University of California

Annual Financial Report 2007-2008

The University of California

10
extraordinary campuses

5
cutting-edge medical centers

3
discovery-driven national laboratories

220,000
motivated students

180,000
dedicated faculty and staff at our campuses and medical centers

1.5 million
living alumni

140 years
of teaching, research and public service

The world's premier public university system, working for the people of California.

LETTER FROM THE PRESIDENT

Those of us who are privileged to work at the University of California have a powerful sense of its public mandate. The people of California entrust the education of their children to us. They count on us to make discoveries that lead to tangible advances – in medical treatment, in food production, in environmental protection and artistic expression – that improve their lives and strengthen their communities. This is our unique responsibility as California's public research university.

Since being named president five months ago, I have made it my overriding goal to ensure we fulfill this responsibility by providing greater accountability to our constituents and greater service to the state of California. I believe the two objectives are interconnected – the more accountable we are in our operations, the better we will serve our constituents – and I am encouraged by the progress we are making in this direction.

This annual financial report contributes to our accountability efforts by making public the University's financial performance from the year past, and I am grateful to the Department of Financial Management for the hard work and care that went into its creation.

As we look ahead, we must focus even more on making sure that the underpinnings of the University are strong, secure and sustainable. That effort will encompass not only new funding models but also the cost-efficiency of our administrative operations across the system, seeking wherever possible and sensible to free up resources and redirect them where they can enable us to better serve the needs of Californians.

Providing a solid foundation for the 10 world-class campuses of the University of California is essential if they are to continue to generate the educational excellence and innovation that have fueled California's economy for the last 140 years. As stewards of the best public university in the world, we can do no less. I thank you for your interest and your support.

Mark G. Yudof

FACTS IN BRIEF

	2008	2007	2006	2005	2004
STUDENTS					
Undergraduate fall enrollment	167,693	163,302	159,066	158,431	159,486
Graduate fall enrollment	52,341	50,996	50,014	49,478	48,905
Total fall enrollment	**220,034**	**214,298**	**209,080**	**207,909**	**208,391**
University Extension enrollment	291,631	294,976	302,388	332,842	338,084
FACULTY AND STAFF (full-time equivalents)	**131,568**	**127,368**	**123,997**	**121,726**	**120,786**
SUMMARY FINANCIAL INFORMATION (IN THOUSANDS OF DOLLARS, EXCEPT FOR PARTICIPANT INFORMATION)					
UNIVERSITY OF CALIFORNIA					
PRIMARY REVENUE SOURCES					
Student tuition and fees, net [1]	$ 1,921,918	$ 1,737,597	$ 1,662,948	$ 1,557,828	$ 1,377,923
Grants and contracts, net	4,514,866	4,315,595	4,144,576	3,976,549	3,826,641
Medical centers, educational activities and auxiliary enterprises, net	7,415,491	6,788,289	6,221,648	5,742,695	5,274,553
State educational, financing and capital appropriations	3,532,333	3,243,492	2,939,539	2,773,037	2,972,879
Private gifts, net	733,966	681,277	624,052	536,995	544,853
Capital gifts and grants, net	245,305	216,783	166,502	217,218	319,852
Department of Energy laboratories	1,048,580	2,188,475	4,231,922	4,146,261	4,115,635
OPERATING EXPENSES BY FUNCTION					
Instruction	4,126,929	3,520,435	3,212,552	3,046,225	2,873,614
Research	3,495,821	3,156,541	3,035,949	2,916,534	2,791,777
Public service	482,487	420,760	400,844	371,209	394,066
Academic support	1,451,004	1,188,204	1,139,201	1,014,002	1,050,099
Student services	601,896	499,791	470,283	436,050	415,218
Institutional support	1,092,813	857,733	764,165	652,646	603,220
Operation and maintenance of plant	561,357	475,638	451,882	415,096	393,765
Student financial aid [2]	425,985	406,520	363,635	369,424	358,048
Medical centers	4,757,958	4,085,642	3,675,271	3,423,315	3,176,373
Auxiliary enterprises	955,701	807,271	719,551	695,310	646,458
Depreciation and amortization	1,093,620	1,049,008	997,023	954,878	899,811
Department of Energy laboratories	1,039,330	2,169,750	4,197,685	4,112,077	4,082,089
Other	78,866	86,416	88,662	72,644	61,315
INCREASE (DECREASE) IN NET ASSETS	(243,395)	2,004,157	1,422,406	1,183,223	1,346,501
FINANCIAL POSITION					
Investments, at fair value	14,828,023	14,210,035	13,244,165	12,074,900	11,557,368
Capital assets, at net book value	19,593,214	18,105,332	16,665,001	15,530,305	14,167,202
Outstanding debt, including capital leases	10,024,982	9,363,730	8,876,248	7,945,285	6,912,989
Net assets	22,160,785	22,404,180	20,400,023	18,977,617	17,794,394
UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS					
PRIMARY REVENUE SOURCES					
Private gifts, net	533,548	457,814	387,814	332,474	407,661
PRIMARY EXPENSES					
Grants to campuses	527,572	451,290	416,248	343,388	390,254
INCREASE IN NET ASSETS	99,336	696,626	424,927	319,590	389,825
FINANCIAL POSITION					
Investments, at fair value	4,158,911	4,036,489	3,363,998	2,950,090	2,597,250
Pledges receivable, net	420,745	450,342	429,534	426,650	452,543
Net assets	4,470,831	4,371,495	3,674,869	3,249,942	2,930,352

