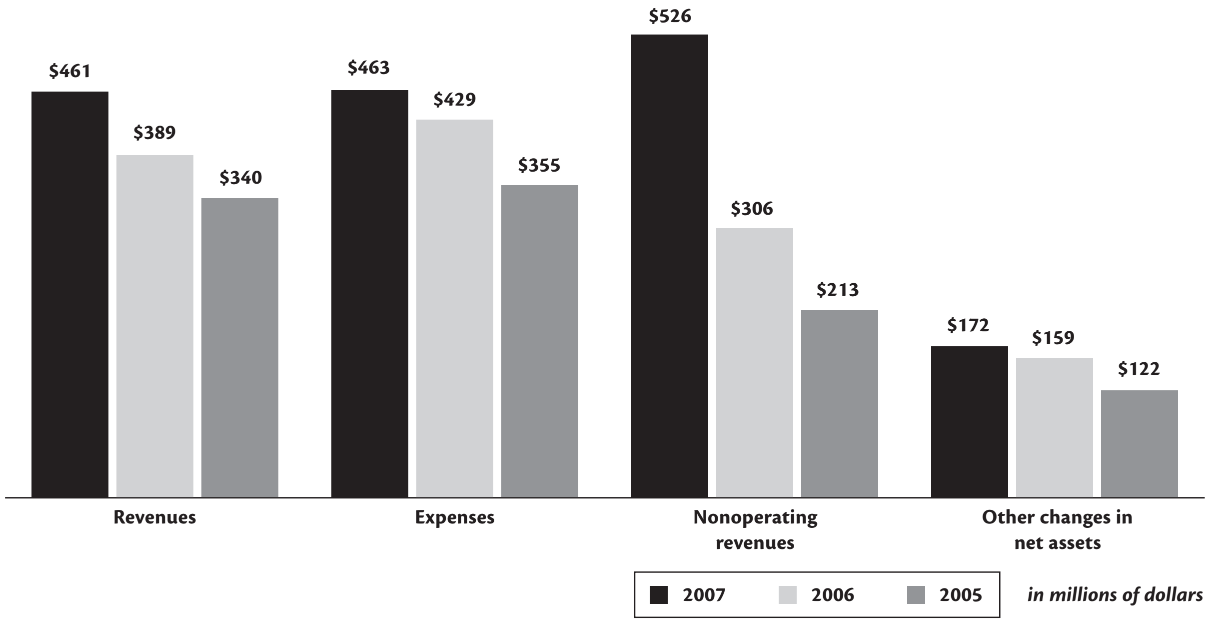
Net assets. Net assets are reported in certain categories based upon the nature of the restrictions on their use.

Restricted, nonexpendable net assets include the corpus of the campus foundations' permanent endowments and the estimated fair value of certain planned giving arrangements. The increase is primarily attributable to new permanent endowment gifts received, partially offset by an increase in the estimated liability to beneficiaries of the planned giving arrangements.

Restricted, expendable net assets are subject to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include endowment income and investment gains, subject to each individual campus foundation's spending policy; support received from gifts; trustee held investments; or other third party receipts. New gifts and net appreciation in the fair value of investments were the primary reasons for the increase in value in 2007 and 2006.

Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes.

The Campus Foundations' Results of Operations



The campus foundations' combined statement of revenues, expenses and changes in net assets is a presentation of their operating results for the year. It indicates whether their financial condition has improved or deteriorated during the year. A summarized comparison of the operating results for 2007, 2006 and 2005 is as follows:

(in millions of dollars)

	2007	2006	2005
OPERATING REVENUES			
Private gifts	$ 458	$ 388	$ 332
Other revenues	3	1	8
Total operating revenues	**461**	**389**	**340**
OPERATING EXPENSES			
Grants to campuses	451	416	344
Other expenses	12	13	11
Total operating expenses	**463**	**429**	**355**
Operating loss	**(2)**	**(40)**	**(15)**
NONOPERATING REVENUES (EXPENSES)			
Investment income	79	69	62
Net appreciation in fair value of investments	451	234	151
Other nonoperating revenues (expenses)	(4)	3	
Income before other changes in net assets	**524**	**266**	**198**
OTHER CHANGES IN NET ASSETS			
Permanent endowments	172	159	122
Increase in net assets	**696**	**425**	**320**
NET ASSETS			
Beginning of year	3,675	3,250	2,930
End of year	**$ 4,371**	**$ 3,675**	**$ 3,250**

Operating loss. Operating revenues generally consist of current-use gifts, including pledges and income from other fund-raising activities, although they do not include additions to permanent endowments and endowment income. Operating revenues increased by $72 million and $49 million in 2007 and 2006, respectively.

Operating expenses generally consist of grants to University campuses, comprised of current-use gifts and endowment income and other expenses, including gift fees. Grants to campuses typically follow the pattern indicated by private gift revenue; however, the campus' programmatic needs are also taken into consideration, subject to abiding by the designated purposes of gifts to the endowment and the amounts available for grants in any particular year.

Private gift revenue includes pledges, a non-cash operating revenue. Grants to the campuses can only be made when the cash is received and, in addition, also include endowment investment income, classified as nonoperating income. Therefore, operating losses can occur when grants distributed to the campuses in any particular year exceed private gift revenue.

Nonoperating revenues (expenses). Nonoperating revenues or expenses include net investment income, net appreciation or depreciation in the fair value of investments and adjustments to gift annuity and trust liabilities. Investment income of $79 million was up from $69 million in 2006 and $62 million in 2005. Due to the performance of the financial markets in 2007 and 2006, the campus foundations' results include $451 million and $234 million, respectively, of net appreciation in the fair value of investments.

Other changes in net assets. Gifts of permanent endowments of $172 million in 2007 grew by $13 million from 2006 levels. In 2006, gifts of permanent endowments grew by $37 million from 2005.

The Campus Foundations' Cash Flows

The campus foundations' combined statement of cash flows presents the significant sources and uses of cash and cash equivalents. A summary comparison of cash flows for 2007, 2006 and 2005 is as follows:

(in millions of dollars)

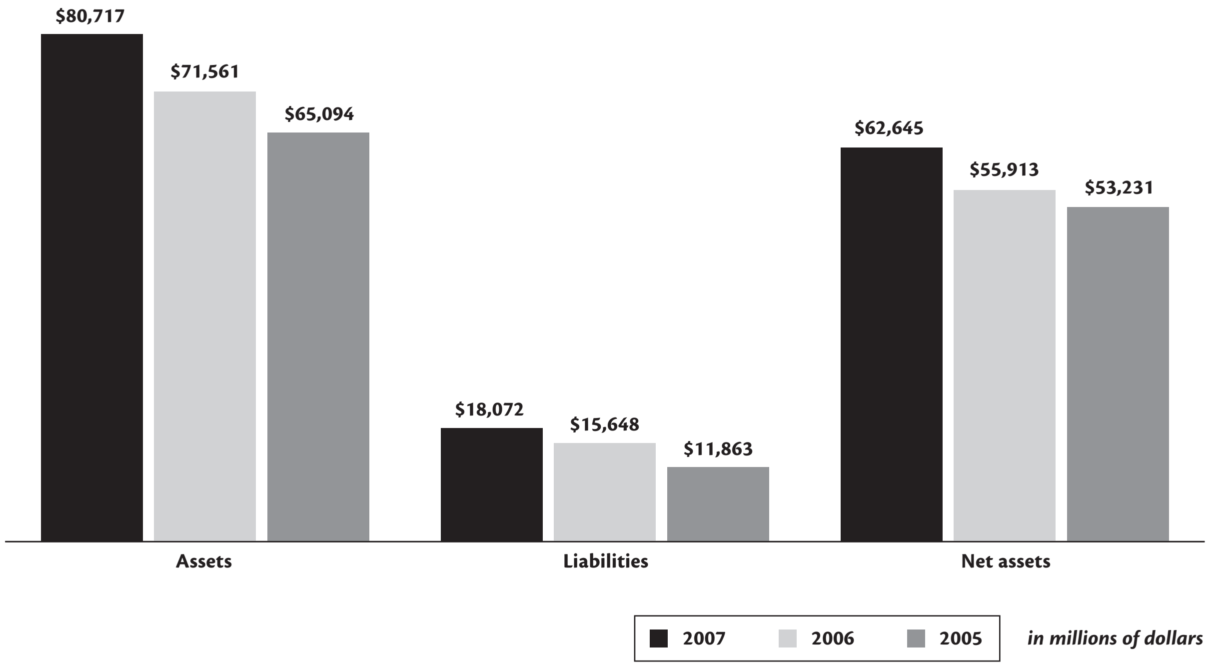
	2007	2006	2005
Cash received from private gifts	$ 429	$ 385	$ 338
Cash payments for grants	(463)	(430)	(370)
Other cash receipts (payments), net	3	(3)	4
Net cash used by operating activities	**(31)**	**(48)**	**(28)**
Net cash provided by noncapital financing activities	163	141	107
Net cash used by investing activities	(96)	(47)	(88)
Net increase (decrease) in cash and cash equivalents	**36**	**46**	**(9)**
Cash and cash equivalents, beginning of year	126	80	89
Cash and cash equivalents, end of year	**$ 162**	**$ 126**	**$ 80**

Cash and cash equivalents were $162 million in 2007 compared to $126 million in 2006, an increase of $36 million. In 2006, cash increased by $46 million. Cash used by operating activities was $31 million in 2007 compared to $48 million in 2006 due to increasing grants made to campuses. As discussed above, cash payments for grants are an operating activity, but these payments also include investment income which is an investing activity. In addition, while the trend is for grants to campuses to coincide with contributions revenue, the timing may not always occur in the same year. Cash provided by noncapital financing activities primarily results from cash gifts for permanent endowments.

THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

The UCRS is a valuable component of the comprehensive benefits package offered to employees of the University. The UCRS consists of the University of California Retirement Plan (the UCRP), a defined benefit plan for members; the University of California Retirement Savings Program that includes three defined contribution plans (the DCP, the 403(b) and the 457(b) plans) to complement the defined benefit plan, with several investment portfolio options for participants' elective and non-elective contributions; and the California Public Employees Retirement System (PERS) Voluntary Early Retirement Incentive Plan (PERS-VERIP) for certain University employees that were members of PERS who elected early retirement.

The UCRS' Financial Position



The statement of plans' fiduciary net assets presents the financial position of the UCRS at the end of the fiscal year. It displays all of the retirement system's assets, liabilities and net assets. The difference between assets and liabilities are the net assets held in trust for pension benefits. These represent amounts available to provide pension benefits to members of the UCRP and participants in the defined contribution plans and the PERS-VERIP. At June 30, 2007, the UCRS plans' assets were nearly $81 billion, liabilities were over $18 billion and net assets held in trust for pension benefits exceeded $62 billion, an increase of $6.73 billion from 2006. Net assets increased in 2006 by $2.68 billion from 2005.

The major components of the assets, liabilities and net assets available for pension benefits for 2007, 2006 and 2005 are as follows:

(in millions of dollars)

	2007	2006	2005
ASSETS			
Investments	$ 59,685	$ 53,866	$ 51,372
Participants' interest in external mutual funds	3,794	3,019	2,359
Investment of cash collateral	16,884	13,993	10,894
Other assets	354	683	469
Total assets	**80,717**	**71,561**	**65,094**
LIABILITIES			
Securities lending collateral	16,885	13,994	10,891
Other liabilities	1,187	1,654	972
Total liabilities	**18,072**	**15,648**	**11,863**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Members' defined benefit plan benefits	48,192	43,440	41,936
Participants' defined contribution plan benefits	14,453	12,473	11,295
Total net assets held in trust for pension benefits	**$62,645**	**$55,913**	**$53,231**

Assets. UCRS investments, including participants' interest in external mutual funds, totaled $63.48 billion at the end of 2007 compared to $56.89 billion at the end of 2006, an increase of $6.59 billion, including the net effect at the end of the year of security purchases and sales yet to be settled of $141 million. The increase, net of the effect of future settlements of security purchases and sales, was generally a result of $7.86 billion net appreciation in the fair value of investments, $1.06 billion in contributions to the UCRS and $1.87 billion in net investment earnings, partially offset by benefit payments and participant withdrawals of $2.57 billion and a transfer of UCRP assets to the LANS defined benefit plan of $1.44 billion.

In 2006, UCRS investments, including participants' interest in external mutual funds, increased by $3.16 billion, including the net effect at the end of the year of security purchases or sales yet to be settled of $553 million. The increase, net of the effect of future settlements of security purchases and sales, was primarily a result of $2.14 billion net appreciation in the fair value of investments, $1.02 billion in contributions to the UCRS and $1.72 billion in net investment earnings, partially offset by benefit payments of $2.17 billion.

During 2007, participants' interest in external mutual funds, representing defined contribution plan contributions to certain external mutual funds on a custodial plan basis, grew by $775 million to $3.79 billion primarily through a combination of $278 million of participant contributions, $581 million of investment earnings and appreciation in the fair value of investments and $158 million transferred from University managed investments, partially offset by $242 million of participant withdrawals. In 2006, participants' interest in external mutual funds grew by $660 million to $3.02 billion generally through $267 million of participant contributions, $302 million of investment earnings and appreciation in the fair value of investments and $257 million transferred from University managed investments, partially offset by $154 million of participant withdrawals.

Along with the University, the UCRS participates in a securities lending program as a means to augment income. The investment of cash collateral and the associated liability for collateral held by the UCRS for securities on loan at the end of the year increased in 2007 and 2006 by 20.7 percent and 28.4 percent, respectively. The securities lending investment income, net of fees and rebates, increased to $32 million in 2007 from $24 million in 2006.

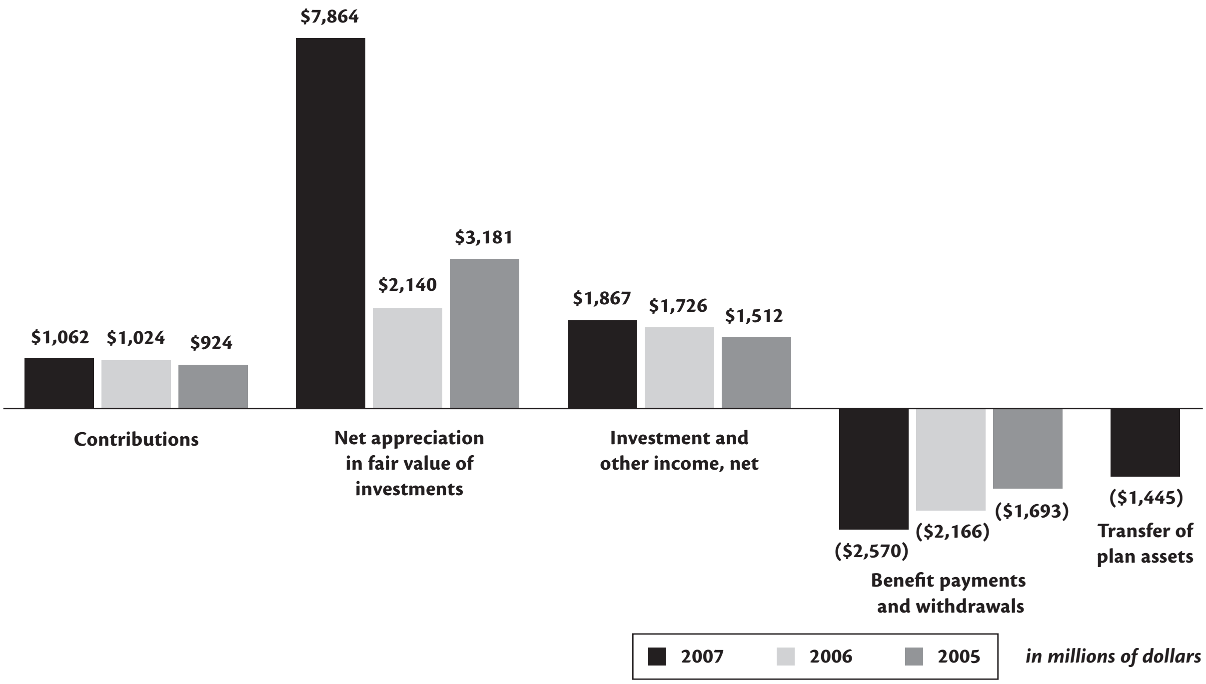
During 2006, two additional securities lending agents provided additional activity under the University's program. Lending activity and interest rates in the past two years are substantially above 2005 levels leading to a large increase in both gross income and rebates, and an increase in net income for the overall program.

Liabilities. Total UCRS liabilities were $18.07 billion in 2007 compared to $15.65 billion in 2006. Over $2.89 billion of the increase results from the securities lending program discussed above, with the remainder a result of liabilities for security purchases to be settled after year-end.

Net assets. A total of $48.19 billion of the net assets are dedicated to the UCRP members' defined benefit plan benefits and over $14.45 billion are associated with participants' tax deferred, defined contribution plan benefits. As of June 30, 2007, the date of the most recent actuarial report, the UCRP's overall funded ratio was 104.8 percent compared to 104.1 percent as of June 30, 2006. This indicates that for every dollar of benefits due to UCRP members under the University's defined benefit plan, assets of over $1.04 are available to cover benefit obligations.

All assets of the UCRP are available to pay any member's benefits. However, assets and liabilities for the campus and medical center segment of the UCRP are internally tracked separately from the DOE national laboratory segment of the UCRP. As of June 30, 2007, the funded ratio for the campus and medical center segment was 105.2 percent compared to 105.6 percent as of June 30, 2006. For the DOE national laboratory segment, as of June 30, 2007 the funded ratio was 103.5 percent compared to 100.1 percent as of June 30, 2006. The DOE has a continuing obligation to the University to provide contributions to pay UCRP benefits to laboratory segment retirees.

The UCRS' Results of Operations



The statement of changes in plans' fiduciary net assets is a presentation of the UCRS' operating results. It indicates whether the financial condition has improved or deteriorated during the year. A summarized comparison of the operating results for 2007, 2006 and 2005 is as follows:

(in millions of dollars)

	2007	2006	2005
ADDITIONS			
Contributions	$ 1,062	$ 1,024	$ 924
Net appreciation in fair value of investments	7,864	2,140	3,181
Investment and other income, net	1,867	1,726	1,512
Total additions	**10,793**	**4,890**	**5,617**
DEDUCTIONS			
Benefit payments and participant withdrawals	2,570	2,166	1,693
Plan expenses	46	42	33
Transfer of assets to the LANS defined benefit plan	1,445		
Total deductions	**4,061**	**2,208**	**1,726**
Increase in net assets held in trust for pension benefits	**$ 6,732**	**$ 2,682**	**$ 3,891**

Contributions. Contributions in 2007 increased by $38 million and in 2006 by $100 million. The majority of contributions are made into the defined contribution plans that included $13 million and $21 million of University contributions in 2007 and 2006, respectively. Participants are required to make contributions to the DCP and may make voluntary and rollover contributions to the DCP, 403(b) plan, and 457(b) plan established in 2005. Due to the UCRP's funded position, neither the University nor the members has been required to make contributions since 1990. However, $25 million of contributions were recorded in 2007, primarily a $17 million contribution from the DOE on behalf of members who formerly worked at LANL.

Net appreciation in fair value of investments. The UCRS recognized net appreciation in the fair value of investments of $7.86 billion during 2007 compared to $2.14 billion during 2006.

The overall investment gain based upon unit values for the UCRS was 17.7 percent and 7.1 percent in 2007 and 2006, respectively.

Investment and other income. Investment and other income in 2007 of $1.87 billion increased by $141 million, or 8.2 percent. Similarly, investment and other income in 2006 of $1.73 billion increased by $214 million, or 14.2 percent. Short-term interest rates rose in both years.

Benefit payments and withdrawals. Benefit payments and participant withdrawals were $404 million higher in 2007 than in 2006 and $473 million higher in 2006 than in 2005. Payments from the UCRP and PERS-VERIP to retirees increased by $175 million and $124 million in 2007 and 2006, respectively, due to a growing number of retirees receiving payments and cost-of-living adjustments and member withdrawals. There are 45,400 retirees and beneficiaries currently receiving payments compared to 41,500 at the end of 2005. In addition, elections of lump sum cash-outs of the UCRP and participant withdrawals from the Retirement Savings Plans grew by $229 million and $350 million in 2007 and 2006, respectively. In 2007 and 2006, participant withdrawals from the Retirement Savings Plans were affected by former employees at LANL transitioning from the University to LANS.

Transfer of assets to LANS' defined benefit plan. With the selection of LANS as the successor contractor to the University for the management of LANL effective June 1, 2006, assets and liabilities attributable to the UCRP benefits of the approximately 6,500 LANL employees who accepted employment with LANS and elected to participate in the defined benefit plan established by LANS were transferred to the LANS defined benefit plan. The market value of assets transferred as of March 31, 2007 to the LANS defined benefit plan associated with the transitioning employees who are not retained in the UCRP was $1.44 billion.

Additional information on the retirement plans can be obtained from the 2007 annual reports of the University of California Retirement Plan, the University of California Retirement Savings Plans and the University of California PERS-VERIP by writing to the University of California, Office of the President, Human Resources/Benefits Department, Financial Services and Plan Disbursements, 300 Lakeside Drive, Suite 400, Oakland, California 94612.

LOOKING FORWARD

The University of California is a world center of learning, known for generating a steady stream of talent, knowledge and social benefits, and has always been at the center of California's capacity to innovate. The excellence of its programs attracts the best students, leverages hundreds of millions of dollars in state, federal and private funding and promotes discovery of new knowledge that fuels economic growth.