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 financial 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.

	2008	2007	2006	2005	2004
SUMMARY FINANCIAL INFORMATION, CONTINUED (IN THOUSANDS OF DOLLARS, EXCEPT FOR PARTICIPANT INFORMATION)					
UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM					
PLAN PARTICIPATION					
Plan membership	225,225	225,623	220,307	213,242	203,329
Retirees and beneficiaries currently receiving payments	47,575	47,682	45,442	41,477	39,738
PRIMARY REVENUE SOURCES					
Contributions	$ 1,037,898	$ 1,061,968	$ 1,024,262	$ 923,788	$ 809,433
Interest, dividends and other investment income, net	1,881,884	1,860,845	1,718,593	1,505,731	1,298,036
Net appreciation (depreciation) in the fair value of investments	(4,979,955)	7,863,875	2,140,449	3,180,646	4,564,427
PRIMARY EXPENSES					
Benefit payments	1,893,793	1,630,244	1,375,183	1,229,569	1,070,240
Participant and member withdrawals	910,365	939,768	791,046	463,033	389,803
INCREASE (DECREASE) IN NET ASSETS	(6,461,435)	6,732,403	2,682,044	3,890,517	5,183,819
FINANCIAL POSITION					
Investments, at fair value	52,532,169	59,685,467	53,866,319	51,372,279	47,003,436
Members' defined benefit pension plan benefits	42,099,498	48,191,497	43,440,054	41,935,273	39,263,399
Participants' defined contribution plan benefits	14,084,044	14,453,480	12,472,520	11,295,257	10,076,614
ACTUARIAL INFORMATION (as of the beginning of the year)					
Actuarial value of assets	43,328,050	41,872,844	40,993,301	41,293,050	41,429,311
Actuarial accrued liability	41,335,935	40,207,322	37,170,862	35,034,183	32,954,757
UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST					
PLAN PARTICIPATION					
Plan participation	141,230				
Retirees and beneficiaries currently receiving benefits	31,247				
PRIMARY REVENUE SOURCES					
Contributions	$ 243,144				
Interest, dividends and other investment income, net	691				
PRIMARY EXPENSES					
Insurance Premiums	191,192				
INCREASE IN NET ASSETS	50,804				
FINANCIAL POSITION					
Investments, at fair value	19,773				
Net assets for retiree health benefits	50,804				
ACTUARIAL INFORMATION (as of the beginning of the year)					
Actuarial value of assets	Zero				
Actuarial accrued liability—campuses and medical centers	12,074,689				