Major financial strengths of the University include a diverse source of revenues, including those from the state of California, student fees, federally sponsored grants and contracts, medical centers, private support and self-supporting enterprises.

The variety of fund sources has become increasingly important over the past several years given the effects of the state fiscal crisis that required reductions in both instructional and non-instructional programs. Student fee increases were necessary to address the reductions in state educational appropriations. The state is continuing its work to resolve its financial situation in which expenditures have continued to exceed revenues. Three years ago, the University and the Governor agreed on a Compact to provide guidance and financial commitments to a long-term resource plan for the University. The Compact addresses fundamental financial support, enrollment, student fees and other key program elements for 2007 through 2011. It provides a financial foundation for the University and the ability to plan for student fee levels over the next several years. In exchange for this long-term stability, the University commits to focus its resources to address long-term accountability goals for enrollment, student fees, financial aid and program quality, among other areas.

As a result of some improvement in the state's financial position, resident student fees were not increased in 2007 as they had been for the prior four years in order to maintain the quality of instructional programs, although nonresident undergraduate student tuition was raised by 5 percent. However, for 2008, resident undergraduate fees will increase by 7 percent, graduate student fees by 7 percent and most professional school fees will increase between 7 and 10 percent. In addition to the resident student fees, nonresident undergraduate and graduate students pay tuition. Tuition will increase by 5 percent for undergraduate students. Consistent with past practice, a portion of the fee increases will be used for financial aid.

The University remains highly competitive in attracting federal grants and contracts revenue, with fluctuations in the awards received closely paralleling trends in the budgets of federal research granting agencies. Over two-thirds of the University's federal research revenue comes from two agencies, the Department of Health and Human Services, primarily through the National Institutes of Health, and the National Science Foundation. Other agencies that figure prominently in the University's awards are the Department of Education, Department of Defense, the National Aeronautics and Space Administration and the Department of Energy. While the federal government is under tight fiscal constraints, there is a bi-partisan effort underway to focus on innovation and competitiveness for the nation. The University is a unique national resource for helping the nation address competitiveness and economic initiatives.

The University's medical centers have demonstrated very positive financial results, although they continue to face financial challenges in a price-sensitive, managed care environment, along with the added costs and responsibilities related to their function as academic institutions. The demand for health care services and the cost of providing them are increasing significantly. In addition to the rising costs of salaries, benefits and medical supplies faced by hospitals across the state, the University's medical centers also face additional costs associated with new technologies, biomedical research, the education and training of health care professionals and the care for a disproportionate share of the medically underserved in California. Other than Medicare and Medi-Cal (California's Medicaid program), health insurance payments do not recognize the added cost of teaching in their payment to academic medical centers. Over the last few years, Medicare margins have declined as a result of payment reductions. Recent changes to the Medi-Cal program will likely limit or reduce the rates of payment growth to the medical centers in future years. Also, as a result of state legislation, the medical centers face capital requirements to ensure that facilities can maintain uninterrupted operations following a major earthquake. While the state has provided additional capital to meet these requirements, the level of support provided will not cover the full cost to the University. Other sources of capital are required.

The continuing financial success of the medical centers is predicated on a multifaceted strategy, which includes competing in commercial markets and offering high quality regional services. Positive results in commercial contracts have helped address the lack of support for medical education and care for the poor. Further, the medical centers remain competitive in their respective markets by reducing costs through improved efficiencies, making strategic investments and by expanding their presence in the market through stronger links with other providers and payers. Payment strategies must recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment and invest in infrastructure and program expansion.

The University's private support is a testament to its distinction as a leader in philanthropy among the nation's colleges and universities and the high regard in which its alumni, corporations, foundations and other supporters hold the University. The level of private support underscores the continued confidence among donors in the quality of the University's programs and the importance of its mission. At the same time, private support in 2008 will likely reflect the changes in the economy and financial markets, the effect of which is not determinable at this time.

Additional, affordable and accessible student housing will be required in order to satisfy the demand. Most campus residence halls continue to be occupied at design capacity. The University is responding to the demand by building student housing in the traditional manner, with housing fees set to generate sufficient revenue to cover direct and indirect operating costs and debt service, and by seeking development opportunities for privately owned housing on University campuses.

The University must have a balanced array of many categories of facilities to meet its education, research and public service goals and continues to assess its long-term capital requirements. The support for the University's capital program will be provided from a combination of sources, including the state of California, external financing, gifts and other sources.

In November 2006, a general obligation bond package for education was approved by the California voters. As a result, the University will receive $690 million for its capital program for the two-year period 2008 and 2009. In addition, the University will receive over $200 million over the same period for expansion of the University's medical schools and delivery of health care through telemedicine. This level of support from the state will not meet all of the University's capital needs and institutional resources will continue to be necessary to address many critical projects.

There are also plans for additional capital projects that are traditionally not considered to be state supportable. This is a continuing process that is amended, as required, to include projects when gifts or other supplemental resources are obtained or financing plans are developed.

The University operates and manages, or participates in the management of, three national laboratories on behalf of the DOE since their formation, without financial gain, as a public service to the nation.

The University's contract to manage LLNL for the National Nuclear Security Administration of the United States Department of Energy expired on September 30, 2007. The University is a member in a joint venture, Lawrence Livermore National Security, LLC (LLNS), that was selected to operate and manage LLNL effective October 1, 2007. LLNS is a separate corporate entity that is expected to be reported as a joint venture using the equity method in the University's financial statements. As a result, the gross revenues and expenses associated with the successor contract are not expected to be reported in the University's statement of revenues, expenses and changes in net assets.

With the selection of LLNS as the successor contractor to the University for the management of LLNL effective October 1, 2007, the assets and liabilities attributable to the UCRP benefits of the approximately 7,300 employees who may accept employment with LLNS and who elect to participate in the defined benefit plan established by LLNS are expected to be transferred to the LLNS plan at a future date provided all required and advisable regulatory rulings and approvals are obtained. The amount of the assets and liabilities to be retained in the UCRP for LLNL members who are retired or are inactive, and the amount of assets that may be transferred to the LLNS plan for the transitioning employees who elected to participate in the LLNS plan is not currently known and is dependent on the assumptions used and future discussions with the DOE.

The UCRP costs are funded by a combination of investment earnings, employee member and employer contributions. Since 1990, there have not been any University contributions to the UCRP. In addition, since 1990, the required employee member contributions to the UCRP have been suspended. However, contributions are required to be made to the separate defined contribution plan maintained by the University. The Regents recently updated the funding policy for

UCRP to provide for a targeted funding level of 100 percent over the long term, and for University and UCRP member contributions at rates necessary to maintain that level within a range of 95 percent to 110 percent. The University will implement a multi-year contribution strategy under which shared employer and employee contribution rates will increase gradually over time to 16 percent of covered compensation, shared between employer and employees, based upon UCRP's current normal cost. The Regents has not yet authorized the initial resumption of shared employer and employee contributions.

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the University in 2008. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. Currently, the University records retiree medical and dental costs as they are paid and does not recognize the liability in the financial statements. The University is currently evaluating the effect that Statement No. 45 will have on its financial statements, although it is expected that retiree medical and dental costs, including normal cost, amortization of the unfunded transition liability over 30 years and interest on the unfunded liability will range between $1.35 billion and $1.45 billion. The transition liability is expected to range between $11.70 billion and $12.60 billion. The University will continue to pay for these benefits on a "pay-as-you-go" basis in 2008.

Cautionary Note Regarding Forward-Looking Statements

Certain information provided by the University, including written as outlined above or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events, or developments that the University expects or anticipates will or may occur in the future contain forward-looking information.

In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. The University does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

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, 2007 and 2006, 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 Davis Foundation, which represent 5 percent, 5 percent and 2 percent of the assets, net assets, and operating revenues, respectively, of the University of California campus foundations as of and for the year ended June 30, 2007; we also did not audit the financial statements of the 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, respectively, of the University of California campus foundations as of and for the year ended June 30, 2006. 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 16, 2007

UNIVERSITY OF CALIFORNIA

STATEMENTS OF NET ASSETS

AT JUNE 30, 2007 AND 2006 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2007	**2006**	**2007**	**2006**
ASSETS				
Cash and cash equivalents	$ 147,209	$ 202,026	$ 161,543	$ 126,024
Short-term investments	2,574,989	4,019,551	376,666	332,033
Investment of cash collateral	3,042,293	2,227,050	261,084	198,670
Investments held by trustees	41,937	59,026		
Accounts receivable, net	2,145,559	1,954,675	5,893	6,816
Pledges receivable, net	56,418	32,592	94,939	105,149
Current portion of notes and mortgages receivable, net	28,242	28,758	42	389
Inventories	143,254	129,210		
Department of Energy receivable	210,162	148,107		
Other current assets	134,688	119,475	4,120	7,752
Current assets	**8,524,751**	**8,920,470**	**904,287**	**776,833**
Investments	11,635,046	9,224,614	3,659,823	3,031,965
Investment of cash collateral	1,511,546	1,228,274	106,069	81,790
Investments held by trustees	751,798	700,701		
Pledges receivable, net	65,637	61,421	355,403	324,385
Notes and mortgages receivable, net	275,457	264,466	551	121
Department of Energy receivable	27,080	27,473		
Capital assets, net	18,105,332	16,665,001		
Other noncurrent assets	178,802	156,233	19,911	16,240
Noncurrent assets	**32,550,698**	**28,328,183**	**4,141,757**	**3,454,501**
Total assets	**41,075,449**	**37,248,653**	**5,046,044**	**4,231,334**
LIABILITIES				
Accounts payable	1,257,402	1,322,076	8,745	5,878
Accrued salaries and benefits	475,095	385,915		
Deferred revenue	754,158	678,820	1,551	1,453
Collateral held for securities lending	4,553,954	3,455,800	367,153	280,460
Commercial paper	550,000	550,000		
Current portion of long-term debt	629,713	407,888		
Funds held for others	276,945	252,762	80,559	71,053
Department of Energy laboratories' liabilities	178,899	138,936		
Other current liabilities	828,365	798,279	24,946	22,936
Current liabilities	**9,504,531**	**7,990,476**	**482,954**	**381,780**
Federal refundable loans	196,119	193,098		
Self-insurance	402,857	374,912		
Obligations under life income agreements	31,962	20,456	157,107	141,761
Long-term debt	8,184,017	7,918,360		
Other noncurrent liabilities	351,783	351,328	34,488	32,924
Noncurrent liabilities	**9,166,738**	**8,858,154**	**191,595**	**174,685**
Total liabilities	**18,671,269**	**16,848,630**	**674,549**	**556,465**
NET ASSETS				
Invested in capital assets, net of related debt	9,101,981	8,535,316		
Restricted:				
Nonexpendable:				
Endowments and gifts	920,329	872,707	1,727,602	1,526,885
Expendable:				
Endowments and gifts	5,457,743	4,657,857	2,628,262	2,131,606
Other, including debt service, loans, capital projects and appropriations	397,698	398,332		
Unrestricted	6,526,429	5,935,811	15,631	16,378
Total net assets	**$22,404,180**	**$20,400,023**	**$4,371,495**	**$3,674,869**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2007 AND 2006 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2007	**2006**	**2007**	**2006**
OPERATING REVENUES				
Student tuition and fees, net	$ 1,737,597	$ 1,662,948		
Grants and contracts, net				
Federal	2,881,396	2,814,091		
State	448,922	423,506		
Private	803,559	744,352		
Local	181,718	162,627		
Medical centers, net	4,526,355	4,205,635		
Educational activities, net	1,249,668	1,122,765		
Auxiliary enterprises, net	1,012,266	893,248		
Department of Energy laboratories	2,188,475	4,231,922		
Campus foundation private gifts			$ 457,814	$ 387,814
Other operating revenues, net	435,273	508,539	3,803	1,182
Total operating revenues	**15,465,229**	**16,769,633**	**461,617**	**388,996**
OPERATING EXPENSES				
Salaries and wages	8,569,207	7,879,858		
Benefits	1,744,035	1,608,156		
Scholarships and fellowships	401,153	357,965		
Utilities	371,661	349,788		
Supplies and materials	1,909,814	1,826,954		
Depreciation and amortization	1,049,008	997,023		
Department of Energy laboratories	2,169,750	4,197,685		
Campus foundation grants			451,290	416,248
Other operating expenses	2,509,081	2,299,274	12,049	13,115
Total operating expenses	**18,723,709**	**19,516,703**	**463,339**	**429,363**
Operating loss	**(3,258,480)**	**(2,747,070)**	**(1,722)**	**(40,367)**
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	2,793,235	2,572,565		
State financing appropriations	156,899	146,816		
Private gifts, net	681,277	624,052		
Investment income:				
Short Term Investment Pool and other, net	339,528	307,937		
Endowment, net	161,909	133,345		
Securities lending, net	6,338	5,376	565	435
Campus foundations			78,825	68,330
Net appreciation in fair value of investments	948,887	315,422	450,633	234,439
Interest expense	(385,201)	(347,172)		
Gain (loss) on disposal of capital assets	12,664	(5,814)		
Other nonoperating revenues (expenses)	(1,555)	(14,167)	(3,382)	2,782
Net nonoperating revenues	**4,713,981**	**3,738,360**	**526,641**	**305,986**
Income before other changes in net assets	**1,455,501**	**991,290**	**524,919**	**265,619**
OTHER CHANGES IN NET ASSETS				
State capital appropriations	293,358	220,158		
Capital gifts and grants, net	216,783	166,502		
Permanent endowments	38,515	44,456	171,707	159,308
Increase in net assets	**2,004,157**	**1,422,406**	**696,626**	**424,927**
NET ASSETS				
Beginning of year	20,400,023	18,977,617	3,674,869	3,249,942
End of year	**$22,404,180**	**$20,400,023**	**$4,371,495**	**$3,674,869**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2007 AND 2006 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2007	2006	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$ 1,737,847	$ 1,654,279		
Grants and contracts	4,276,529	4,228,316		
Medical centers	4,446,937	4,105,737		
Educational activities	1,243,164	1,117,729		
Auxiliary enterprises	1,010,263	899,250		
Collection of loans from students and employees	58,818	59,557		
Campus foundation private gifts			$ 429,131	$ 384,981
Payments to employees	(8,520,200)	(8,115,186)		
Payments to suppliers and utilities	(4,606,013)	(4,479,424)		
Payments for benefits	(1,703,052)	(1,636,389)		
Payments for scholarships and fellowships	(400,836)	(357,941)		
Loans issued to students and and employees	(68,525)	(66,345)		
Payments to campuses and beneficiaries			(463,439)	(429,702)
Other receipts (payments)	326,174	389,231	3,110	(2,950)
Net cash used by operating activities	**(2,198,894)**	**(2,201,186)**	**(31,198)**	**(47,671)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	2,798,516	2,577,962		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes	38,259	39,634	157,174	141,461
Other private gifts	644,670	587,942		
Student direct lending receipts	468,180	452,299		
Student direct lending payments	(468,180)	(452,299)		
Other receipts (payments)	(9,182)	15,882	5,877	
Net cash provided by noncapital financing activities	**3,472,263**	**3,221,420**	**163,051**	**141,461**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Commercial paper financing:				
Proceeds from issuance	127,405	522,862		
Payments of principal	(127,405)	(522,862)		
Interest paid	(21,150)	(17,250)		
State capital appropriations	277,130	226,311		
State financing appropriations	2,483	3,421		
Capital gifts and grants	164,692	131,149		
Proceeds from debt issuance	2,294,416	1,886,469		
Proceeds from the sale of capital assets	59,717	19,476		
Proceeds from insurance recoveries	935	1,024		
Purchase of capital assets	(2,426,740)	(1,682,065)		
Refinancing or prepayment of outstanding debt	(1,477,837)	(814,943)		
Scheduled principal paid on debt and capital leases	(233,977)	(201,203)		
Interest paid on debt and capital leases	(360,639)	(324,226)		
Net cash used by capital and related financing activities	**(1,720,970)**	**(771,837)**		
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments:				
Short Term Invesment Pool	61,023,956	63,559,787		
Other investments	6,104,662	3,415,784	646,519	679,159
Purchase of investments:				
Short Term Investment Pool	(60,862,917)	(64,037,298)		
Other investments	(6,364,028)	(3,573,965)	(824,716)	(798,646)
Investment income, net of investment expenses	491,111	424,864	81,863	72,052
Net cash provided (used) by investing activities	**392,784**	**(210,828)**	**(96,334)**	**(47,435)**
Net increase (decrease) in cash and cash equivalents	**(54,817)**	**37,569**	**35,519**	**46,355**
Cash and cash equivalents, beginning of year	202,026	164,457	126,024	79,669
Cash and cash equivalents, end of year	**$ 147,209**	**$ 202,026**	**$161,543**	**$126,024**

See accompanying Notes to Financial Statements

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2007 AND 2006 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2007	2006	2007	2006
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating loss	$ (3,258,480)	$ (2,747,070)	$ (1,722)	$ (40,367)
Adjustments to reconcile operating loss to				
net cash used by operating activities:				
Depreciation and amortization expense	1,049,008	997,023		
Noncash gifts			(15,610)	(18,543)
Allowance for doubtful accounts	30,169	(3,254)	(555)	1,147
Loss on impairment of capital assets	24	672		
Change in assets and liabilities:				
Investments			(508)	(6,863)
Accounts receivable	(229,259)	(173,685)	(222)	2,511
Pledges receivable			(20,313)	(4,095)
Investments held by trustees	(38,826)	(53,490)		
Inventories	(14,044)	(5,381)		
Other assets	(32,931)	(29,471)	985	3,066
Accounts payable	76,414	(12,559)	548	456
Accrued salaries and benefits	71,739	(250,171)		
Deferred revenue	81,561	62,992	(98)	22,019
Self-insurance	35,361	(37,607)		
Obligations to life beneficiaries			3,811	(6,580)
Other liabilities	30,370	50,815	2,486	(422)
Net cash used by operating activities	**$(2,198,894)**	**$(2,201,186)**	**$(31,198)**	**$(47,671)**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired through capital leases	$ 55,522	$ 84,155		
Capital assets acquired with a liability at year-end	114,731	84,496		
Investments held by trustees	8,480	(167,599)		
State financing appropriations	145,982	143,395		
Gifts of capital assets	36,734	18,399	$ 1,223	$ 9,570
Other noncash gifts	15,293	25,629	100,482	54,376
Gain (loss) on the disposal of capital assets	12,664	(5,814)		
Debt service for, or refinancing of, lease revenue bonds	(515,940)	(157,772)		
Refinancing of interim loans under lease-purchase agreements	(8,692)	(124,425)		
Securities lending activity	1,098,154	878,256	(2,772)	(6,746)

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM

STATEMENTS OF PLANS' FIDUCIARY NET ASSETS

AT JUNE 30, 2007 AND 2006 (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	
	2007	2007	2007	2007	2006
ASSETS					
Investments	$ 48,835,961	$ 10,761,897	$ 87,609	$ 59,685,467	$ 53,866,319
Participants' interest in external mutual funds		3,794,050		3,794,050	3,018,557
Investment of cash collateral	12,641,611	4,219,458	22,738	16,883,807	13,992,585
Participant 403(b) loans		87,085		87,085	81,819
Accounts receivable:					
Contributions	92,540	77		92,617	74,464
Investment income	114,509	46,268	205	160,982	179,179
Security sales and other	7,645	5,451	13	13,109	347,681
Total assets	**61,692,266**	**18,914,286**	**110,565**	**80,717,117**	**71,560,604**
LIABILITIES					
Payable for securities purchases	900,010	237,671	1,616	1,139,297	1,615,627
Member withdrawals, refunds and other payables	44,652	3,620	61	48,333	38,341
Collateral held for securities lending	12,642,256	4,219,515	22,739	16,884,510	13,994,062
Total liabilities	**13,586,918**	**4,460,806**	**24,416**	**18,072,140**	**15,648,030**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Members' defined benefit plan benefits	48,105,348		86,149	48,191,497	43,440,054
Participants' defined contribution plan benefits		14,453,480		14,453,480	12,472,520
Total net assets held in trust for pension benefits	**$48,105,348**	**$14,453,480**	**$ 86,149**	**$62,644,977**	**$55,912,574**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN PLANS' FIDUCIARY NET ASSETS

YEARS ENDED JUNE 30, 2007 AND 2006 (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	
	2007	2007	2007	2007	2006
ADDITIONS (REDUCTIONS)					
Contributions:					
Participants		$ 1,023,578		$ 1,023,578	$ 1,001,850
Members	$ 1,406			1,406	1,746
Employer	23,934	13,050		36,984	20,666
Total contributions	**25,340**	**1,036,628**		**1,061,968**	**1,024,262**
Investment income (expense), net:					
Net appreciation in fair value of investments	6,616,576	1,234,233	$ 13,066	7,863,875	2,140,449
Interest, dividends and other investment income	1,266,051	561,809	538	1,828,398	1,694,354
Securities lending income	741,547	172,925	441	914,913	590,520
Securities lending fees and rebates	(714,353)	(167,686)	(427)	(882,466)	(566,281)
Total investment income, net	**7,909,821**	**1,801,281**	**13,618**	**9,724,720**	**3,859,042**
Interest income from contributions receivable	6,119			6,119	6,506
Total additions	**7,941,280**	**2,837,909**	**13,618**	**10,792,807**	**4,889,810**
DEDUCTIONS					
Benefit payments:					
Retirement payments	1,066,342		5,291	1,071,633	935,894
Member withdrawals	89,829			89,829	70,865
Cost-of-living adjustments	193,751			193,751	176,181
Lump sum cashouts	292,556			292,556	193,999
Preretirement survivor payments	29,480			29,480	27,758
Disability payments	35,816			35,816	34,771
Death payments	7,008			7,008	6,580
Participant withdrawals		849,939		849,939	720,181
Total benefit payments	**1,714,782**	**849,939**	**5,291**	**2,570,012**	**2,166,229**
Expenses:					
Plan administration	37,801	7,010	8	44,819	40,409
Other	1,113			1,113	1,128
Total expenses	**38,914**	**7,010**	**8**	**45,932**	**41,537**
Transfer of assets to LANS' defined benefit plan	**1,444,460**			**1,444,460**	
Total deductions	**3,198,156**	**856,949**	**5,299**	**4,060,404**	**2,207,766**
Increase in net assets held in trust for pension benefits	**4,743,124**	**1,980,960**	**8,319**	**6,732,403**	**2,682,044**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Beginning of year	43,362,224	12,472,520	77,830	55,912,574	53,230,530
End of year	**$ 48,105,348**	**$ 14,453,480**	**$ 86,149**	**$ 62,644,977**	**$ 55,912,574**

See accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

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 the Lawrence Berkeley National Laboratory (LBNL) and the Lawrence Livermore National Laboratory (LLNL)—two major United States Department of Energy (DOE) national laboratories operated and managed by the University under contracts directly with the DOE—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 DOE. 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 issued through November 30, 1989, using the economic resources measurement focus and the accrual basis of accounting.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, was adopted during the year ended June 30, 2007. Statement No. 48 establishes criteria to ascertain whether certain transactions should be recorded as sales or collateralized borrowings.

GASB Statement No. 50, *Pension Disclosures,* was also adopted during the year ended June 30, 2007. Statement No. 50 enhances information disclosed in notes to financial statements or presented as required supplementary information by employers who provide pension benefits.

The implementation of GASB Statement No. 48 and Statement No. 50 had no effect on the University's net assets or changes in net assets for the years ended June 30, 2007 or 2006.

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. 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, 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. Interests in private equity and real estate 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. Investments in absolute return partnerships are valued as of May 31, adjusted for cash receipts and cash disbursements through June 30. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value at June 30. Because the private equity, real estate and absolute return 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. Private equities include venture capital partnerships, buyout and international funds. 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.

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.

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 on a custodial plan basis.

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.

DOE National Laboratory Contracts. The University operates and manages LBNL and LLNL under contracts directly with the DOE. LANS operates and manages LANL under a contract directly with the DOE.

The University's statement of net assets includes LBNL and LLNL operating 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 LBNL and LLNL. The statement of cash flows excludes the cash flows associated with LBNL and LLNL since all cash transactions are recorded in bank accounts owned by the DOE.

LANS is a joint venture between the University and industrial members. 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 materials	15 years

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

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

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

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

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

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

Obligations under life income agreements. Obligations under life income agreements represent actuarially-determined liabilities under gift annuity and life income contracts.

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

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

Restricted. The University and campus foundations classify net assets resulting from transactions with purpose restrictions as restricted net assets until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable. Net assets subject to externally-imposed restrictions that must be retained in perpetuity by the University or the campus foundations are classified as nonexpendable net assets. Such assets include the University's permanent endowment funds.

Expendable. Net assets whose use by the University or the campus foundations is subject to externally-imposed restrictions that can be fulfilled by actions of the University or campus foundations pursuant to those restrictions or that expire by the passage of time are classified as expendable net assets.

Unrestricted. Net assets that are neither restricted nor invested in capital assets, net of related debt, are classified as unrestricted net assets. The University's unrestricted net assets may be designated for specific purposes by management or The Regents. The campus foundations' unrestricted net assets may be designated for specific purposes by their Boards of Trustees. Substantially all of the University's unrestricted net assets are allocated for academic and research initiatives or programs, for capital programs or for other purposes.

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

Revenues and expenses. Operating revenues of the University include receipts from student tuition and fees, grants and contracts for specific operating activities and sales and services from medical centers, educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of the University are presented in the statement of revenues, expenses and changes in net assets as operating activities. The University's equity in current earnings or losses of LANS is also an operating transaction.

Certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the University are mandated by the GASB to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income, since the GASB does not consider them to be related to the principal operating activities of the University.

Campus foundations are established to financially support the University. Private gifts to campus foundations are recognized as operating revenues since, in contrast to the University, such contributions are fundamental to the core mission of the campus foundations. Foundation grants to the University are recognized as operating expenses. Private gift or capital gift revenues associated with campus foundation grants to the University are recorded by the University as the gifts are made.

Nonoperating revenues and expenses include state educational appropriations (for the support of University operating expenses), state financing appropriations, private gifts for other than capital purposes, investment income, net unrealized appreciation or depreciation in the fair value of investments, interest expense and gain or loss on the disposal of capital assets.

State capital appropriations, capital gifts and grants and gifts for endowment purposes are classified as other changes in net assets.

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

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

Grant and contract revenue. The University receives grant and contract revenue from governmental and private sources. The University 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 the University's federal cognizant agency, the U.S. Department of Health and Human Services. For the year ended June 30, 2007, the facilities and administrative cost recovery totaled $743.0 million, $590.0 million from federally-sponsored programs and $153.0 million from other sponsors. For the year ended June 30, 2006, the facilities and administrative cost recovery totaled $711.7 million, $575.8 million from federally-sponsored programs and $135.9 million from other sponsors.

Medical center revenue. Medical center revenue is reported at the estimated net realizable amounts from patients and third-party payors, including Medicare, Medi-Cal and others for services rendered, as well as estimated retroactive adjustments under reimbursement agreements with third-party payors. Laws and regulations governing Medicare and Medi-Cal are complex and subject to interpretation. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that estimated amounts accrued could change significantly based upon settlement, or as additional information becomes available.

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

Scholarship allowances in the following amounts are recorded as an offset to the following revenues for the years ended June 30, 2007 and 2006:

(in thousands of dollars)

	2007	2006
Student tuition and fees	$ 460,693	$ 436,089
Auxiliary enterprises	119,102	108,972
Other operating revenues	7,279	7,781
Scholarship allowances	**$587,074**	**$552,842**

Compensated absences. The University accrues annual leave, including employer-related costs, for employees at rates based upon length of service and job classification and compensatory time based upon job classification and hours worked.

Endowment spending. Under provisions of California law, the Uniform Management of Institutional Funds Act allows for investment income, as well as a portion of realized and unrealized gains, to be expended for the operational requirements of University programs.

Interest rate swap agreements. The University has entered into interest rate swap agreements to limit the exposure of its variable rate debt to changes in market interest rates. Interest rate swap agreements involve the exchange with a counterparty of fixed and variable rate interest payments periodically over the life of the agreement without exchange of the underlying notional principal amounts. The differential to be paid or received is recognized over the life of the agreements as an adjustment to interest expense. The University's counterparties are major financial institutions.

In accordance with GASB standards, the fair value of the interest rate swap agreements is not reported in the University's statement of net assets and changes in fair value are not recognized in the statement of revenues, expenses and changes in net assets.

Tax exemption. The University and the campus foundations are qualified as tax-exempt organizations under the provisions of Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income. The UCRS plans are qualified under Section 401(a) and the related trusts are tax exempt under Section 501(a) of the Internal Revenue 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 expenditures during the reporting period. Although management believes the estimates and assumptions are reasonable, they are based upon information available at the time the estimate or judgment is made and actual amounts could differ from those estimates.

New accounting pronouncements. In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the University's fiscal year beginning July 1, 2007. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. Currently, the University records retiree medical and dental costs as they are paid and does not recognize the liability in the financial statements. The University is currently evaluating the effect that Statement No. 45 will have on its financial statements. It is expected that the annual OPEB expense will range between $1.35 billion and $1.45 billion, and the transition liability at July 1, 2007 to be amortized over 30 years will range between $11.70 billion and $12.60 billion.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for the University's fiscal year beginning July 1, 2008. This Statement establishes criteria to ascertain whether certain events result in a requirement for the University to estimate the components of any expected pollution remediation costs and determine whether these costs should be accrued as a liability or, if appropriate, capitalized.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for the University's fiscal year beginning July 1, 2009. This Statement requires capitalization of identifiable intangible assets in the statement of net assets and provides guidance for amortization of intangible assets unless they are considered to have an indefinite useful life.

The University is evaluating the effect that Statements No. 49 and 51 will have on its financial statements.

1. CASH AND CASH EQUIVALENTS

The University maintains centralized management for substantially all of its cash. Accounts are authorized at financial institutions that maintain a minimum credit quality rating of A from an independent bond rating agency. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis.

At June 30, 2007 and 2006, the carrying amount of the University's demand deposits, held in nationally recognized banking institutions, was $147.2 million and $202.0 million, respectively, compared to bank balances of $113.7 million and $176.3 million, respectively. Deposits in transit are the primary difference. Bank balances of $24.4 million and $67.3 million at June 30, 2007 and 2006, respectively, are collateralized by U.S. government securities held in the name of the bank. The Federal Deposit Insurance Corporation (FDIC) insures the remaining uncollateralized bank balances for at least $400 thousand for both years.

The University does not have a significant exposure to foreign currency risk in demand deposit accounts. Accounts held in foreign countries maintain minimum operating balances with the intent to reduce potential foreign exchange risk while providing an adequate level of liquidity to meet the obligations of the academic programs established abroad. The equivalent U.S. dollar balances required to support research groups and education abroad programs in foreign countries were $1.1 million at June 30, 2007 and 2006.

The carrying amount of the campus foundations' cash and cash equivalents at June 30, 2007 and 2006 was $161.5 million and $126.0 million, respectively, compared to bank balances of $101.3 million and $88.9 million, respectively. Deposits in transit and cash awaiting investment are the primary differences. Included in bank balances are deposits in the University's Short Term Investment Pool of $44.4 million and $13.6 million at June 30, 2007 and 2006, respectively, with a portion of the remaining uncollateralized bank balances insured by the FDIC. The campus foundations do not have exposure to foreign currency risk in their cash and cash equivalents.

2. INVESTMENTS

The Regents, as the governing Board, is responsible for the oversight of the University's and the UCRS' investments and establishes investment policy, which is carried out by the Chief Investment Officer. These investments are associated with the Short Term Investment Pool (STIP), General Endowment Pool (GEP), UCRS, other investment pools managed by the Chief Investment Officer, or are separately invested. Pursuant to The Regents' policies on campus foundations, the Board of Trustees for each campus foundation may determine that all or a portion of their investments will be managed by the Chief Investment Officer. Asset allocation guidelines are provided to the campus foundations by the Investment Committee of The Regents.

The STIP allows participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a large pool with a broad range of maturities. Cash to provide for payroll, construction expenditures and other operating expenses for campuses and medical centers is invested in the STIP. The available cash in the UCRS or endowment investment pools awaiting investment, or cash for administrative expenses, is also invested in the STIP.

Investments authorized by The Regents for the STIP include fixed income securities with a maximum maturity of five and one-half years. In addition, for the STIP, The Regents has also authorized loans, primarily to faculty members residing in California, under the University's Mortgage Origination Program with terms up to 40 years.

The GEP is an investment pool in which a large number of individual endowments participate in order to benefit from diversification and economies of scale. The GEP is a balanced portfolio and the primary investment vehicle for endowed gift funds.

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

Investments authorized by The Regents for the GEP, UCRS, other investment pools and separate investments include equity securities, fixed income securities and certain other asset classes. The equity portion of the investment portfolios include both domestic and foreign common and preferred stocks which may be included in actively or passively managed strategies, along with a modest exposure to private equities. The University's investment portfolios may include foreign currency denominated equity securities. The fixed income portion of the investment portfolios may include both domestic and foreign securities, along with certain securitized investments, including mortgage-backed and asset-backed securities. Fixed income investment guidelines permit the use of futures and options on fixed income instruments in the ongoing management of the portfolios. Derivative contracts are authorized for portfolio rebalancing in accordance with The Regents' asset allocation policy and as substitutes for physical securities. Real estate investments are authorized for both the GEP and the UCRS. Absolute return strategies, which may incorporate short sales, plus derivative positions to implement or hedge an investment position, are also authorized for the GEP. Where donor agreements place constraints on allowable investments, assets associated with endowments are invested in accordance with the terms of the agreements.

The Regents has also authorized certain employee contributions to defined contribution plans included as part of the UCRS' investments to be maintained in external mutual funds on a custodial plan basis. The participants' interest in external mutual funds is not managed by the Chief Investment Officer and totaled $3.79 billion and $3.02 billion at June 30, 2007 and 2006, respectively.

Campus foundations' investments in pools managed by the Chief Investment Officer are classified for investment type purposes as either commingled balanced funds or commingled money market funds in the campus foundations' column depending on whether they are invested in the GEP or STIP, respectively. Similarly, the UCRS' investment in the STIP is classified in the commingled money market category in the UCRS column.

The composition of investments, by investment type, at June 30, 2007 and 2006 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2007	2006	2007	2006	2007	2006
Equity securities:						
Domestic	$ 1,934,651	$ 2,189,734	$ 366,036	$ 462,805	$ 26,321,714	$ 24,554,247
Foreign	1,330,630	1,155,743	124,746	118,678	8,999,241	7,985,900
Equity securities	**3,265,281**	**3,345,477**	**490,782**	**581,483**	**35,320,955**	**32,540,147**
Fixed or variable income securities:						
U.S. government guaranteed:						
U.S. Treasury bills, notes and bonds	1,379,320	1,497,513	132,579	83,863	1,182,113	1,703,950
U.S. Treasury strips	16,916	41,791			1,386,969	1,266,221
U.S. TIPS	404,913	243,672			3,095,649	2,841,164
U.S. government-backed securities	3,577	3,764	5,529	5,560	13,926	14,655
U.S. government-backed–asset-backed securities		3,098	15	21		5,141
U.S. government guaranteed	**1,804,726**	**1,789,838**	**138,123**	**89,444**	**5,678,657**	**5,831,131**
Other U.S. dollar denominated:						
Corporate bonds	2,620,866	1,869,577	47,703	58,191	2,985,787	2,443,103
Commercial paper	1,245,777	2,685,766			464,027	758,403
U.S. agencies	2,335,213	1,698,310	84,693	88,660	3,156,931	2,889,014
U.S. agencies–asset-backed securities	170,956	313,912	2,450	2,089	1,635,579	1,710,186
Corporate–asset-backed securities	92,603	123,151	10,868	2,452	1,078,925	722,671
Supranational/foreign	917,248	789,424	622	618	1,434,561	1,384,799
Other	205	536	815	1,211		5,930
Other U.S. dollar denominated	**7,382,868**	**7,480,676**	**147,151**	**153,221**	**10,755,810**	**9,914,106**
Foreign currency denominated:						
Government/sovereign	165,557				1,314,611	1,325,283
Corporate	6,405	6,437			83,729	68,809
Foreign currency denominated	**171,962**	**6,437**			**1,398,340**	**1,394,092**
Commingled funds:						
Absolute return funds	1,082,248	518,693	298,691	204,628		
Balanced funds			724,387	616,777		
U.S. equity funds	31,838		429,853	297,484	337,051	165,655
Non-U.S. equity funds	501,657	356,785	579,511	404,993	2,446,242	1,147,414
U.S. bond funds	36,887	34,800	207,542	195,062		
Non-U.S. bond funds			7,879	9,306		
Real estate investment trusts			16,074		31,948	
Money market funds	25,187	10,127	395,711	372,968	493,826	583,432
Commingled funds	**1,677,817**	**920,405**	**2,659,648**	**2,101,218**	**3,309,067**	**1,896,501**
Private equity	358,006	210,366	228,923	170,821	1,315,246	888,217
Mortgage loans	395,791	246,741	7,893	6,752		
Insurance contracts					745,468	712,681
Real estate	208,630	105,576	146,519	85,411	633,081	229,968
Equitized market neutral investments	54,642	49,607	5,796		528,843	459,476
Externally held irrevocable trusts	238,642	216,570	63,732	59,317		
Other investments	6,446	6,131	147,922	116,331		
Campus foundations' investments with the University	(1,130,817)	(938,304)				
UCRS investment in the STIP	(223,959)	(195,355)				
Total investments	**14,210,035**	**13,244,165**	**4,036,489**	**3,363,998**	**$59,685,467**	**$53,866,319**
Less: Current portion	(2,574,989)	(4,019,551)	(376,666)	(332,033)		
Noncurrent portion	**$11,635,046**	**$ 9,224,614**	**$3,659,823**	**$3,031,965**		

Investment Risk Factors

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

Credit Risk

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments. Certain fixed income securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody's Investors Service (Moody's) or Standard and Poor's (S&P). The lower the rating, the greater the chance—in the rating agency's opinion—that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

The investment guidelines for the STIP recognize that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk adjusted return over its benchmark (the benchmark for the STIP, the two-year Treasury note, has no credit risk). No more than 5 percent of the total market value of the STIP portfolio may be invested in securities rated below investment grade (BB, Ba or lower). The average credit quality of the STIP must be A or better and commercial paper must be rated at least A-1, P-1 or F-1.

The University recognizes that credit risk is appropriate in balanced investment pools such as the UCRS and GEP by virtue of the benchmarks chosen for the fixed income portion of those pools. Those fixed income benchmarks, the Citigroup Large Pension Fund Index and Lehman Aggregate Index, respectively, are comprised of approximately 30 percent high grade corporate bonds and 30-35 percent mortgage/asset-backed securities, all of which carry some degree of credit risk. The remaining 35-40 percent are government-issued bonds. Credit risk in the UCRS and GEP is managed primarily by diversifying across issuers, and portfolio guidelines mandate that no more than 10 percent of the market value of fixed income securities may be invested in issues with credit rating below investment grade. Further, the weighted average credit rating must be A or higher.

In addition, the investment policy for both the UCRP and the GEP allows for dedicated allocations to non-investment grade and emerging market bonds, investment in which entails credit, default and/or sovereign risk.

The credit risk profile for fixed or variable income securities at June 30, 2007 and 2006 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2007	2006	2007	2006	2007	2006
Fixed or variable income securities:						
U.S. government guaranteed	$1,804,726	$1,789,838	$138,123	$ 89,444	$5,678,657	$5,831,131
Other U.S. dollar denominated:						
AAA	2,944,380	2,329,189	98,623	96,239	5,950,651	5,420,532
AA	885,069	944,285	5,791	2,744	254,508	165,247
A	906,378	629,152	9,574	13,155	778,789	1,357,097
BBB	1,127,045	663,194	13,406	23,901	1,452,401	1,402,909
BB	144,042	87,307	8,723	9,724	918,892	895,223
B	127,643	1,912	97	5,162	932,309	253,499
CCC	559				4,233	34,506
CC						794
D						69,828
A-1 / P-1 / F-1	1,245,777	2,825,637			464,027	314,471
Not rated	1,975		10,937	2,296		
Foreign currency denominated:						
AAA						596,879
AA	165,557				1,314,611	669,442
A		6,437			25,824	127,675
BBB	2,566				25,527	
B	3,839				32,378	
Not rated						96
Commingled funds:						
U.S. bond funds: Not rated	36,887	34,800	207,542	195,062		
Non-U.S. bond funds: Not rated			7,879	9,306		
Money market funds: Not rated	25,187	10,127	395,711	372,968	493,826	583,432
Mortgage loans: Not rated	395,791	246,741	7,893	6,752		
Insurance contracts: Not rated					745,468	712,681

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned.

The University's and the UCRS' securities are registered in the University's name by the custodial bank as an agent for the University. Other types of investments represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

Some of the investments at certain of the campus foundations are exposed to custodial credit risk. These investments may be uninsured, or not registered in the name of the campus foundation and held by a custodian.

Custodial credit risk exposure related to investments is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2007	**2006**
Equity securities:		
Domestic	$173,916	$200,454
Foreign	20,397	16,286
Fixed or variable income securities:		
U.S. government guaranteed:		
U.S. Treasury bills, notes and bonds	98,041	42,123
U.S. government-backed securities		1,782
Other U.S. dollar denominated:		
Corporate bonds		11,247
U.S. agencies	3,625	18,017
Corporate–asset-backed securities		467
Custodial credit risk exposure	**$295,979**	**$290,376**

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments.

The U.S. and non-U.S. equity portions of the University and UCRS portfolios may be managed either passively or actively. For the portion managed passively, the concentration of individual securities is exactly equal to their concentration in the benchmark. While some securities have a larger representation in the benchmark than others, the University considers that passive management results in an absence of concentration of credit risk. For the portion managed actively, asset class guidelines do not specifically address concentration risk, but do state that the U.S. equity asset class, in the aggregate, will be appropriately diversified to control overall risk and will exhibit portfolio characteristics similar to the asset class benchmark (including concentration of credit risk). Concentration risk for individual portfolios is monitored relative to their individual benchmarks and agreed-upon risk parameters in their guidelines.

Investment guidelines addressing concentration of credit risk related to the investment-grade fixed income portion of the University and UCRS portfolios include a limit of no more than 3 percent of the portfolio's market value to be invested in any single issuer (except for securities issued by the U.S. government or its agencies). These same guidelines apply to the STIP. For high-yield and emerging market debt, the corresponding limit is 5 percent.

Each campus foundation may have its own individual investment policy designed to limit exposure to a concentration of credit risk.

Investments in issuers other than U.S. government guaranteed securities that represent 5 percent or more of total investments at June 30, 2007 and 2006 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2007	**2006**	**2007**	**2006**
Federal National Mortgage Association	$ 1,292,560	$ 1,151,309	$ 67,061	$ 53,686
Federal Home Loan Mortgage Association	1,226,887	805,423		
Vanguard S&P 500 Index Fund			30,215	25,064
Gryphon International EAFE Growth Fund			29,414	
Silchester International Value Equity Trust			28,947	
Dodge and Cox International Stock Fund			28,836	

Interest Rate Risk

Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis point (1 percentage point) change in the level of interest rates. It is not a measure of time.

Interest rate risk for the STIP is managed by constraining the maturity of all individual securities to be less than five and one-half years. There is no restriction on weighted average maturity of the portfolio as it is managed relative to the liquidity demands of the investors. The nature and maturity of individual securities in the STIP allow for the use of weighted average maturity as an effective risk management tool, rather than the more complex measure, effective duration.

Portfolio guidelines for the fixed income portion of the UCRS and GEP limit weighted average effective duration to the effective duration of the benchmarks (Citigroup Large Pension Fund Index and Lehman Aggregate Index, respectively), plus or minus 20 percent. This constrains the potential price movement due to interest rate changes of the portfolio to be similar to that of the benchmark. There are similar restrictions for the high-yield and emerging market debt portfolios relative to their benchmarks.

The effective durations for fixed or variable income securities at June 30, 2007 and 2006 are as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2007	2006	2007	2006	2007	2006
Fixed or variable income securities:						
U.S. government guaranteed:						
U.S. Treasury bills, notes and bonds	1.6	2.5	4.4	3.2	1.2	2.6
U.S. Treasury strips	13.6	10.8			12.3	12.4
U.S. TIPS	5.4	5.1			5.4	5.1
U.S. government-backed securities	6.3	6.6	3.6	3.9	6.3	6.6
U.S. government-backed–asset-backed securities		5.1	3.3	3.2		4.6
Other U.S. dollar denominated:						
Corporate bonds	2.3	2.4	4.4	5.1	7.1	7.6
Commercial paper	0.0	0.0			0.0	0.0
U.S. agencies	1.3	1.1	2.6	2.8	1.7	1.9
U.S. agencies–asset-backed securities	5.3	4.6	3.9	3.6	5.3	4.6
Corporate–asset-backed securities	1.7	8.4	0.6	1.3	1.8	9.4
Supranational / foreign	2.5	2.0	1.0	1.8	7.0	6.8
Other	0.9	8.8	3.0	2.0		13.5
Foreign currency denominated:						
Government/sovereign	6.3				6.3	6.2
Corporate	12.4	27.1			10.0	12.7
Commingled funds:						
U.S. bond funds	4.7	4.8	4.9	5.0		
Non-U.S. bond funds			5.7	5.9		
Money market funds	0.0	0.0	1.2	1.1	1.2	1.1
Mortgage loans	0.0	0.0		0.0		
Insurance contracts					0.0	0.0

The University considers the effective durations for commercial paper, mortgage loans, insurance contracts and money market funds, with the exception of the STIP, to be zero. The terms of the mortgage loans include variable interest rates, insurance contracts can be liquidated without loss of principal and money market funds have a constant $1 share value due to the short-term, liquid nature of the underlying securities.

Investments may also include various mortgage-backed securities, collateralized mortgage obligations, structured notes, variable-rate securities, callable bonds and convertible bonds that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the effective durations of these securities may be low.

At June 30, 2007 and 2006, the fair values of such investments are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2007	2006	2007	2006	2007	2006
Mortgage-backed securities	$ 263,559	$ 372,010	$ 69,504	$ 72,678	$ 2,660,065	$ 1,922,793
Collateralized mortgage obligations		68,151	12,185	13,618	54,439	515,205
Other asset-backed securities			10,868	2,409		
Variable-rate securities	566,833				30,898	
Callable bonds	1,992,692	736,511	798	1,095	2,432,952	715,613
Total	**$2,823,084**	**$1,176,672**	**$93,355**	**$89,800**	**$5,178,354**	**$3,153,611**

Mortgage-Backed Securities. These securities are issued primarily by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Association (Freddie Mac) and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

Collateralized Mortgage Obligations. Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the opposite is true.

Other Asset-Backed Securities. Other asset-backed securities also generate a return based upon either the payment of interest or principal on obligations in an underlying pool, generally associated with auto loans or credit cards. As with CMOs, the relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates.

Variable-Rate Securities. These securities are investments with terms that provide for the adjustment of their interest rates on set dates and are expected to have fair values that will be relatively unaffected by interest rate changes. Variable-rate securities may have limits on how high or low the interest rate may change. These constraints may affect the market value of the security.

Callable Bonds. Although bonds are issued with clearly defined maturities, an issuer may be able to redeem, or call, a bond earlier than its maturity date. The University must then replace the called bond with a bond that may have a lower yield than the original. The call feature causes the fair value to be highly sensitive to changes in interest rates.

At June 30, 2007 and 2006, the effective durations for these securities are as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2007	2006	2007	2006	2007	2006
Mortgage-backed securities	4.0	6.1	2.7	2.8	3.9	7.7
Collateralized mortgage obligations		3.5	1.9	2.3	5.9	3.8
Other asset-backed securities			0.7	1.3		
Variable-rate securities	0.5				2.6	
Callable bonds	1.7	1.5	4.6	4.2	3.0	3.7

Foreign Currency Risk

The University's strategic asset allocation policy for the UCRS and GEP include allocations to non-U.S. equities and non-dollar denominated bonds. The benchmarks for these investments are not hedged, therefore foreign currency risk is an essential part of the investment strategies. Portfolio guidelines for U.S. investment-grade fixed income securities also allow exposure to non-U.S. dollar denominated bonds up to 10 percent of the total portfolio market value. Exposure to foreign currency risk from these securities is permitted and it may be fully or partially hedged using forward foreign currency exchange contracts. Under the University's investment policies, such instruments are not permitted for speculative use or to create leverage. Similar limits on foreign exchange exposure apply to the high-yield debt and emerging market debt portfolios (10 percent and 20 percent, respectively).

At June 30, 2007 and 2006, the foreign currency risk expressed in U.S. dollars, organized by currency denomination and investment type, is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2007	2006	2007	2006	2007	2006
Equity securities						
Euro	$ 463,157	$ 367,499	$ 30,296	$ 30,672	$ 3,074,584	$ 2,487,647
British Pound	285,180	263,801	23,012	25,882	1,916,670	1,801,308
Japanese Yen	245,627	246,175	25,421	25,662	1,700,580	1,749,324
Swiss Franc	96,028	82,850	10,169	8,353	612,655	546,206
Canadian Dollar	70,258	61,319	2,895	2,673	547,320	494,698
Australian Dollar	63,433	50,169	2,736	2,391	461,674	365,805
Swedish Krona	28,604	19,900		1,020	200,654	150,954
Hong Kong Dollar	30,466	27,562	3,947	4,640	183,220	162,195
Singapore Dollar	14,905	11,519	1,201	1,731	96,989	72,992
Norwegian Krone	11,280	8,819	845	396	80,199	61,473
Danish Krone	8,502	6,359	1,007	941	62,915	48,244
South Korean Won	4,826	3,872	1,434	1,311	20,452	16,043
New Zealand Dollar	2,637	1,266			17,062	9,813
South African Rand	1,677	2,085		343	7,105	8,639
Thai Baht	2,017	1,431	533		8,547	5,931
Other	2,033	1,117	21,250	12,663	8,615	4,628
Subtotal	**1,330,630**	**1,155,743**	**124,746**	**118,678**	**8,999,241**	**7,985,900**
Fixed income securities:						
Euro	88,094				701,342	657,968
Japanese Yen	56,438				448,145	485,715
British Pound	12,609				100,204	91,941
Canadian Dollar	6,759	6,437			84,637	100,857
Polish Zloty	1,683				13,362	8,327
Danish Krone	1,528				12,132	11,857
Swiss Franc	1,499				11,904	11,479
Swedish Krona	1,467				11,646	13,523
Australian Dollar	713				5,660	4,948
Singapore Dollar	627				4,977	4,232
Norwegian Krone	545				4,331	3,245
Subtotal	**171,962**	**6,437**			**1,398,340**	**1,394,092**
Commingled funds:						
Various currency denominations:						
Balanced funds			198,684	146,160		
Non-U.S. equity funds	501,657	356,785	523,261	362,304	2,446,242	1,147,414
Non-U.S. bond funds			2,999	5,742		
Real estate investment trusts			3,391			
Subtotal	**501,657**	**356,785**	**728,335**	**514,206**	**2,446,242**	**1,147,414**
Total exposure to foreign currency risk	**$2,004,249**	**$1,518,965**	**$853,081**	**$632,884**	**$12,843,823**	**$10,527,406**

Futures, Forward Contracts, Options and Swaps

The University may include futures, forward contracts, options and swap contracts in its investment portfolios. The Board of Trustees for each campus foundation may also authorize these contracts in its investment policy.

The University enters into futures contracts for the purpose of acting as a substitute for investment in equity and fixed income securities. A futures contract is an agreement between two parties to buy and sell a security or financial index, interest rate or foreign currency at a set price on a future date. They are standardized contracts that can be easily bought and sold and are exchange-traded. Upon entering into such a contract, the University is required to pledge to the broker an amount of cash or securities equal to the minimum initial margin requirements of the exchange on which the contract is traded. Pursuant to the contract, the University agrees to receive from, or pay to, the counterparty an amount of cash equal to the daily fluctuation in the value of the contract. Since these contracts are settled on a daily basis, with the resulting realized gain or loss included in the statement of revenues, expenses and changes in net assets, there is no fair value for these contracts at the end of the year included in the statement of net assets. Forward contracts are similar to futures, except they are custom contracts and are not exchange-traded. They are the primary instrument used in currency management.

An option contract gives the University the right, but not the obligation, to buy or sell a specified security or index at a fixed price during a specified period for a nonrefundable fee (the "premium"). The maximum loss to the University is limited to the premium originally paid for covered options. The University records premiums paid for the purchase of these options in the statement of net assets as an investment which is subsequently adjusted to reflect the fair value of the options, with unrealized gains and losses included in the statement of revenues, expenses and changes in net assets. Neither the University nor the UCRS held any option contracts at June 30, 2007 or June 30, 2006.

A swap is a contractual agreement entered into between the University and a counterparty under which each agrees to exchange periodic fixed or variable payments for an agreed period of time based upon a notional amount of principal or value of the underlying contract. The payments correspond to an equity index, interest rate or currency. The University records interest rate swaps entered into for investment purposes at fair value, with unrealized gains and losses included in the statement of revenues, expenses and changes in net assets. Neither the University nor the UCRS held any interest rate swap contracts at June 30, 2007 or June 30, 2006.

The University could be exposed to risk if the counterparty to the contracts was unable to meet the terms of the contracts. Counterparty credit risk is limited to a receivable due to the variation margin in futures contracts, or to the ability of the counterparty to meet the terms of an option contract that the University may exercise. Either risk is remote for exchange-traded contracts. Additional risk may arise from futures contracts traded in non-U.S. markets as the foreign futures contracts are cleared on, and subject to, the rules of foreign boards of trade. In addition, funds provided for foreign futures contracts may not be afforded the same protection as funds received in respect of U.S. transactions. The University seeks to control counterparty credit risk in all derivative contracts that are not exchange-traded through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures undertaken by the Chief Investment Officer.

The University's Investment Pools

The composition of the University of California's investments at June 30, 2007, by investment pool, is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA			
	STIP	GEP	OTHER	TOTAL
Equity securities:				
Domestic		$ 1,831,790	$ 102,861	$ 1,934,651
Foreign		1,310,021	20,609	1,330,630
Fixed or variable income securities:				
U.S. government guaranteed	$ 1,293,841	467,816	43,069	1,804,726
Other U.S. dollar denominated	6,528,051	791,706	63,111	7,382,868
Foreign currency denominated		171,962		171,962
Commingled funds		1,608,845	68,972	1,677,817
Private equity		350,991	7,015	358,006
Mortgage loans	395,579		212	395,791
Real estate		194,548	14,082	208,630
Externally held irrevocable trusts			238,642	238,642
Equitized market neutral investments		54,642		54,642
Other investments			6,446	6,446
Subtotal	**8,217,471**	**6,782,321**	**565,019**	**15,564,811**
Campus foundations' investments with the University	(415,116)	(606,513)	(109,188)	(1,130,817)
UCRS investment in the STIP	(223,959)			(223,959)
Total investments	**$7,578,396**	**$ 6,175,808**	**$455,831**	**$ 14,210,035**

The total investment return based upon unit values, representing the combined income plus net appreciation or depreciation in the fair value of investments, for the year ended June 30, 2007 was 19.8 percent for the GEP and 17.7 percent for the UCRS. The investment return for the STIP distributed to participants, representing combined income and realized gains or losses, during the same period, was 4.7 percent. Other investments consist of numerous, small portfolios of investments, or individual securities, each with its individual rate of return.

Related Party Relationships with the University

The UCRS and campus foundations may invest available cash in the STIP. Shares are purchased or redeemed in the STIP at a constant value of $1 per share. Actual income earned, including any realized gains or losses on the sale of the STIP investments, is allocated to the UCRS and campus foundations based upon the number of shares held. Unrealized gains and losses associated with the fluctuation in the fair value of investments included in the STIP are recorded by the University of California as the manager of the pool.

The campus foundations may purchase or redeem shares in the GEP or other investment pools at the unitized value of the portfolio at the time of purchase or redemption. Actual income earned is allocated to the campus foundations based upon the number of shares held.

Campus Foundations

Campus foundations' cash and cash equivalents and investments that are invested with the University and managed by the Chief Investment Officer are excluded from the University's statement of net assets and included in the campus foundations' statement of net assets. Under the accounting policies elected by each separate foundation, certain foundations classify all or a portion of their investment in the STIP as cash and cash equivalents, rather than investments. Substantially all of the campus foundations' investments managed by the Chief Investment Officer are categorized as commingled funds by the campus foundations in the composition of investments.

The fair value of the campus foundations' cash and cash equivalents and investments that are invested with the University, by investment pool, at June 30, 2007 and 2006 is as follows:

(in thousands of dollars)

	2007	2006
STIP	$ 415,116	$ 356,862
GEP	606,513	510,446
Other investment pools	109,188	70,996
Campus foundations' investments with the University	**1,130,817**	**938,304**
Classified as cash and cash equivalents by campus foundations	(44,416)	(13,626)
Classified as investments by campus foundations	**$1,086,401**	**$924,678**

Endowment investment income in the University's statement of revenues, expenses and changes in net assets is net of income earned by, and distributed to, the campus foundations totaling $33.9 million and $27.7 million for the years ending June 30, 2007 and 2006, respectively.

The UCRS

The UCRS had $224.0 million and $195.4 million invested in the STIP at June 30, 2007 and 2006, respectively. These investments are also excluded from the University's statement of net assets and are included in the UCRS' statement of plans' fiduciary net assets and categorized as commingled funds in the composition of investments. The STIP investment income in the University's statement of revenues, expenses and changes in net assets is net of income earned by, and distributed to, the UCRS totaling $6.6 million and $15.1 million for the years ended June 30, 2007 and 2006, respectively.

Agency Relationships with the University

The STIP and GEP are external investment pools and include investments on behalf of external organizations that are associated with the University, although not significant or financially accountable to the University. These organizations are not required to invest in these pools. As with the UCRS and campus foundations, participants purchase or redeem shares in the STIP at a constant value of $1 per share and purchase or redeem shares in the GEP at the unitized value of the portfolio at the time of purchase or redemption. Actual income earned is allocated to participants based upon the number of shares held.

The fair value of these investments in each investment pool and the related liability associated with these organizations that are included in the University's statement of net assets at June 30, 2007 and 2006 are as follows:

(in thousands of dollars)

	2007	2006
Short-term investments:		
STIP	$ 101,122	$ 101,482
GEP	152,781	129,221
Other investment pools	23,042	22,059
Total agency assets	**$276,945**	**$252,762**
Funds held for others	**$276,945**	**$252,762**

The composition of the net assets at June 30, 2007 and 2006 for the STIP and GEP is as follows:

(in thousands of dollars)

	STIP		GEP	
	2007	2006	2007	2006
Investments	$ 8,217,471	$ 7,976,070	$ 6,782,321	$ 5,900,570
Investment of cash collateral	3,452,672	2,438,128	1,352,127	1,199,512
Securities lending collateral	(3,452,720)	(2,438,479)	(1,352,193)	(1,199,629)
Other assets (liabilities), net	154,211	211,170	(28,898)	(235,676)
Net assets	**$8,371,634**	**$8,186,889**	**$6,753,357**	**$5,664,777**

The changes in net assets for the STIP and GEP for the years ending June 30, 2007 and 2006 are as follows:

(in thousands of dollars)

	STIP		GEP	
	2007	2006	2007	2006
Net assets, beginning of year	$ 8,186,889	$ 7,923,839	$ 5,664,777	$ 5,153,774
Investment income	390,815	346,615	167,916	135,263
Net appreciation (depreciation) in fair value of investments	56,586	(112,104)	891,003	401,586
Participant contributions (withdrawals), net	(262,656)	28,539	29,661	(25,846)
Net assets, end of year	**$8,371,634**	**$8,186,889**	**$6,753,357**	**$5,664,777**

3. SECURITIES LENDING

The University and the UCRS jointly participate in a securities lending program as a means to augment income. Campus foundations' cash and cash equivalents and investments that are invested with the University and managed by the Chief Investment Officer are included in the University's investment pools that participate in a securities lending program. The campus foundations' allocated share of the program's cash collateral received, investment of cash collateral and collateral held for securities lending is determined based upon their equity in the investment pools. The Board of Trustees for each campus foundation may also authorize participation in a direct securities lending program.

Securities are lent to selected brokerage firms for which collateral received equals or exceeds the fair value of such investments during the period of the loan. Securities loans immediately terminate upon notice by either the University or the borrower. Collateral may be cash or securities issued by the U.S. government or its agencies, or the sovereign or provincial debt of foreign countries. Collateral securities cannot be pledged or sold by the University unless the borrower defaults.

Loans of domestic equities and all fixed income securities are initially collateralized at 102 percent of the fair value of securities lent. Loans of foreign equities are initially collateralized at 105 percent. All borrowers are required to provide additional collateral by the next business day if the value of the collateral falls to less than 100 percent of the fair value of securities lent.

Cash collateral received from the borrower is invested by lending agents, as agents for the University, in investment pools in the name of the University, with guidelines approved by the University. These investments are shown as investment of cash collateral in the statement of net assets. At June 30, 2007 and 2006, the securities in these pools had a weighted average maturity of 62 and 34 days, respectively. The University records a liability for the return of the cash collateral shown as collateral held for securities lending in the statement of net assets. Securities collateral received from the borrower is held in investment pools by the University's custodial bank.

At June 30, 2007, the University had no exposure to borrowers because the amounts the University owed the borrowers exceeded the amounts the borrowers owed the University. The University is fully indemnified by its lending agents against any losses incurred as a result of borrower default.

The composition of the securities lending programs at June 30, 2007 and 2006 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2007	2006	2007	2006	2007	2006
SECURITIES LENT						
For cash collateral:						
Equity securities:						
Domestic	$ 440,475	$ 383,934	$ 45,812	$ 49,531	$ 5,234,310	$ 4,108,073
Foreign	350,787	283,707			2,377,126	1,929,957
Fixed income securities:						
U.S. government guaranteed	1,680,926	1,628,894			5,131,402	5,125,299
Other U.S. dollar denominated	2,298,331	1,318,482			3,370,627	2,535,427
Foreign currency denominated					354,387	
Campus foundations' share	(319,553)	(230,088)	319,553	230,088		
Lent for cash collateral	**4,450,966**	**3,384,929**	**365,365**	**279,619**	**16,467,852**	**13,698,756**
For securities collateral:						
Equity securities:						
Domestic	8,058	1,271		447	124,118	15,942
Foreign	23,988	14,785			116,892	75,523
Fixed income securities:						
U.S. government guaranteed	103,125	111,409			274,306	421,856
Other U.S. dollar denominated	9,377	2,155			595	9,479
Foreign currency denominated					7,431	
Lent for securities collateral	**144,548**	**129,620**		**447**	**523,342**	**522,800**
Total securities lent	**$4,595,514**	**$3,514,549**	**$365,365**	**$280,066**	**$16,991,194**	**$14,221,556**
COLLATERAL RECEIVED						
Cash	$ 4,873,507	$ 3,685,888	$ 47,600	$ 50,372	$ 16,884,510	$ 13,994,062
Campus foundations' share	(319,553)	(230,088)	319,553	230,088		
Total cash collateral received	**4,553,954**	**3,455,800**	**367,153**	**280,460**	**16,884,510**	**13,994,062**
Securities	166,633	137,473		425	615,356	551,463
Total collateral received	**$4,720,587**	**$3,593,273**	**$367,153**	**$280,885**	**$17,499,866**	**$14,545,525**
INVESTMENT OF CASH COLLATERAL						
Fixed income securities:						
Other U.S. dollar denominated:						
Corporate bonds	$ 739,151	$ 725,048	$ 11,583	$ 10,000	$ 2,589,606	$ 2,686,754
Commercial paper	1,095,415	310,425			3,265,950	1,050,545
Repurchase agreements	987,675	1,550,221	175	8,032	4,656,318	6,429,468
Corporate–asset-backed securities	712,550	464,674	3,226	9,347	2,368,214	1,680,586
Certificates of deposit/time deposits	822,400	526,415	24,074	9,995	2,451,964	1,781,506
Supranational/foreign	502,293	119,272			1,497,572	403,643
Other			8,542	12,998		
Commingled funds–money market funds	2,754	173			26,810	1,656
Other assets (liabilities), net	11,154	(10,816)			27,373	(41,573)
Campus foundations' share	(319,553)	(230,088)	319,553	230,088		
Investment of cash collateral	**4,553,839**	**3,455,324**	**367,153**	**280,460**	**$16,883,807**	**$13,992,585**
Less: Current portion	(3,042,293)	(2,227,050)	(261,084)	(198,670)		
Noncurrent portion	**$1,511,546**	**$1,228,274**	**$106,069**	**$ 81,790**		

The University earns interest and dividends on the collateral held during the loan period, as well as a fee from the brokerage firm, and is obligated to pay a fee and rebate to the borrower. The University receives the net investment income. The securities lending income and fees and rebates for the years ended June 30, 2007 and 2006 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2007	2006	2007	2006	2007	2006
Securities lending income	$ 193,341	$ 136,239	$ 17,074	$ 10,823	$ 914,913	$ 590,520
Securities lending fees and rebates	(187,003)	(130,863)	(16,509)	(10,388)	(882,466)	(566,281)
Securities lending investment income, net	**$ 6,338**	**$ 5,376**	**$ 565**	**$ 435**	**$ 32,447**	**$ 24,239**

Investment Risk Factors

There are a variety of potential risk factors involved in a securities lending program. Risks associated with the investment of cash collateral may include the credit risk from fixed income securities, concentration of credit risk, interest rate risk and foreign currency risk. In addition, there may be custodial credit risk associated with both cash and securities received as collateral for securities lent.

The University and the UCRS investment policies and other information related to each of these risks are summarized below. Campus foundations that participate in a securities lending program may have their own individual investment policies designed to limit the same risks.

Credit Risk

The University's and the UCRS' investment policies for the investment of cash collateral maintained in separately managed collateral pools restrict the credit rating of issuers to no less than A-1, P-1 or F-1 for short term securities and no less than A2/A for long term securities. Asset-backed securities must have a rating of AAA.

The credit risk profile for fixed or variable income securities associated with the investment of cash collateral at June 30, 2007 and 2006 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2007	2006	2007	2006	2007	2006
Fixed or variable income securities:						
Other U.S. dollar denominated:						
AAA	$ 745,939	$ 621,457	$ 8,270	$ 10,347	$2,543,895	$2,211,164
AA	88,165	196,140	23,085	20,496	324,384	723,687
AA-	137,924	279,403			430,222	945,562
A+	429,445	296,975			1,409,690	1,005,019
A	61,685	53,115	16,070	11,497	241,678	352,867
BBB	6,122				60,359	
A1+	1,811,075	1,350,568			5,399,672	4,570,433
A-1 / P-1 / F-1	1,473,965	897,469			5,382,957	3,558,171
Not rated	105,164	928	175	8,032	1,036,767	665,599
Commingled funds:						
Money market funds: Not rated	2,754	173			26,810	1,656
Other assets (liabilities), net: Not rated	11,154	(10,816)			27,373	(41,573)
Campus foundations' share	(319,553)	(230,088)	319,553	230,088		

Custodial Credit Risk

Cash collateral received for securities lent is invested in pools by the University's lending agents. The University of California and the UCRS securities related to the investment of cash collateral are registered in the University's name by the lending agents. Securities collateral received for securities lent are held in investment pools by the University's lending agents. As a result, custodial credit risk is remote.

Concentration of Credit Risk

The University's and the UCRS' investment policy with respect to the concentration of credit risk associated with the investment of cash collateral in the separately managed collateral pools restrict investments in any single issuer of corporate debt securities, time deposits, certificates of deposit, bankers acceptances and money market funds to no more than 5 percent of the portfolio value. The campus foundation that directly participates in a securities lending program does not have a specific investment policy related to concentration of credit risk, although the lending agreement with the agent establishes restrictions for the type of investments and minimum credit ratings.

Investments in issuers other than U.S. government guaranteed securities that represent 5 percent or more of the total investment of cash collateral at June 30, 2007 and 2006 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2007	2006	2007	2006	2007	2006
Goldman Sachs		$ 285,652				$1,339,348
Deutsche Bank Securities		244,057	$ 3,009			825,943
JP Morgan Chase		235,992				798,648
Lehman Brothers		214,405				725,595
Salomon Brothers		188,175				
Fortis		182,473				
U.S. Bancorp		173,799				
Bank of America	$ 236,973	173,091				
Morgan Stanley				$ 8,056		
General Electric Capital Corporation			3,039			
Nordea Bank			3,011			
Bank of Ireland			3,008			
Calyon (CIB)			3,007			
Campus foundations' share	(15,539)	(105,791)	15,539	105,791		

Interest Rate Risk

The nature of individual securities in the collateral pools allows for the use of weighted average maturity as an effective risk management measure. The University's and the UCRS' investment policy with respect to the interest rate risk associated with the investment of cash collateral in the separately managed collateral pools requires the weighted average maturity of the entire collateral pool to be less than 120 days. The maturity of securities issued by the U.S. government and asset-backed securities must be less than five years, corporate debt obligations must be less than two years and time deposits must be less than 190 days. Floating rate debt may be used, but it is limited to 65 percent of the market value of the portfolio.

The weighted average maturity expressed in days for fixed or variable income securities associated with the investment of cash collateral at June 30, 2007 and 2006 is as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2007	2006	2007	2006	2007	2006
Fixed or variable income securities:						
Other U.S. dollar denominated:						
Corporate bonds	53	43	25	44	75	43
Commercial paper	141	149			141	149
Repurchase agreements	3	3	2	3	2	3
Corporate–asset-backed securities	39	16	25	25	67	16
Certificates of deposit/time deposits	84	62	15	13	84	62
Supranational/foreign	60	34			60	34
Other			32	17		
Commingled funds:						
Money market funds	2	3			2	3

Investment of cash collateral may include various asset-backed securities, structured notes and variable-rate securities that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features, although the weighted average maturity may be short.

At June 30, 2007 and 2006, the fair value of investments that are considered to be highly sensitive to changes in interest rates is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2007	2006	2007	2006	2007	2006
Other asset-backed securities	$ 712,546	$ 464,674	$ 3,226	$ 9,347	$ 2,368,218	$ 1,680,586
Variable-rate investments	826,951	892,115			2,723,356	3,246,290
Campus foundations' share	(100,946)	(84,551)	100,946	84,551		
Total	**$1,438,551**	**$1,272,238**	**$104,172**	**$93,898**	**$5,091,574**	**$4,926,876**

At June 30, 2007 and 2006, the weighted average maturity expressed in days for asset-backed securities was 56 days and 16 days, respectively, and for variable-rate investments was 26 days and 40 days, respectively.

Foreign Currency Risk

The University's and the UCRS' investment policy with respect to the foreign currency risk associated with the investment of cash collateral maintained in separate collateral pools restricts investments to U.S. dollar denominated securities. Therefore, there is no foreign currency risk.

4. INVESTMENTS HELD BY TRUSTEES

The University has entered into agreements with trustees to maintain trusts for the University's self-insurance programs, long-term debt requirements, capital projects and certain other requirements. In addition, the state of California retains on deposit certain proceeds from the sale of lease-revenue bonds to be used for capital projects. The combined fair value of all of the investments and deposits held by trustees was $793.7 million and $759.7 million at June 30, 2007 and 2006, respectively.

Self-Insurance Programs

Investments held by trustees for self-insurance programs include separate trusts for the workers' compensation and professional medical and hospital liability programs. Securities are held by the trustee in the name of the University. The trust agreements permit the trustee to invest in U.S. and state government or agency obligations, corporate debt securities, commercial paper or certificates of deposit.

The composition of cash and investments and effective duration associated with fixed income securities for self-insurance programs at June 30, 2007 and 2006, respectively, is as follows:

(in thousands of dollars)

	INVESTMENTS AT FAIR VALUE		EFFECTIVE DURATION	
	2007	2006	2007	2006
Cash	$ 2,371	$ 1,956	0.0	0.0
U.S. government guaranteed:				
U.S. Treasury bills, notes and bonds				
U.S. government-backed–asset-backed securities	35,609	38,184	3.6	3.7
Other U.S. dollar denominated:				
Corporate–asset-backed securities	86,031	62,763	1.7	2.2
U.S. agencies–asset-backed securities	404,541	373,228	3.4	3.5
Commingled funds–money market funds	6,704	20,133	0.0	0.0
Total	**$535,256**	**$496,264**		

Asset-backed securities, generally collateralized mortgage obligations, with underlying government agency collateral or credit ratings ranging from A to AAA, are utilized within the investment constraints in order to enhance investment returns over other high-grade fixed income asset classes.

Long-Term Debt

Investments held by trustees for future payment of principal and interest in accordance with various indenture and other long-term debt requirements totaled $89.4 million and $96.0 million at June 30, 2007 and 2006, respectively.

The state financing appropriations to the University are deposited in commingled U.S. bond funds managed by the State of California Treasurer's Office, as trustee, and used to satisfy the annual lease requirements under lease-purchase agreements with the state. The fair value of these deposits was $77.0 million and $80.8 million at June 30, 2007 and 2006, respectively.

In addition, other securities held by trustees are held in the name of the University. These trust agreements permit trustees to invest in U.S. and state government or agency obligations, commercial paper or other corporate obligations meeting certain credit rating requirements. The fair value of these investments was $12.4 million and $15.2 million at June 30, 2007 and 2006, respectively.

Capital Projects

Investments held by trustees to be used for capital projects totaled $168.3 million and $166.6 million at June 30, 2007 and 2006, respectively.

Proceeds from the sale of the state's lease revenue bonds to be used for financing certain of the University's capital projects are deposited in a commingled U.S. bond fund managed by the State of California Treasurer's Office, as trustee, and distributed to the University as the projects are constructed. The fair value of these deposits was $138.9 million and $130.4 million at June 30, 2007 and 2006, respectively.

In addition, proceeds from the sale of bonds and certain gifts to the University are held by trustees to be used for financing other capital projects. The fair value of these investments was $29.4 million and $36.2 million at June 30, 2007 and 2006, respectively.

Substantially all of these investments are of a highly liquid, short term nature.

University deposits into the trusts, or receipts from the trusts, are classified as an operating activity in the University's statement of cash flows if related to the self-insurance programs, or a capital and related financing activity if related to long-term debt requirements or a capital project. Deposits directly into trusts by third parties, investment transactions initiated by trustees in conjunction with the management of trust assets and payments from trusts directly to third parties are not included in the University's statement of cash flows.

5. ACCOUNTS RECEIVABLE

Accounts receivable and the allowance for uncollectible amounts at June 30, 2007 and 2006 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA					
	STATE AND FEDERAL GOVERNMENT	MEDICAL CENTERS	INVESTMENT INCOME	OTHER	TOTAL	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
At June 30, 2007						
Accounts receivable	$ 649,880	$1,023,803	$ 97,477	$ 580,798	$ 2,351,958	$ 5,893
Allowance for uncollectible amounts	(1,307)	(164,637)		(40,455)	(206,399)	
Accounts receivable, net	**$648,573**	**$ 859,166**	**$97,477**	**$540,343**	**$2,145,559**	**$5,893**
At June 30, 2006						
Accounts receivable	$ 537,731	$ 920,354	$ 77,216	$ 595,255	$ 2,130,556	$ 6,816
Allowance for uncollectible amounts	(955)	(140,298)		(34,628)	(175,881)	
Accounts receivable, net	**$536,776**	**$ 780,056**	**$77,216**	**$560,627**	**$1,954,675**	**$6,816**

The University's other accounts receivable are primarily related to private grants and contracts, physicians' professional fees, investment sales, tuition and fees and auxiliary enterprises.

The University of California campus foundations' accounts receivable are primarily related to investment income.

Adjustments to the allowance for doubtful accounts have either increased or (decreased) the following revenues for the years ended June 30, 2007 and 2006:

(in thousands of dollars)

	2007	2006
Student tuition and fees	$ (2,358)	$ (3,494)
Grants and contracts:		
Federal	(177)	(310)
State	(84)	(159)
Private	(873)	(478)
Local	13	(14)
Medical centers	(173,732)	(139,131)
Educational activities	(35,793)	(39,831)
Auxiliary enterprises	(1,052)	(611)
Other operating revenues	(1,270)	3,654

Retirement System Contribution

The state of California agreed to make contributions related to certain prior years to the University for the UCRP in annual installments over 30 years. During each of the years ended June 30, 2007 and 2006, under the terms of these agreements, the state of California contributed $11.3 million, including interest at rates ranging from 8.0 percent to 8.5 percent. At June 30, 2007 and 2006, the remaining amounts owed to the UCRP by the state were $68.9 million and $74.0 million, respectively. These amounts are recorded in the University's statement of net assets as a receivable from the state of California and as a liability owed to the UCRP.

6. PLEDGES RECEIVABLE

The composition of pledges receivable at June 30, 2007 and 2006 is summarized as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2007	2006	2007	2006
Total pledges receivable outstanding	$ 135,894	$126,808	$ 552,597	$ 541,954
Less: Unamortized discount to present value	(8,173)	(5,929)	(83,042)	(90,844)
Allowance for uncollectible pledges	(5,666)	(26,866)	(19,213)	(21,576)
Total pledges receivable, net	**122,055**	**94,013**	**450,342**	**429,534**
Less: Current portion of pledges receivable	(56,418)	(32,592)	(94,939)	(105,149)
Noncurrent portion of pledges receivable	**$ 65,637**	**$ 61,421**	**$355,403**	**$324,385**

Future pledge payments for each of the five fiscal years subsequent to June 30, 2007 and thereafter are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
Year Ending June 30		
2008	$ 60,226	$ 98,676
2009	33,547	81,665
2010	17,342	75,523
2011	14,441	76,427
2012	6,828	124,181
2013-2017	3,510	32,031
Beyond 2017		64,094
Total payments on pledges receivable	**$135,894**	**$552,597**

Adjustments to the allowance for doubtful accounts associated with pledges have either increased or (decreased) the following revenues for the years ended June 30, 2007 and 2006:

(in thousands of dollars)

	2007	2006
Private gifts	$(1,089)	$ 514
Capital gifts and grants	969	4,496

7. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2007 and 2006, along with the allowance for uncollectible amounts, are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		
		NONCURRENT					
	CURRENT	NOTES	MORTGAGES	TOTAL	CURRENT	NONCURRENT	TOTAL
At June 30, 2007							
Notes and mortgages receivable	$ 33,429	$ 268,392	$ 19,809	$ 288,201	$ 42	$ 551	$ 593
Allowance for uncollectible amounts	(5,187)	(12,616)	(128)	(12,744)			
Notes and mortgages receivable, net	**$28,242**	**$255,776**	**$19,681**	**$ 275,457**	**$ 42**	**$551**	**$593**
At June 30, 2006							
Notes and mortgages receivable	$ 34,108	$ 260,179	$ 17,217	$ 277,396	$ 389	$ 121	$ 510
Allowance for uncollectible amounts	(5,350)	(12,804)	(126)	(12,930)			
Notes and mortgages receivable, net	**$28,758**	**$ 247,375**	**$ 17,091**	**$264,466**	**$389**	**$121**	**$510**

8. DOE NATIONAL LABORATORY CONTRACTS

The DOE is financially responsible for substantially all of the liabilities incurred at the national laboratories. These include operating liabilities associated with laboratories operated and managed by the University under contracts directly with the DOE, such as third-party vendor and employee-related liabilities. They may also include the DOE's continuing obligation to the University for current and future contributions to the UCRP. In addition, the University may perform services directly for the national laboratories, or incur costs in conjunction with the transition of contracts to a successor contractor.

Receivables from the DOE at June 30, 2007 and 2006 related to the following DOE liabilities are as follows:

(in thousands of dollars)

	2007	2006
Vendor and employee-related operating costs	$ 178,899	$ 138,936
Contributions to the UCRP	17,440	
Performance of services and transition costs	13,823	9,171
Current portion of DOE receivable	**$210,162**	**$148,107**
Employee-related operating costs	$ 27,080	$ 27,473
Noncurrent portion of DOE receivable	**$ 27,080**	**$ 27,473**

Los Alamos National Security, LLC (LANS)

As of June 1, 2006, LANS became the operator and manager of the DOE's LANL. LANS current earnings or losses are dependent on the percentage of base and incentive fees earned under the terms of the contract, offset by any unallowable or disallowed costs. While the University has a 50 percent membership interest in LANS, its equity in the current earnings or losses is subject to certain limitations and special allocations of both the fees and costs. As a result, the University's equity in the current earnings or losses may range from 17 to 50 percent. For the year ending June 30, 2007 and the one-month period ending June 30, 2006, the University recorded $15.9 million and $1.3 million, respectively, as its equity in the current earnings of LANS and received $6.7 million and $959 thousand in cash distributions, respectively.

Lawrence Livermore National Security, LLC (LLNS)

On September 30, 2007, the University's contract to operate and manage LLNL for the National Nuclear Security Administration of the DOE expired. The DOE awarded the contract to a separate legal entity, Lawrence Livermore National Security, LLC (LLNS), who assumed operations at LLNL on October 1, 2007. LLNS is a joint venture between the University and industrial members to operate and manage LLNL. While the University has a 50 percent membership interest in LLNS, its equity in the current earnings or losses is subject to certain limitations and special allocations of both the fees and costs.

The University expects to report its interest in LLNS under the equity method in its financial statements. As a result, subsequent to September 30, 2007, the University will exclude the gross revenues and expenses of LLNL from its statement of revenues, expenses and changes in net assets, although it will include the University's equity in the current earnings of LLNS.

Gross revenues and expenses associated with LLNL recorded by the University for the year ended June 30, 2007 were $1.64 billion and $1.63 billion, respectively. For the year ended June 30, 2006, gross revenues and expenses were $1.65 billion and $1.64 billion, respectively. The difference of $13.9 million in 2007 and $14.0 million in 2006, represents the University's contract management fee and reimbursed costs incurred by the University.

9. CAPITAL ASSETS

The University's capital asset activity for the years ended June 30, 2007 and 2006 is as follows:

(in thousands of dollars)

	2005	ADDITIONS	DISPOSALS	2006	ADDITIONS	DISPOSALS	2007
ORIGINAL COST							
Land	$ 489,685	$ 60,828	$ (1,288)	$ 549,225	$ 68,278	$ (2,488)	$ 615,015
Infrastructure	363,306	36,934	(4,909)	395,331	30,848		426,179
Buildings and improvements	14,330,626	1,659,687	(13,135)	15,977,178	1,171,249	(23,395)	17,125,032
Equipment	4,253,820	403,813	(278,280)	4,379,353	460,961	(336,777)	4,503,537
Libraries and collections	2,788,390	122,951		2,911,341	134,169		3,045,510
Special collections	245,578	9,327	(355)	254,550	11,966	(363)	266,153
Construction in progress	3,311,500	(135,067)		3,176,433	659,645		3,836,078
Capital assets, at original cost	**$25,782,905**	**$2,158,473**	**$(297,967)**	**$27,643,411**	**$2,537,116**	**$(363,023)**	**$29,817,504**

	2005	DEPRECIATION AND AMORTIZATION	DISPOSALS	2006	DEPRECIATION AND AMORTIZATION	DISPOSALS	2007
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure	$ 163,638	$ 6,485		$ 170,123	$ 14,687		$ 184,810
Buildings and improvements	5,411,474	494,508	$ (7,202)	5,898,780	537,332	$ (18,385)	6,417,727
Equipment	2,721,917	400,104	(264,011)	2,858,010	410,856	(296,861)	2,972,005
Libraries and collections	1,955,571	95,926		2,051,497	86,133		2,137,630
Accumulated depreciation and amortization	**$10,252,600**	**$ 997,023**	**$(271,213)**	**$10,978,410**	**$1,049,008**	**$(315,246)**	**$11,712,172**
Capital assets, net	**$15,530,305**			**$16,665,001**			**$18,105,332**

10. SELF-INSURANCE, OBLIGATIONS UNDER LIFE INCOME AGREEMENTS AND OTHER LIABILITIES

The University's self-insurance and other liabilities, primarily employee leave and other compensated absences with similar characteristics, contributions owed to the UCRP by the state of California and accrued interest, at June 30, 2007 and 2006 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS			
	2007		2006		2007		2006	
	CURRENT	NONCURRENT	CURRENT	NONCURRENT	CURRENT	NONCURRENT	CURRENT	NONCURRENT
Self-insurance programs	$ 156,724	$402,857	$ 149,308	$374,912				
Obligations under life income agreements	965	$ 31,962	751	$ 20,456	$ 24,043	$157,107	$ 21,675	$141,761
Other liabilities:								
Compensated absences	376,482	$ 202,606	350,896	$ 209,398				
UCRP	5,559	63,316	5,140	68,875				
Accrued interest	53,597		64,530					
Other	235,038	85,861	227,654	73,055	903	$ 34,488	1,261	$ 32,924
Total	**$828,365**	**$351,783**	**$798,279**	**$351,328**	**$24,946**	**$ 34,488**	**$22,936**	**$ 32,924**

The UCRP has the equivalent amounts recorded as a contribution receivable from the University in its statement of fiduciary net assets.

Self-Insurance Programs

The University is self-insured 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.

Changes in self-insurance liabilities for years ended June 30, 2007 and 2006 are as follows:

(in thousands of dollars)

	MEDICAL MALPRACTICE	WORKERS' COMPENSATION	EMPLOYEE HEALTH CARE	GENERAL LIABILITY	TOTAL
Year Ended June 30, 2007					
Liabilities at June 30, 2006	$ 155,033	$ 316,071	$ 5,208	$ 47,908	$ 524,220
Claims incurred and changes in estimates	81,825	71,539	33,066	38,496	224,926
Claim payments	(57,269)	(71,388)	(34,116)	(26,792)	(189,565)
Liabilities at June 30, 2007	**$179,589**	**$316,222**	**$ 4,158**	**$59,612**	**$559,581**
Discount rate	**5.5%**	**5.0%**	**Undiscounted**	**4.5%**	
Year Ended June 30, 2006					
Liabilities at June 30, 2005	$ 154,357	$ 349,078	$ 16,178	$ 42,214	$ 561,827
Claims incurred and changes in estimates	44,563	41,781	105,659	21,601	213,604
Claim payments	(43,887)	(74,788)	(116,629)	(15,907)	(251,211)
Liabilities at June 30, 2006	**$155,033**	**$316,071**	**$ 5,208**	**$47,908**	**$524,220**
Discount rate	**6.0%**	**5.5%**	**Undiscounted**	**4.5%**	

The University increased the probability level for medical malpractice liabilities at June 30, 2007 due to an increasing degree of uncertainty. As a result, the medical malpractice liabilities at June 30, 2007 increased by $14.5 million. In addition, the University decreased the discount rate for medical malpractice and workers' compensation claims. The increase in the estimate for medical malpractice and workers' compensation claims at June 30, 2007 resulting from the decrease in the discount rate from that used at June 30, 2006 was $2.0 million and $ 4.8 million, respectively.

Obligations Under Life Income Agreements

Obligations under life income agreements represent trusts with living income beneficiaries where the University has a residual interest. The investments associated with these agreements are recorded at their fair value. The discounted present value of any income beneficiary interest is reported as a liability in the statement of net assets. Gifts subject to such agreements are recorded as revenue, net of the income beneficiary share, at the date of the gift. Actuarial gains and losses are included in other nonoperating income (expense) in the statement of revenues, expenses and changes in net assets. Resources that are expendable upon maturity are classified as restricted, expendable net assets; all others are classified as restricted, nonexpendable net assets.

Changes in current and noncurrent obligations under life income agreements for the years ended June 30, 2007 and 2006 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	ANNUITIES	LIFE BENEFICIARIES	ANNUITIES	LIFE BENEFICIARIES
Year Ended June 30, 2007				
Current portion at June 30, 2006	$ 316	$ 435	$ 7,116	$ 14,559
Reclassification from noncurrent	1,392	2,115	7,392	16,072
Payments to beneficiaries	(1,336)	(1,957)	(7,032)	(14,064)
Current portion at June 30, 2007	**$ 372**	**$ 593**	**$ 7,476**	**$ 16,567**
Noncurrent portion at June 30, 2006	$ 8,176	$ 12,280	$ 39,736	$ 102,025
New obligations to beneficiaries	3,220	11,793	10,730	28,080
Reclassification to current	(1,392)	(2,115)	(7,392)	(16,072)
Noncurrent portion at June 30, 2007	**$10,004**	**$21,958**	**$43,074**	**$114,033**
Year Ended June 30, 2006				
Current portion at June 30, 2005	$ 259	$ 415	$ 6,745	$ 13,848
Reclassification from noncurrent	1,343	1,896	7,086	13,783
Payments to beneficiaries	(1,286)	(1,876)	(6,715)	(13,072)
Current portion at June 30, 2006	**$ 316**	**$ 435**	**$ 7,116**	**$ 14,559**
Noncurrent portion at June 30, 2005	$ 7,396	$ 12,728	$ 38,161	$ 103,591
New obligations to beneficiaries	2,123	1,448	8,661	12,217
Reclassification to current	(1,343)	(1,896)	(7,086)	(13,783)
Noncurrent portion at June 30, 2006	**$ 8,176**	**$12,280**	**$39,736**	**$102,025**

Other Noncurrent Liabilities

Changes in other noncurrent liabilities for the years ended June 30, 2007 and 2006 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
	COMPENSATED ABSENCES	UCRP	OTHER	TOTAL	
Year Ended June 30, 2007					
Liabilities at June 30, 2006	$ 209,398	$ 68,875	$ 73,055	$ 351,328	$ 32,924
New obligations	255,426		27,464	282,890	4,478
Reclassification to current	(262,218)	(5,559)	(14,658)	(282,435)	(2,914)
Liabilities at June 30, 2007	**$202,606**	**$63,316**	**$85,861**	**$351,783**	**$34,488**
Year Ended June 30, 2006					
Liabilities at June 30, 2005	$ 235,355	$ 74,015	$ 74,548	$ 383,918	$ 10,224
New obligations	304,092		4,488	308,580	25,332
Reclassification to current	(330,049)	(5,140)	(5,981)	(341,170)	(2,632)
Liabilities at June 30, 2006	**$209,398**	**$68,875**	**$73,055**	**$351,328**	**$32,924**

Payments are generally made from a variety of revenue sources, including state educational appropriations, grants and contracts, auxiliary enterprises, endowment income or other revenue sources that support the employee's salary.

11. DEBT

The University directly finances the construction, renovation and acquisition of facilities and equipment through the issuance of debt obligations or indirectly through structures that involve a separate limited liability corporation (LLC). Commercial paper and bank loans provide for interim financing. Long-term financing includes revenue bonds, certificates of participation, capital lease obligations and other borrowings.

The University's outstanding debt at June 30, 2007 and 2006 is as follows:

(in thousands of dollars)

	WEIGHTED AVERAGE INTEREST RATE	INTEREST RATE RANGE	MATURITY YEARS	2007	2006
INTERIM FINANCING:					
Commercial paper		3.5–5.3%	2007	$ 550,000	$ 550,000
LONG-TERM FINANCING:					
University of California General Revenue Bonds	4.8%	3.0–5.3%	2008–2039	3,673,090	2,373,880
University of California Limited Project Revenue Bonds	4.9%	2.3–5.0%	2008–2038	988,040	988,040
University of California Multiple Purpose Projects Revenue Bonds	4.8%	3.0–5.8%	2007–2027	306,340	1,489,520
University of California Medical Center Pooled Revenue Bonds	4.5%	3.5–5.0%	2008–2047	537,325	
University of California Medical Center Revenue Bonds	4.3%	2.5–5.5%	2007–2039	672,130	786,110
University of California Research Facilities Revenue Bonds	4.7%	4.0–5.0%	2007–2013	20,335	205,390
Adjusted by: Unamortized deferred financing costs				(85,747)	(57,900)
Unamortized bond premium				162,649	118,921
University of California revenue bonds	**4.7%**			**6,274,162**	**5,903,961**
Certificates of participation	4.2%	4.0–5.0%	2007–2010	8,465	50,815
Capital lease obligations		0.0–10.0%	2009–2019	2,009,498	2,012,469
Other University borrowings		Various	2008–2022	411,358	248,579
Student housing LLC revenue bonds, net	5.0%	4.0–5.8%	2008–2038	110,247	110,424
Total outstanding debt				**9,363,730**	**8,876,248**
Less: Commercial paper				(550,000)	(550,000)
Current portion of outstanding debt				(629,713)	(407,888)
Noncurrent portion of outstanding debt				**$8,184,017**	**$7,918,360**

Total interest expense during the years ended June 30, 2007 and 2006 was $419.1 million and $394.4 million, respectively. Interest expense of $33.9 million and $47.2 million associated with financing projects during the construction phase was capitalized during the years ended June 30, 2007 and 2006, respectively. The remaining $385.2 million in 2007 and $347.2 million in 2006 are reported as interest expense in the statement of revenues, expenses and changes in net assets.

Outstanding Debt Activity

The activity with respect to the University's current and noncurrent debt, including the revenue bonds associated with the student housing LLC, for the years ended June 30, 2007 and 2006 is as follows:

(in thousands of dollars)

	UNIVERSITY REVENUE BONDS	CERTIFICATES OF PARTICIPATION	CAPITAL LEASE OBLIGATIONS	STUDENT HOUSING LLC REVENUE BONDS	OTHER UNIVERSITY BORROWINGS	TOTAL
Year Ended June 30, 2007						
Current portion at June 30, 2006	$ 142,424	$ 3,840	$ 111,195	$ 178	$ 150,251	$ 407,888
Reclassification from noncurrent	1,569,390	42,530	489,549	397	270,500	2,372,366
Refinancing or prepayment of outstanding debt	(1,400,140)	(38,510)	(357,484)		(47,715)	(1,843,849)
Scheduled principal payments	(148,400)	(3,840)	(117,939)	(360)	(33,825)	(304,364)
Amortization of bond premium	(9,108)			(80)		(9,188)
Amortization of deferred financing costs	6,597			263		6,860
Current portion at June 30, 2007	**$ 160,763**	**$ 4,020**	**$ 125,321**	**$ 398**	**$339,211**	**$ 629,713**
Noncurrent portion at June 30, 2006	$ 5,761,537	$ 46,975	$ 1,901,274	$ 110,246	$ 98,328	$ 7,918,360
New obligations	1,902,860		472,452		244,319	2,619,631
Bond premium	52,836					52,836
Deferred financing costs	(34,444)					(34,444)
Reclassification to current	(1,569,390)	(42,530)	(489,549)	(397)	(270,500)	(2,372,366)
Noncurrent portion at June 30, 2007	**$6,113,399**	**$ 4,445**	**$1,884,177**	**$109,849**	**$ 72,147**	**$8,184,017**
Year Ended June 30, 2006						
Current portion at June 30, 2005	$ 122,293	$ 7,270	$ 103,824		$ 216,626	$ 450,013
Reclassification from noncurrent	633,187	80,975	118,707	$ 95,247	238,746	1,166,862
Refinancing or prepayment of outstanding debt	(481,900)	(80,735)		(95,040)	(281,680)	(939,355)
Scheduled principal payments	(128,380)	(3,670)	(111,336)		(23,441)	(266,827)
Amortization of bond premium	(8,036)			(45)		(8,081)
Amortization of deferred financing costs	5,260			16		5,276
Current portion at June 30, 2006	**$ 142,424**	**$ 3,840**	**$ 111,195**	**$ 178**	**$150,251**	**$ 407,888**
Noncurrent portion at June 30, 2005	$ 4,832,547	$127,950	$ 1,779,604	$ 111,010	$ 94,161	$ 6,945,272
New obligations	1,527,695		240,377	99,290	242,913	2,110,275
Bond premium	52,056			1,361		53,417
Deferred financing costs	(17,574)			(6,168)		(23,742)
Reclassification to current	(633,187)	(80,975)	(118,707)	(95,247)	(238,746)	(1,166,862)
Noncurrent portion at June 30, 2006	**$5,761,537**	**$ 46,975**	**$1,901,274**	**$110,246**	**$ 98,328**	**$7,918,360**

Commercial Paper

The University has available a $550.0 million commercial paper program with tax-exempt and taxable components. The program's liquidity is supported by the legally available unrestricted investments in the STIP. Commercial paper is collateralized by a pledge of the net revenues generated by the enterprise financed, not by any encumbrance, mortgage or other pledge of property and does not constitute a general obligation of the University.

Commercial paper outstanding, including interest rates, at June 30, 2007 and 2006 is as follows:

(in thousands of dollars)

	2007		2006	
	INTEREST RATES	OUTSTANDING	INTEREST RATES	OUTSTANDING
Tax-exempt	3.5–3.7%	$ 430,000	2.5–3.5%	$ 430,000
Taxable	5.2–5.3%	120,000	3.1–5.1%	120,000
Total outstanding		**$ 550,000**		**$ 550,000**

University of California Revenue Bonds

Revenue bonds have financed various auxiliary, administrative, academic, medical center and research facilities of the University. 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 the University 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 the University 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 the University 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 for the years ended June 30, 2007 and 2006 were $6.11 billion and $5.82 billion, respectively.

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 the University to achieve the sum of gross project revenues equal to 1.1 times debt service and maintain certain other financial covenants. Pledged revenues for the years ended June 30, 2007 and 2006 were $302.0 million and $258.6 million, respectively.

Multiple Purpose Projects Revenue Bonds are collateralized by a pledge of the net revenues generated by the enterprises. The Multiple Purpose Projects Revenue Bond indentures require the University to achieve net revenues after expenses and requirements for senior lien indentures equal to 1.25 times debt service and maintain certain other financial covenants. Pledged revenues for the years ended June 30, 2007 and 2006 were $546.0 million and $563.2 million, respectively.

Medical Center Pooled Revenue Bonds are issued to finance the University's medical centers and are collateralized by a joint and several pledge of the gross revenues of all five of the University's medical centers. Medical center gross revenues are excluded from General Revenues. The Medical Center Pooled Revenue Bond indenture requires the medical centers to set rates, charges and fees each year sufficient for the medical center gross revenues to pay for the annual principal and interest on the bonds and certain other financial covenants. Gross revenues of the medical centers for the years ended June 30, 2007 and 2006 were $4.59 billion and $4.27 billion, respectively.

Medical Center Revenue Bonds have also financed certain facilities of the University's five medical centers and are collateralized by a pledge of the specific gross revenues associated with each medical center. The Medical Center Revenue Bond indentures require each medical center to achieve debt service coverage of 1.1 times to 1.2 times (depending on the indenture), set limitations on encumbrances, indebtedness, disposition of assets and transfer services, as well as maintain certain other financial covenants.

Research Facilities Revenue Bonds are collateralized by a pledge of the University's share of facilities and administrative recoveries received on federal research grants and contracts. The Research Facilities Revenue Bond indentures require the University to achieve debt service coverage of 1.25 times and maintain certain other financial covenants.

Generally, in accordance with the terms of the indentures, the pledge of General Revenues under General Revenue Bonds are subordinate to the pledge of the University's share of facilities and administrative cost recoveries received on federal research grants and contracts under Research Facilities Revenue Bonds. 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 Multiple Purpose Projects Revenue Bonds, commercial paper agreements or bank loans. The pledge of net revenues associated with projects financed with Multiple Purpose Projects Revenue Bonds is subordinate to General Revenue Bonds and Limited Project Revenue Bonds, but senior to pledges under commercial paper agreements or bank loans.

Medical Center gross revenues are not pledged for any purpose other than under the indentures for the Medical Center Pooled Revenue Bonds, interest rate swap agreements and specific Medical Center Revenue Bonds. The pledge of medical center revenues under Medical Center Pooled Revenue Bonds is subordinate to the specific Medical Center Bonds. The pledge of medical center revenues for interest rate swap agreements may be at parity with or subordinate to specific Medical Center Revenue Bonds and Medical Center Pooled Revenue Bonds.

All indentures permit the University to issue additional bonds as long as certain conditions are met.

2007 Activity

In January 2007, General Revenue Bonds totaling $1.12 billion were issued to refinance certain facilities and projects of the University. Proceeds, including a bond premium of $36.0 million, were used to refund $881.4 million of outstanding Multiple Purpose Projects Revenue Bonds, $178.7 million of Research Facilities Revenue Bonds and $38.5 million of certificates of participation. The bonds mature at various dates through 2035 and have a weighted average interest rate of 4.6 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. Deferred costs of financing totaling $30.2 million will be amortized as interest expense over the term of the bonds. Aggregate debt service payments were reduced by $34.2 million over the next 28 years and the University was able to achieve an economic gain of $52.4 million.

Also in January 2007, Medical Center Pooled Revenue Bonds totaling $537.3 million, plus a bond premium of $4.1 million, were issued to finance or refinance certain improvements to each of the five medical centers. The bonds include $441.2 million with a fixed interest rate and $96.2 million with a variable interest rate. Proceeds for the variable interest rate bonds were used to refund $93.0 million of Medical Center Revenue Bonds. The bonds mature at various dates through 2047. The fixed rate bonds have a weighted average interest rate of 4.6 percent. In connection with the variable interest rate bonds, the University entered into an interest rate swap agreement with the intention that the variable interest rate it pays to the bondholders will approximate the variable payments it receives from the interest rate swaps, resulting in a fixed interest rate of 3.6 percent paid to the swap counterparty. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. Deferred costs of financing totaling $1.8 million will be amortized as interest expense over the term of the bonds. Aggregate debt service payments on the refunded bonds were reduced by $14.4 million over the next 25 years and the University was able to achieve an economic gain of $9.9 million.

In June 2007, General Revenue Bonds totaling $241.6 million were issued to refinance certain facilities and projects of the University. Proceeds, including a bond premium of $12.7 million, were used to refund $247.0 million of outstanding Multiple Purpose Projects Revenue Bonds. The bonds mature at various dates through 2025 and have a weighted average interest rate of 4.8 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. Deferred costs of financing totaling $2.4 million will be amortized as interest expense over the term of the bonds. Aggregate debt service payments were reduced by $12.8 million over the next 18 years and the University was able to achieve an economic gain of $15.2 million.

Subsequent Events

In July 2007, Medical Center Pooled Revenue Bonds totaling $197.0 million, $7.3 million with a fixed interest rate and $189.8 million with a variable interest rate were issued to refinance certain improvements to one of the medical centers. Proceeds were used to refund $188.2 million of Medical Center Revenue Bonds. The bonds mature at various dates through 2047. The fixed rate bonds have a weighted average interest rate of 4.3 percent. In connection with the variable interest rate bonds, the University entered into four interest rate swap agreements with a financial institution such that the variable interest it pays to the bondholders matches the variable payments it receives from the interest rate swaps, resulting in a weighted average fixed interest rate of 4.7 percent paid to the swap counterparty. These swap transactions do not result in any basis or tax risk to the University. The bonds and the related swap agreements mature at various times through 2047 and the aggregate notional amount of the swaps matches the outstanding amount of the bonds throughout the entire term of the bonds. Aggregate debt service payments on the refunded bonds increased by $152.6 million due to the extension of maturities over the next 40 years and the University was able to achieve an economic gain of $1.5 million.

In October 2007, the University proceeded with an offering statement for the sale of Limited Project Revenue Bonds to finance and refinance certain auxiliary enterprises of the University. Proceeds approximating $415.4 million would be available to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds.

2006 Activity

In July 2005, General Revenue Bonds totaling $558.4 million were issued to refinance certain facilities and projects of the University. Proceeds, including a bond premium of $33.1 million, together with certain University funds, were used to refund $439.2 million of outstanding Multiple Purpose Projects Revenue Bonds, $42.7 million of Research Facilities Revenue Bonds and $80.7 million of certificates of participation. The bonds mature at various dates through 2035 and have a weighted average interest rate of 4.8 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. Aggregate debt service payments were decreased by $6.8 million over the term of the bonds and the University was able to obtain an economic gain of $25.8 million.

In October 2005, General Revenue Bonds totaling $352.8 million were sold to finance certain facilities of the University. Proceeds include a bond premium of $6.4 million and are to be used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper of $108.7 million. The bonds mature at various dates through 2039 and have a weighted average interest rate of 4.8 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

Also in October 2005, Limited Project Revenue Bonds totaling $616.5 million were issued to finance and refinance certain auxiliary enterprises of the University. Proceeds include a bond premium of $12.5 million and are to be used to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds, including commercial paper and bank loans totaling $481.1 million. The bonds mature at various dates through 2038 and have a weighted average interest rate of 4.9 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

Interest Rate Swap Agreements

As a means to lower the University's borrowing costs, when compared against fixed-rate bonds at the time of issuance, the University entered into two separate interest rate swaps in connection with certain variable-rate Medical Center Revenue Bonds and Medical Center Pooled Revenue Bonds. Each of these are pay fixed, receive variable interest rate swaps that effectively changes the University's variable interest rate bonds to synthetic fixed rate bonds.

The notional amount of the swaps matches the principal amounts of the associated bond issuance. The University's swap agreements contain scheduled reductions to outstanding notional amounts that match scheduled reductions in the associated bond issuance. Under the swaps, the University pays the swap counterparties a fixed interest rate payment and receives a variable rate interest rate payment. The University believes that over time the variable interest rates it pays to the bondholders will approximate the variable payments it receives on the interest rate swaps, leaving the fixed interest rate payment to the swap counterparty as the net payment obligation for the transaction.

The terms of each outstanding swap and their fair values at June 30, 2007 are as follows:

(in thousands of dollars)

ASSOCIATED BOND ISSUE	NOTIONAL AMOUNT	EFFECTIVE DATE	SWAP TERMINATION DATE	SWAP TYPE	FIXED RATE	VARIABLE RATE	FAIR VALUE
Medical Center Revenue Bonds	$ 336,225	2003	2026	Pay fixed; receive variable	3.1385%	67% of LIBOR*	$ 16,460
Medical Center Pooled Revenue Bonds	96,155	2007	2032	Pay fixed; receive variable	3.5897%	58% of LIBOR* + 0.48%	1,734
Total	**$432,380**						**$18,194**

* 1-Month London Interbank Offered Rate (LIBOR)

Because swap rates have changed since execution of the swaps, financial institutions have estimated the fair value using quoted market prices when available or a forecast of expected discounted future net cash flows. The fair value of the interest rate swaps is the estimated amount the University would have either received or (paid) if the swap agreements were terminated on June 30, 2007.

The swaps expose the University to basis risk whenever the interest rates on the bonds are reset. The interest rate on the bonds is a tax-exempt interest rate, while the basis of the variable receipt on the interest rate swaps is taxable. Tax-exempt interest rates can change without a corresponding change in the LIBOR rate due to factors affecting the tax-exempt market which do not have a similar effect on the taxable market.

Although the University has entered into the interest rate swaps with credit worthy financial institutions, there is credit and termination risk for losses in the event of non-performance by counterparties or unfavorable interest rate movements. The swap contracts with positive fair values are exposed to credit risk. The University faces a maximum possible loss equivalent to the amount of the derivative's fair value. Swaps with negative fair values are not exposed to credit risk. Depending on the agreement, certain swaps may be terminated if the insurer's credit quality rating, as issued by Fitch Ratings or Standard & Poor's, falls below A–, or if the Medical Center Pooled Revenue Bonds or swap counterparty's bond ratings falls below Baa2 or BBB, thereby canceling the synthetic interest rate and returning the interest rate payments to the variable interest rates on the bonds. At termination, the University may also owe a termination payment if there is a realized loss based on the fair value of the swap.

As rates vary, variable-rate bond interest payments and net swap payments will vary. Although not a prediction by the University of the future interest cost of the variable rate bonds or the impact of the interest rate swaps, using rates as of June 30, 2007, combined debt service requirements of the variable-rate debt and net swap payments are as follows:

(in thousands of dollars)

	VARIABLE-RATE BONDS		INTEREST RATE SWAP, NET	TOTAL PAYMENTS
	PRINCIPAL	INTEREST		
Year Ending June 30				
2008	$ 14,375	$ 14,827	$ (1,371)	$ 27,831
2009	14,890	14,307	(1,319)	27,878
2010	15,405	13,774	(1,265)	27,914
2011	15,920	13,224	(1,211)	27,933
2012	16,500	12,654	(1,153)	28,001
2013–2017	91,425	54,007	(4,837)	140,595
2018–2022	108,510	36,480	(3,082)	141,908
2023–2027	128,730	15,681	(1,003)	143,408
2028–2032	26,625	2,824	19	29,468
Total	**$432,380**	**$177,778**	**$(15,222)**	**$594,936**

Certificates of Participation

Certificates of participation have been issued to finance buildings and equipment under lease agreements. The certificates are collateralized by buildings and equipment. A portion of the rental payments is provided to the University by a state of California financing appropriation of $4.6 million for each of the years ended June 30, 2007 and 2006. All rental payments, including those from any lawfully available cash of The Regents, have been pledged and assigned to a trustee by the lessor.

Capital Leases

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

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

The University entered into lease-purchase agreements with the state totaling $79.9 million and $156.2 million during the years ended June 30, 2007 and 2006, respectively, to finance the construction of various University projects.

In April 2007, the state of California issued $336.9 million of lease revenue refunding bonds to refinance certain facilities leased to the University. Proceeds were used to refund $357.3 million of outstanding lease revenue bonds. The state of California provided the University with the economic advantages of the refunding through amendments to the lease agreements. As a result, the University reduced its capital lease obligation and recorded a $20.4 million gain as nonoperating revenue.

The state of California financing appropriation to the University under the terms of the lease-purchase agreements, recorded as nonoperating revenue, for the years ended June 30, 2007 and 2006 was $152.3 million and $142.3 million, respectively. The scheduled principal and interest, including accrued interest, reported in the University's financial statements for the years ended June 30, 2007 and 2006 contain amounts related to these lease-purchase agreements with the state of California as follows:

(in thousands of dollars)

	2007	2006
Capital lease principal	$ 70,387	$ 65,607
Capital lease interest	91,353	92,889
Total	**$161,740**	**$158,496**

Capital leases entered into with other lessors totaled $55.7 million and $84.2 million for the years ended June 30, 2007 and 2006, respectively. These leases are typically for equipment, although they also included a $47.0 million capitalized ground lease in 2006.

Other University Borrowings

Other University borrowings consist of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities.

The University may use uncollateralized bank lines of credit with commercial banks to supplement commercial paper and to provide interim financing for buildings and equipment. Line of credit commitments, with various expiration dates through June 30, 2011, totaled $1.06 billion at June 30, 2007. Outstanding borrowings under these bank lines totaled $146.9 million and $138.9 million at June 30, 2007 and 2006, respectively.

The state of California may provide interim loans to the University for certain facilities to be financed through their future issuance of lease revenue bonds. The interim loans are repaid from the bond proceeds. Outstanding interim loans from the state, classified in the current portion of long-term debt in the University's statement of net assets, totaled $202.7 million and $65.5 million at June 30, 2007 and 2006, respectively.

Student Housing LLC Revenue Bonds

The University has entered into a ground lease with a legally separate, non-profit corporation that has developed and owns a student housing project on a University campus through the use of a single-project limited liability corporation (LLC). The LLC manages the premises. The University's reversionary interest in the land is not subordinated. All costs associated with the ownership, operation and management of the improvements are the obligation of the Ground Lessee. Student rental rates are established in order to provide for operating expenses and maintain the required debt service coverage ratios. The University is not responsible for any payments related to the ownership, operation or financing of the student housing. However, under GASB requirements, the financial position and operating results of this legally separate organization are incorporated into the University's financial reporting entity.

The LLC, through its conduit issuer, initially issued Student Housing LLC Revenue Bonds to finance the construction of the student housing facility. The bonds generally have annual principal and semiannual interest payments, serial and term maturities, certain sinking fund requirements and optional redemption provisions. They are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues of the student housing project, and do not constitute general obligations of The Regents.

In April 2006, the LLC, through its conduit issuer, issued Student Housing Refunding Revenue Bonds totaling $99.3 million to partially refinance the construction of the student housing facility. Proceeds include a bond premium of $2.4 million and were used to refund $95.0 million of the outstanding Student Housing LLC Revenue Bonds. The bonds mature at various dates through 2038 and have a weighted average interest rate of 4.9 percent. The refunding resulted in deferred financing costs of $6.2 million that will be amortized over the remaining life of the refunded bonds. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds. Aggregate debt service payments were decreased by $7.8 million over the term of the bonds and the LLC was able to obtain an economic gain of $3.8 million.

Interest expense, net of interest income, totaling $1.3 million and $7.0 million related to the student housing revenue bonds, was capitalized during the construction phase of the project during the years ended June 30, 2007 and June 30, 2006, respectively.

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to June 30, 2007 and thereafter are as follows:

(in thousands of dollars)

	COMMERCIAL PAPER	UNIVERSITY REVENUE BONDS	CERTIFICATES OF PARTICIPATION	CAPITAL LEASES STATE	CAPITAL LEASES OTHER	OTHER UNIVERSITY BORROWINGS	STUDENT HOUSING LLC REVENUE BONDS	TOTAL PAYMENTS	PRINCIPAL	INTEREST
Year Ending June 30										
2008	$ 552,599	$ 442,463	$ 4,310	$ 166,488	$ 54,871	$ 346,577	$ 6,332	$ 1,573,640	$ 1,175,354	$ 398,286
2009		459,389	2,333	180,962	40,152	45,987	6,568	735,391	355,829	379,562
2010		492,010	2,337	160,873	25,832	14,567	6,769	702,388	337,589	364,799
2011		461,255		162,884	18,530	8,017	6,982	657,668	307,436	350,232
2012		463,863		162,848	13,266	6,400	7,210	653,587	317,341	336,246
2013–2017		2,251,368		751,671	66,792	920	37,654	3,108,405	1,663,913	1,444,492
2018–2022		1,940,405		623,438	6,082	95	37,784	2,607,804	1,549,967	1,057,837
2023–2027		1,651,030		367,176	4,027		37,785	2,060,018	1,360,204	699,814
2028–2032		1,310,107		204,610			37,789	1,552,506	1,147,465	405,041
2033–2037		909,253					37,781	947,034	773,245	173,789
2038–2042		227,406					7,560	234,966	191,435	43,531
2043–2047		125,826						125,826	110,473	15,353
Total future debt service	**552,599**	**10,734,375**	**8,980**	**2,780,950**	**229,552**	**422,563**	**230,214**	**14,959,233**	**$9,290,251**	**$5,668,982**
Less: Interest component of future payments	(2,599)	(4,537,115)	(515)	(969,140)	(31,864)	(11,205)	(116,544)	(5,668,982)		
Principal portion of future payments	**550,000**	**6,197,260**	**8,465**	**1,811,810**	**197,688**	**411,358**	**113,670**	**9,290,251**		
Adjusted by:										
Unamortized deferred financing costs		(85,747)					(5,889)	(91,636)		
Unamortized bond premium		162,649					2,466	165,115		
Total debt	**$550,000**	**$ 6,274,162**	**$ 8,465**	**$1,811,810**	**$197,688**	**$411,358**	**$110,247**	**$ 9,363,730**		

Long-term debt does not include $1.76 billion and $939.9 million of defeased liabilities at June 30, 2007 and 2006, respectively. Investments that have maturities and interest rates sufficient to fund retirement of these liabilities are being held in irrevocable trusts for the debt service payments. Neither the assets of the trusts nor the outstanding obligations are included in the University's statement of net assets.

12. OTHER POST EMPLOYMENT BENEFITS

Employees who meet specific requirements may continue their medical and dental benefits into retirement and receive University contributions for those benefits. There were approximately 37,800 retirees eligible to receive such benefits at June 30, 2007 and 41,000 retirees at June 30, 2006. The cost of retiree medical and dental coverage is recognized when paid. The cost of providing medical and dental benefits for retirees and their families and survivors was $215.9 million and $211.3 million for the years ended June 30, 2007 and 2006, respectively.

13. ENDOWMENTS AND GIFTS

Endowments and gifts are held and administered either by the University or by campus foundations.

University of California

The value of endowments and gifts held and administered by the University, exclusive of income distributed to be used for operating purposes, at June 30, 2007 and 2006 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
At June 30, 2007				
Endowments	$ 900,663	$ 1,894,538	$ 37,134	$ 2,832,335
Funds functioning as endowments		2,288,512	1,292,095	3,580,607
Annuity and life income	19,666	6,828		26,494
Gifts		847,547	16,984	864,531
University endowments and gifts	**$ 920,329**	**$ 5,037,425**	**$ 1,346,213**	**$ 7,303,967**
At June 30, 2006				
Endowments	$ 843,599	$ 1,536,840	$ 31,638	$ 2,412,077
Funds functioning as endowments		1,945,623	1,147,096	3,092,719
Annuity and life income	29,108	8,027		37,135
Gifts		751,982	19,406	771,388
University endowments and gifts	**$ 872,707**	**$ 4,242,472**	**$ 1,198,140**	**$ 6,313,319**

The University'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. The University's policy is to retain the realized and unrealized appreciation with the endowment after the annual income distribution has been made. The net appreciation available to meet future spending needs, subject to the approval of The Regents, amounted to $1.89 billion and $1.54 billion at June 30, 2007 and 2006, respectively.

The portion of investment returns earned on endowments held by the University 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 the campuses from endowments held by the University was $193.3 million and $184.9 million for the years ended June 30, 2007 and 2006, respectively. The portion of this annual income distribution from accumulated capital gains, in addition to the dividend and interest income earned during the year, was $69.9 million and $77.9 million for the years ended June 30, 2007 and 2006, respectively. Accumulated endowment income available for spending in the future, including the annual income distribution, was $480.8 million and $481.5 million at June 30, 2007 and 2006, respectively.

Campus Foundations

The value of endowments and gifts held by the campus foundations and administered by each of their independent Board of Trustees at June 30, 2007 and 2006 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
At June 30, 2007				
Endowments	$ 1,614,466	$ 1,019,954		$ 2,634,420
Funds functioning as endowments		733,459		733,459
Annuity and life income	113,136	136,253		249,389
Gifts		738,596	$ 15,631	754,227
Campus foundations' endowments and gifts	**$1,727,602**	**$2,628,262**	**$15,631**	**$4,371,495**
At June 30, 2006				
Endowments	$ 1,429,854	$ 696,569		$ 2,126,423
Funds functioning as endowments		634,595		634,595
Annuity and life income	97,031	124,050		221,081
Gifts		676,392	$ 16,378	692,770
Campus foundations' endowments and gifts	**$1,526,885**	**$2,131,606**	**$16,378**	**$3,674,869**

The campus foundations provided grants to the University's campuses totaling $451.3 million and $416.2 million, respectively, during the years ended June 30, 2007 and 2006.

14. THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)

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

University of California Retirement Plan

The University of California Retirement Plan (UCRP) provides lifetime retirement income, disability protection, death benefits and pre-retirement survivor benefits to eligible employees of the University of California and its affiliates. Membership in the retirement plan is required for all employees appointed to work at least 50 percent time for a year or more. Generally, five years of service are required for entitlement to plan benefits. The amount of the pension benefit is determined by salary rate, age and years of service credit with certain cost of living adjustments. The maximum monthly benefit is 100 percent of the employee's highest average compensation over a consecutive 36-month period.

Members' contributions to UCRP are accounted for separately and 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 a lump sum equal to the present value of their accrued benefits.

At June 30, 2007, plan membership totaled 225,623, comprised of 118,885 active members; 26,776 inactive members who are terminated vested employees entitled to benefits, but not yet receiving them; 32,280 terminated nonvested members eligible for a refund of accumulations; and 47,682 retirees and beneficiaries currently receiving benefits. The active members include 67,966 current employees who are fully vested. The active members also include 50,919 nonvested current employees covered by the plan.

The Regents' funding policy provides for actuarially determined contributions at rates that provide for sufficient assets to be available when benefits are due. The contribution rate is determined using the entry age normal actuarial funding method. The significant actuarial assumptions used to compute the actuarially determined contribution are the same as those used to compute the actuarial accrued liability.

The rates for employer contributions as a percentage of covered payroll are determined annually pursuant to The Regents' funding policy and based on recommendations of the consulting actuary. In addition, the DOE may be required to make contributions related to LANL members. As a result of the funded status of the UCRP, during the years ended June 30, 2007 and 2006, the UCRP generally had no required employer contributions other than $17.4 million required from the DOE related to LANL members for the year ended June 30, 2007.

Employee contributions may also be required to be made to the UCRP. The rate of employee contributions as a percentage of covered payroll is determined annually pursuant to The Regents' funding policy, based on recommendations of the consulting actuary and subject to collective bargaining, as applicable. During the years ended June 30, 2007 and 2006, the UCRP had no required employee contributions.

The annual required contribution for the current year was determined as part of the June 30, 2007 actuarial valuation, which is the latest available information, using the entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation were:

- assumed return on investment of 7.5 percent per year;
- projected salary increases ranging from 4.35–7.0 percent per year (4.5–6.5 percent for the prior year);
- projected inflation at 3.5 percent (4.0 percent for the prior year);
- future life expectancy based upon recent group mortality experience; and
- assumed retirement ages, employee turnover and disability rates based on actual plan experience and future expectations.

Actuarial valuations represent a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The projection of benefits does not explicitly incorporate the potential effects of the results of collective bargaining discussions on the contribution rate. Actuarially determined amounts are subject to periodic revisions as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress presents multi-year trend information about whether the actuarial value of assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the fair value of investments over a five-year period. The actuarial value of assets in excess of the actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period for the plan year ending June 30, 2007 was two years.

The supplemental schedule of funding progress for the University is as follows:

(in thousands of dollars)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	EXCESS	FUNDED RATIO	ANNUAL COVERED PAYROLL	EXCESS/COVERED PAYROLL
June 30, 2007	$43,328,050	$ 41,335,935	$ 1,992,115	104.8 %	$7,595,421	26.2 %
June 30, 2006	41,872,844	40,207,322	1,665,522	104.1	8,241,706	20.2
June 30, 2005	40,993,301	37,170,862	3,822,439	110.3	8,133,183	47.0

For the June 30, 2007 actuarial valuation, based upon an actuarial experience study, The Regents approved changes to economic assumptions that decreased the projected inflation to 3.5 percent and increased the range for salary increases to between 4.35 and 7.0 percent per year, certain demographic assumptions were modified and annual covered payroll was reduced to anticipate members who leave active status during the year. These changes in assumptions decreased the June 30, 2007 actuarial accrued liability and annual covered payroll by $533 million and $812 million, respectively.

All assets of the UCRP are available to pay any member's benefit. However, assets and liabilities for the campus and medical center segment of the UCRP are internally tracked separately from the DOE national laboratory segment of the UCRP.

Campus and Medical Center Segment of the UCRP

The supplemental schedule of funding progress for the campus and medical center segment of the UCRP is as follows:

(in thousands of dollars)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	EXCESS	FUNDED RATIO	ANNUAL COVERED PAYROLL	EXCESS/COVERED PAYROLL
June 30, 2007	$33,581,431	$ 31,917,954	$ 1,663,477	105.2 %	$6,270,789	24.8 %
June 30, 2006	31,380,900	29,728,524	1,652,376	105.6	6,731,201	24.5
June 30, 2005	30,662,348	27,300,357	3,361,991	112.3	6,346,933	53.0

The actuarial value of assets was determined on a basis consistent with the overall UCRP. The remaining amortization period for the plan year ending June 30, 2007 was one year. Changes in assumptions as described above decreased the June 30, 2007 actuarial accrued liability and annual covered payroll by $481 million and $726 million, respectively.

DOE National Laboratory Segment of the UCRP

The DOE national laboratories are required to make employer and employee contributions in conformity with The Regents' funding policy. In addition, under certain circumstances the DOE has agreed to make additional contributions related to LANL members who have retired or are inactive. For the year ended June 30, 2007, contributions to be made to the UCRP under this agreement were $17.4 million.

The supplemental schedule of funding progress for the DOE national laboratory segment of the UCRP is as follows:

(in thousands of dollars)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	EXCESS	FUNDED RATIO	ANNUAL COVERED PAYROLL	EXCESS/COVERED PAYROLL
June 30, 2007	$ 9,746,619	$ 9,417,981	$ 328,638	103.5 %	$ 874,632	37.6 %
June 30, 2006	10,491,944	10,478,798	13,146	100.1	1,510,505	0.9
June 30, 2005	10,330,953	9,870,505	460,448	104.7	1,786,250	25.8

Changes in assumptions as described above decreased the June 30, 2007 actuarial accrued liability and annual covered payroll by $52 million and $86 million, respectively.

With the selection of LANS as the successor contractor to the University for the management of LANL effective June 1, 2006, assets and liabilities attributable to the UCRP benefits of the approximately 6,500 LANL employees who accepted employment with LANS and elected to participate in the defined benefit plan established by LANS were transferred to the LANS plan as of March 31, 2007. For reporting purposes, the supplemental schedule of funding progress includes both assets and liabilities associated with these transitioning employees through June 30, 2006. The market value of assets transferred as of March 31, 2007 to the LANS plan associated with the transitioning employees who are not retained in the UCRP was $1.44 billion. The market value of the assets as of March 31, 2007 retained in the UCRP for LANL members who have retired or are inactive was $3.46 billion.

With the selection of LLNS as the successor contractor to the University for the management of the Lawrence Livermore National Laboratory effective October 1, 2007, the assets and liabilities attributable to the UCRP benefits of the approximately 7,300 LLNL employees who may accept employment with LLNS and who elect to participate in the defined benefit plan established by LLNS are expected to be transferred to the LLNS plan at a future date provided all required and advisable regulatory rulings and approvals are obtained. For reporting purposes, these transitioning employees are included as active members in the UCRP membership information as of June 30, 2007. The actuarial accrued liability associated with the transitioning employees who will not be retained in the UCRP is not currently known. The amount of the assets to be retained in the UCRP for LLNL members who have retired or are inactive, and the amount of the assets that may be transferred to the LLNS plan for the transitioning employees who elected to participate in the LLNS plan, is also not currently known. The amounts will depend on the assumptions used and future discussions with the DOE. As a result, the supplemental schedule of funding progress includes both assets and liabilities for members who have elected to transfer to the LLNS plan. In addition, as a result of future discussions, the DOE may make contributions related to LLNL members who have retired or are inactive if the actuarial value of assets at the beginning of the plan year is less than the actuarial liabilities.

University of California Retirement Savings Program

The University of California Retirement Savings Program includes three defined contribution plans providing savings incentives and additional retirement security that are generally available to all University employees. Participants' interests in the plans are fully and immediately vested and are distributable at retirement, termination of employment or death. Participants may also elect to defer distribution of the account until age 70 ½ or separation from service after age 70 ½, whichever is later, in accordance with Internal Revenue Code minimum distribution requirements. The plans also accept qualified rollover contributions.

Defined Contribution Plan

The Defined Contribution Plan (the DC Plan) accepts both after-tax and pretax contributions. Pretax contributions are fully vested and are mandatory for all employees who are members of the UCRP, as well as Safe Harbor participants—part-time, seasonal and temporary employees who are not covered by Social Security. For UCRP members, monthly employee contributions range from approximately 2.0 percent to 4.0 percent of covered wages depending upon whether wages are below or above the Social Security wage base. For Safe Harbor participants, monthly employee contributions are 7.5 percent of covered wages.

The University has a provision for matching employer and employee contributions to the DC Plan for certain summer session teaching or research compensation for eligible academic employees. The University may also make contributions in behalf of certain members of management. Employer contributions to the DC Plan were $8.7 million and $11.2 million for the years ended June 30, 2007 and 2006, respectively.

Tax Deferred 403(b) Plan

The University's Tax Deferred 403(b) Plan (the 403(b) Plan) accepts pretax contributions. The University may also make contributions in behalf of certain members of management. Employer contributions to the 403(b) Plan were $3.8 million and $6.7 million for the years ended June 30, 2007 and 2006, respectively.

457(b) Deferred Compensation Plan

The University has also established a 457(b) Deferred Compensation Plan (the 457(b) Plan) to accept pretax contributions. The University may also make contributions in behalf of certain members of management. Employer contributions to the 457(b) Plan were $0.6 million and $2.8 million for the years ended June 30, 2007 and 2006, respectively.

Participants in the DC Plan, the 403(b) Plan and the 457(b) Plan may direct their elective and nonelective contributions to investment funds managed by the Chief Investment Officer. They may also invest contributions in, and transfer plan accumulations to, certain external mutual funds on a custodial plan basis. The participants' interest in external mutual funds is shown separately in the statement of plans' fiduciary net assets.

University of California PERS–VERIP

The University of California PERS–VERIP is a defined benefit pension plan providing lifetime supplemental retirement income and survivor benefits to UC–PERS members who elected early retirement under provisions of the plan. The University contributed to the California Public Employee Retirement System in behalf of these UC–PERS members. At June 30, 2007 there are 758 retirees or beneficiaries receiving benefits under this voluntary early retirement program.

The University and DOE laboratories previously made contributions to the plan sufficient to maintain the promised benefits and the qualified status of the plan.

Additional information on the retirement plans can be obtained from the 2006-2007 annual reports of the University of California Retirement Plan, the University of California Retirement Savings Plans and the University of California PERS–VERIP.

15. SEGMENT INFORMATION

The University's significant identifiable activities for which revenue bonds may be outstanding and for which medical center revenue is pledged in support of revenue bonds are related to the University's medical centers. The medical centers' operating revenues and expenses consist primarily of revenues associated with patient care and the related costs of providing that care.

Condensed financial statement information related to each of the University's medical centers for the years ended June 30, 2007 and 2006 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA MEDICAL CENTERS				
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO
Year Ended June 30, 2007					
Bonds outstanding	$ 401,225	$ 62,920	$ 531,580	$ 73,555	$ 140,175
Related debt service payments	$ 24,512	$ 845	$ 22,855	$ 5,992	$ 5,932
Bonds due serially through	2047	2047	2047	2047	2047
CONDENSED STATEMENT OF NET ASSETS					
Current assets	$ 343,355	$ 191,859	$ 380,505	$ 277,034	$ 484,194
Capital assets, net	818,576	381,163	1,427,158	319,189	601,542
Other assets	85,446	29,703	125,409	4,057	12,404
Total assets	**1,247,377**	**602,725**	**1,933,072**	**600,280**	**1,098,140**
Current liabilities	161,445	76,680	195,976	75,488	173,669
Long-term debt	405,632	84,123	644,385	95,274	219,935
Other noncurrent liabilities					29,395
Total liabilities	**567,077**	**160,803**	**840,361**	**170,762**	**422,999**
Invested in capital assets, net of debt	441,727	289,101	866,283	218,243	362,727
Restricted	1,819	28,677	114,464		7,124
Unrestricted	236,754	124,144	111,964	211,275	305,290
Total net assets	**$ 680,300**	**$441,922**	**$1,092,711**	**$429,518**	**$ 675,141**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
Operating revenues	$ 943,632	$ 488,804	$ 1,132,876	$ 643,109	$ 1,386,356
Operating expenses	(826,126)	(429,968)	(1,039,515)	(549,394)	(1,217,876)
Depreciation expense	(55,377)	(17,725)	(41,888)	(26,148)	(55,968)
Operating income	**62,129**	**41,111**	**51,473**	**67,567**	**112,512**
Nonoperating revenues (expenses)	(4,915)	4,085	(10,771)	(332)	(1,670)
Income before other changes in net assets	**57,214**	**45,196**	**40,702**	**67,235**	**110,842**
State and federal capital appropriations			30,939	387	20,373
Health systems support	(14,137)	(37,731)	(29,677)	(30,308)	(22,232)
Transfers (to) from University, net	16,073	79,494	(69,650)	159	
Other, including donated assets	9,595		21,842	33	1,886
Increase (decrease) in net assets	**68,745**	**86,959**	**(5,844)**	**37,506**	**110,869**
Net assets–June 30, 2006	611,555	354,963	1,098,555	392,012	564,272
Net assets–June 30, 2007	**$ 680,300**	**$441,922**	**$1,092,711**	**$429,518**	**$ 675,141**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$ 113,184	$ 57,474	$ 77,049	$ 80,224	$ 129,964
Noncapital financing activities	(12,742)	(37,731)	(35,185)	(30,308)	(22,232)
Capital and related financing activities	(37,743)	(41,360)	(11,392)	(45,053)	(84,519)
Investing activities	(52,246)	5,062	(39,655)	3,798	8,071
Net increase (decrease) in cash and cash equivalents	**(10,453)**	**(16,555)**	**(9,183)**	**8,661**	**31,284**
Cash and cash equivalents–June 30, 2006	142,852	117,378	130,161	119,022	155,555
Cash and cash equivalents–June 30, 2007	**$ 153,305**	**$100,823**	**$ 120,978**	**$127,683**	**$ 186,839**

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA MEDICAL CENTERS				
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO
Year Ended June 30, 2006					
Bonds outstanding	$ 347,295		$ 286,585	$ 58,153	$ 94,895
Related debt service payments	$ 18,084		$ 15,120	$ 6,541	$ 6,559
Bonds due serially through	2026		2039	2019	2032
CONDENSED STATEMENT OF NET ASSETS					
Current assets	$ 334,936	$ 207,326	$ 357,004	$ 246,960	$ 419,606
Capital assets, net	737,738	237,446	1,243,184	306,120	502,826
Other assets	17,528		75,427	2,856	11,235
Total assets	**1,090,202**	**444,772**	**1,675,615**	**555,936**	**933,667**
Current liabilities	134,219	75,205	174,462	86,205	146,778
Long-term debt	344,428	14,604	402,598	77,719	167,317
Other noncurrent liabilities					55,300
Total liabilities	**478,647**	**89,809**	**577,060**	**163,924**	**369,395**
Invested in capital assets, net of debt	375,358	215,626	926,769	203,746	323,018
Restricted	8,622		67,556		6,790
Unrestricted	227,575	139,337	104,230	188,266	234,464
Total net assets	**$ 611,555**	**$354,963**	**$1,098,555**	**$392,012**	**$ 564,272**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
Operating revenues	$ 863,715	$ 477,254	$ 1,048,255	$ 614,675	$ 1,269,050
Operating expenses	(745,487)	(400,208)	(929,623)	(504,506)	(1,103,137)
Depreciation expense	(53,560)	(15,724)	(44,266)	(24,866)	(52,171)
Operating income	**64,668**	**61,322**	**74,366**	**85,303**	**113,742**
Nonoperating revenues (expenses)	(6,791)	3,092	(4,225)	(1,508)	(18,099)
Income before other changes in net assets	**57,877**	**64,414**	**70,141**	**83,795**	**95,643**
State and federal capital appropriations			20,180	3,403	
Health systems support	(16,173)	(32,994)	(24,600)	(22,824)	(24,753)
Transfers from University, net	2,407	51,518	83,552	215	
Other, including donated assets			14,289	1,819	2,854
Increase in net assets	**44,111**	**82,938**	**163,562**	**66,408**	**73,744**
Net assets–June 30, 2005	567,444	272,025	934,993	325,604	490,528
Net assets–June 30, 2006	**$ 611,555**	**$354,963**	**$1,098,555**	**$392,012**	**$ 564,272**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$ 94,752	$ 72,956	$ 121,140	$ 52,625	$ 145,244
Noncapital financing activities	(14,190)	(32,837)	(24,600)	(22,824)	(40,479)
Capital and related financing activities	(96,900)	(27,642)	(78,734)	(41,803)	(99,301)
Investing activities	6,085	4,201	32,798	6,569	5,843
Net increase (decrease) in cash and cash equivalents	**(10,253)**	**16,678**	**50,604**	**(5,433)**	**11,307**
Cash and cash equivalents–June 30, 2005	153,105	100,700	79,557	124,455	144,248
Cash and cash equivalents–June 30, 2006	**$ 142,852**	**$117,378**	**$ 130,161**	**$119,022**	**$ 155,555**

Summarized financial information for each medical center is from their separately audited financial statements. Certain revenue, such as financial support from the state for clinical teaching programs, is classified as state educational appropriations rather than medical center revenue in the University's statement of revenues, expenses and changes in net assets. However, in the medical center's separately audited financial statements and for segment reporting purposes, these revenues are classified as operating revenue.

Multiple purpose and housing system projects including student and faculty housing, parking facilities, student centers, recreation and events facilities, student health service facilities and certain academic and administrative facilities are also financed by revenue bonds; however, assets and liabilities are not required to be accounted for separately.

Additional information on the individual University of California Medical Centers can be obtained from their separate June 30, 2007 audited financial statements.

16. CAMPUS FOUNDATION INFORMATION

Under University policies approved by The Regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although independent boards govern these foundations, their assets are dedicated for the benefit of the University of California.

Condensed financial statement information related to the University's campus foundations, including their allocated share of the assets and liabilities associated with securities lending transactions in the University's investment pools, for the years ended June 30, 2007 and 2006 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS				
	BERKELEY	SAN FRANCISCO	LOS ANGELES	ALL OTHER	TOTAL
Year Ended June 30, 2007					
CONDENSED STATEMENT OF NET ASSETS					
Current assets	$ 118,506	$ 123,104	$ 293,039	$ 369,638	$ 904,287
Noncurrent assets	1,088,876	625,584	1,263,307	1,163,990	4,141,757
Total assets	**1,207,382**	**748,688**	**1,556,346**	**1,533,628**	**5,046,044**
Current liabilities	63,686	10,934	209,274	199,060	482,954
Noncurrent liabilities	79,162	15,331	47,515	49,587	191,595
Total liabilities	**142,848**	**26,265**	**256,789**	**248,647**	**674,549**
Restricted	1,063,276	722,158	1,295,517	1,274,913	4,355,864
Unrestricted	1,258	265	4,040	10,068	15,631
Total net assets	**$1,064,534**	**$722,423**	**$1,299,557**	**$1,284,981**	**$4,371,495**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
Operating revenues	$ 71,387	$ 104,745	$ 147,003	$ 138,482	$ 461,617
Operating expenses	(86,515)	(99,361)	(163,168)	(114,295)	(463,339)
Operating income (loss)	**(15,128)**	**5,384**	**(16,165)**	**24,187**	**(1,722)**
Nonoperating revenues	146,357	78,921	142,857	158,506	526,641
Income before other changes in net assets	**131,229**	**84,305**	**126,692**	**182,693**	**524,919**
Permanent endowments	34,605	32,494	39,647	64,961	171,707
Increase in net assets	**165,834**	**116,799**	**166,339**	**247,654**	**696,626**
Net assets–June 30, 2006	898,700	605,624	1,133,218	1,037,327	3,674,869
Net assets–June 30, 2007	**$1,064,534**	**$722,423**	**$1,299,557**	**$1,284,981**	**$4,371,495**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$ (12,991)	$ (2,534)	$ 3,028	$ (18,701)	$ (31,198)
Noncapital financing activities	27,653	32,494	39,647	63,257	163,051
Investing activities	(14,554)	(22,481)	(43,404)	(15,895)	(96,334)
Net increase (decrease) in cash and cash equivalents	**108**	**7,479**	**(729)**	**28,661**	**35,519**
Cash and cash equivalents–June 30, 2006	1,138	93,803	1,460	29,623	126,024
Cash and cash equivalents–June 30, 2007	**$ 1,246**	**$101,282**	**$ 731**	**$ 58,284**	**$ 161,543**

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS				
	BERKELEY	SAN FRANCISCO	LOS ANGELES	ALL OTHER	TOTAL
Year Ended June 30, 2006					
CONDENSED STATEMENT OF NET ASSETS					
Current assets	$ 84,425	$ 146,670	$ 274,073	$ 271,665	$ 776,833
Noncurrent assets	930,409	479,766	1,088,196	956,130	3,454,501
Total assets	**1,014,834**	**626,436**	**1,362,269**	**1,227,795**	**4,231,334**
Current liabilities	40,262	7,194	184,442	149,882	381,780
Noncurrent liabilities	75,872	13,618	44,609	40,586	174,685
Total liabilities	**116,134**	**20,812**	**229,051**	**190,468**	**556,465**
Restricted	897,310	605,353	1,130,822	1,025,006	3,658,491
Unrestricted	1,390	271	2,396	12,321	16,378
Total net assets	**$ 898,700**	**$605,624**	**$1,133,218**	**$1,037,327**	**$3,674,869**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
Operating revenues	$ 86,060	$ 71,463	$ 110,987	$ 120,486	$ 388,996
Operating expenses	(69,537)	(121,715)	(119,140)	(118,971)	(429,363)
Operating income (loss)	**16,523**	**(50,252)**	**(8,153)**	**1,515**	**(40,367)**
Nonoperating revenues	96,868	42,444	88,712	77,962	305,986
Income (loss) before other changes in net assets	**113,391**	**(7,808)**	**80,559**	**79,477**	**265,619**
Permanent endowments	23,070	18,197	36,325	81,716	159,308
Increase in net assets	**136,461**	**10,389**	**116,884**	**161,193**	**424,927**
Net assets–June 30, 2005	762,239	595,235	1,016,334	876,134	3,249,942
Net assets–June 30, 2006	**$ 898,700**	**$605,624**	**$1,133,218**	**$1,037,327**	**$3,674,869**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$ 3,213	$ (32,374)	$ 5,490	$ (24,000)	$ (47,671)
Noncapital financing activities	18,813	18,197	36,325	68,126	141,461
Investing activities	(21,344)	53,213	(41,192)	(38,112)	(47,435)
Net increase in cash and cash equivalents	**682**	**39,036**	**623**	**6,014**	**46,355**
Cash and cash equivalents–June 30, 2005	456	54,767	837	23,609	79,669
Cash and cash equivalents–June 30, 2006	**$ 1,138**	**$ 93,803**	**$ 1,460**	**$ 29,623**	**$ 126,024**

17. COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled $2.42 billion and $2.70 billion at June 30, 2007 and 2006, respectively.

The University and the UCRS have also made commitments to make investments in certain investment partnerships pursuant to provisions in the various partnership agreements. These commitments at June 30, 2007 totaled $3.00 billion: $493.2 million and $2.51 billion for the University and the UCRS, respectively. The commitments at June 30, 2006 totaled $2.22 billion: $614.6 million and $1.61 billion for the University and the UCRS, respectively.

The University leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2007 and 2006 were $142.6 million and $132.7 million, respectively. The terms of operating leases extend through December 2039.

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)

	MINIMUM ANNUAL LEASE PAYMENTS
Year Ending June 30	
2008	$ 101,382
2009	83,919
2010	60,730
2011	42,788
2012	24,605
2013–2017	35,899
2018–2022	4,021
2023–2027	3,694
2028–2032	4,195
2033–2037	4,745
2038–2041	2,694
Total	**$368,672**

Contingencies

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

The University and the campus foundations are 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, University management and general counsel are of the opinion that the outcome of such matters will not have a material effect on the University's financial position.

CAMPUS FACTS IN BRIEF 2007

	UCB	UCD	UCI	UCLA	UCM	UCR	UCSD	UCSF	UCSB	UCSC	Systemwide Programs and Administration [3]
STUDENTS											
Undergraduate fall enrollment	23,863	23,546	20,843	25,432	1,210	14,860	21,369		18,218	13,961	
Graduate fall enrollment	10,070	6,929	5,028	12,786	76	2,015	5,499	4,326	2,864	1,403	
Total fall enrollment	**33,933**	**30,475**	**25,871**	**38,218**	**1,286**	**16,875**	**26,868**	**4,326**	**21,082**	**15,364**	
University Extension enrollment	31,244	51,731	29,319	84,693		27,401	29,551		7,020	18,403	15,614
DEGREES CONFERRED [1]											
Bachelor	6,686	5,901	5,370	7,120	1	3,230	5,235	1	4,854	3,242	
Advanced	3,136	1,668	1,296	4,000	1	553	1,567	707	952	422	
Cumulative	530,011	192,218	115,840	446,780	2	68,139	117,539	45,243	170,663	72,857	
FACULTY AND STAFF (full-time equivalents)	13,721	20,295	12,186	27,489	619	4,482	17,591	17,383	5,987	4,537	3,078
LIBRARY COLLECTIONS (volumes)	10,345,000	3,599,983	2,547,008	8,257,923	55,023	2,485,147	3,382,824	836,490	2,914,539	1,500,429	
CAMPUS LAND AREA (in acres)	6,651	7,145	1,521	419	7,045	1,911	2,141	185	1,009	6,088	16

CAMPUS FINANCIAL FACTS [2] (IN THOUSANDS OF DOLLARS)

	UCB	UCD	UCI	UCLA	UCM	UCR	UCSD	UCSF	UCSB	UCSC	Systemwide Programs and Administration [3]
OPERATING EXPENSES BY FUNCTION											
Instruction	$ 500,336	$ 523,343	$ 414,623	$ 945,603	$ 12,657	$ 136,127	$ 431,857	$ 183,135	$ 187,119	$ 116,956	$ 68,679
Research	403,436	396,182	212,254	586,614	7,503	92,774	526,741	587,394	134,144	95,867	113,632
Public service	53,824	64,248	11,382	73,965	5,467	5,996	15,767	60,746	7,211	17,218	104,936
Academic support	101,598	125,677	93,709	286,661	6,631	35,934	155,183	249,879	33,685	29,847	69,400
Student services	98,905	60,538	50,553	63,425	4,508	35,768	49,962	12,458	58,213	46,964	18,497
Institutional support	129,531	77,297	46,126	124,291	19,592	43,490	101,308	98,097	34,378	30,489	153,134
Operation & maintenance of plant	62,644	78,723	38,591	82,747	8,568	25,182	63,548	52,656	33,192	21,336	8,451
Student financial aid	77,005	40,090	54,934	55,232	(109)	34,942	49,830	38,758	44,418	10,072	1,348
Medical centers		834,870	430,378	1,014,900			573,102	1,227,486			4,906
Auxiliary enterprises	104,647	88,741	73,017	222,747	3,744	42,872	97,487	29,958	65,770	76,779	1,509
Depreciation & amortization	130,868	163,744	97,021	168,363	13,719	46,840	168,940	144,943	64,215	38,082	12,273
Other [4]	22,734	7,324	5,208	20,381		1,010	8,974	9,744	8,616	1,035	1,390
Total	**$1,685,528**	**$2,460,777**	**$1,527,796**	**$3,644,929**	**$ 82,280**	**$500,935**	**$2,242,699**	**$2,695,254**	**$670,961**	**$484,645**	**$ 558,155**
GRANTS AND CONTRACTS REVENUE											
Federal government	$ 328,772	$ 310,154	$ 205,935	$ 612,431	$ 5,636	$ 84,937	$ 543,258	$ 527,671	$ 143,910	$ 89,411	$ 29,281
State government	75,861	93,012	15,850	43,961	21,569	10,696	41,102	47,901	10,102	9,829	79,039
Local government	4,723	15,193	4,691	36,523	122	2,475	11,279	99,974	1,266	549	4,923
Private	104,298	89,428	54,414	140,001	491	16,143	142,935	188,935	32,737	27,091	7,086
Total	**$ 513,654**	**$ 507,787**	**$ 280,890**	**$ 832,916**	**$ 27,818**	**$114,251**	**$ 738,574**	**$ 864,481**	**$188,015**	**$126,880**	**$ 120,329**
UNIVERSITY ENDOWMENTS											
Endowments	$ 2,055,595	$ 510,024	$ 59,955	$ 1,342,062	$ 20,743	$ 40,136	$ 166,190	$ 893,682	$ 83,021	$ 62,488	$1,205,540
Annual income distribution	67,267	18,383	2,341	34,584	630	1,280	5,427	32,235	2,823	2,211	26,160
CAMPUS FOUNDATIONS' ENDOWMENTS											
Endowments	$ 990,252	$ 167,070	$ 170,598	$ 1,148,855	$ 3,457	$ 85,447	$ 386,956	$ 490,760	$ 118,473	$ 55,400	
CAPITAL ASSETS											
Capital assets, at net book value	$ 2,294,249	$ 2,420,128	$ 1,863,247	$ 4,053,189	$341,976	$ 840,958	$ 2,105,032	$ 2,218,337	$1,084,481	$ 741,925	$ 141,810
Capital expenditures	292,601	341,805	391,211	395,370	50,661	192,902	332,975	265,963	181,130	78,258	14,240

[1] As of academic year 2005-06.

[2] Excludes DOE laboratories.

[3] Includes expenses for Systemwide education and research programs, Systemwide support services and administration.

[4] Includes non-capitalized expenses associated with capital projects and write-off, cancellation and bad debt expense for loans.

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John Garamendi, *Lieutenant Governor*

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Debbie Cole, *Treasurer, Alumni Associations of the University of California*

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