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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, 2008, with selected comparative information for the years ended June 30, 2007 and 2006. 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 (2006, 2007, 2008, 2009, 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), the University of California Retirement System (the UCRS) and the University of California Retiree Health Benefit Trust (the UCRHBT) 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 the statements of changes in plans' fiduciary net assets, present the financial position and operating activities for the UCRS and the UCRHBT. 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 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 17 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 17,000 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) in California. The University is a member in two separate joint ventures, Los Alamos National Security, LLC (LANS) and Lawrence Livermore National Security, LLC (LLNS), that operate and manage the Los Alamos National Laboratory (LANL) and Lawrence Livermore National Laboratory (LLNL), respectively, under contracts directly with the DOE. 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

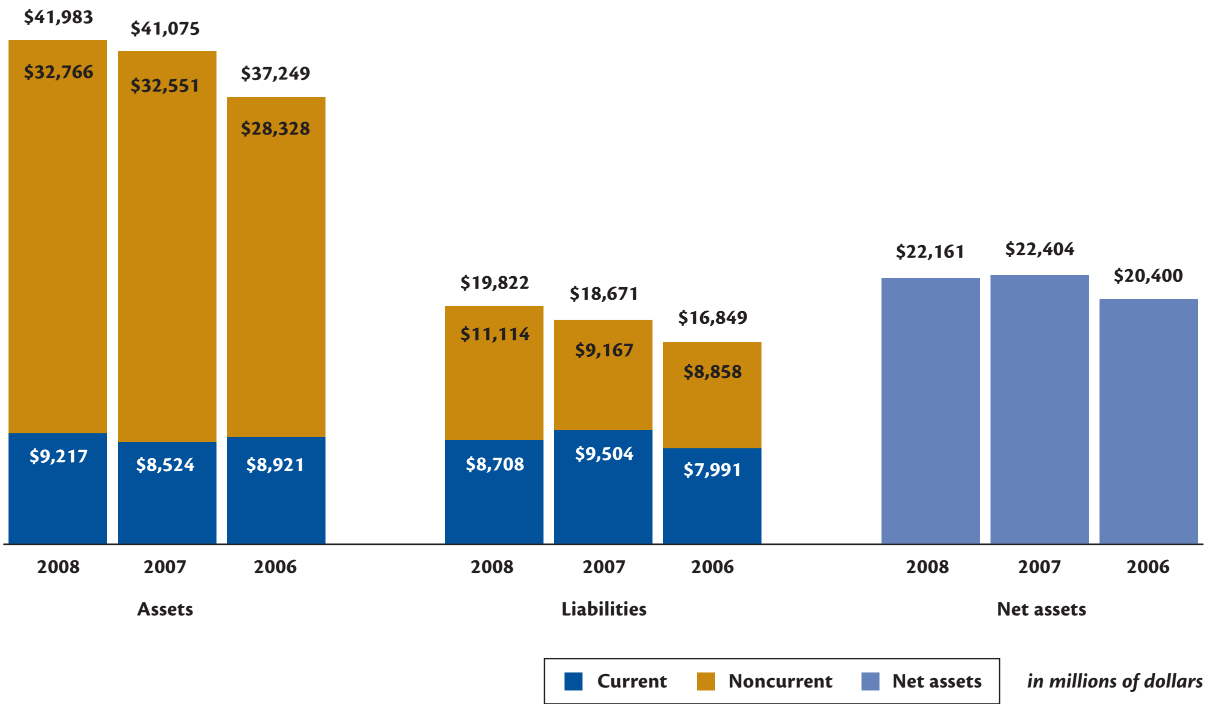
The University's financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America established by the Governmental Accounting Standards Board (GASB).

During 2008, the University adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability. The implementation of GASB Statement No. 45 resulted in an operating expense that decreased the University's changes in net assets and total net assets by $1.36 billion for the year ended June 30, 2008, and increased the DOE receivable and obligation for retiree health benefits at June 30, 2008 by $31 million and $1.12 billion, respectively. There was no effect on the financial statements for year ended June 30, 2007.

The University also adopted GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments,* during the year ended June 30, 2008. Statement No. 52 requires endowments to report land and other real estate investments at fair value. Since the University previously reported its endowment real estate investments at fair value, the implementation of GASB Statement No. 52 had no effect on the University's net assets or changes in net assets for the years ended June 30, 2008 and 2007.

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.

The University's Financial Position



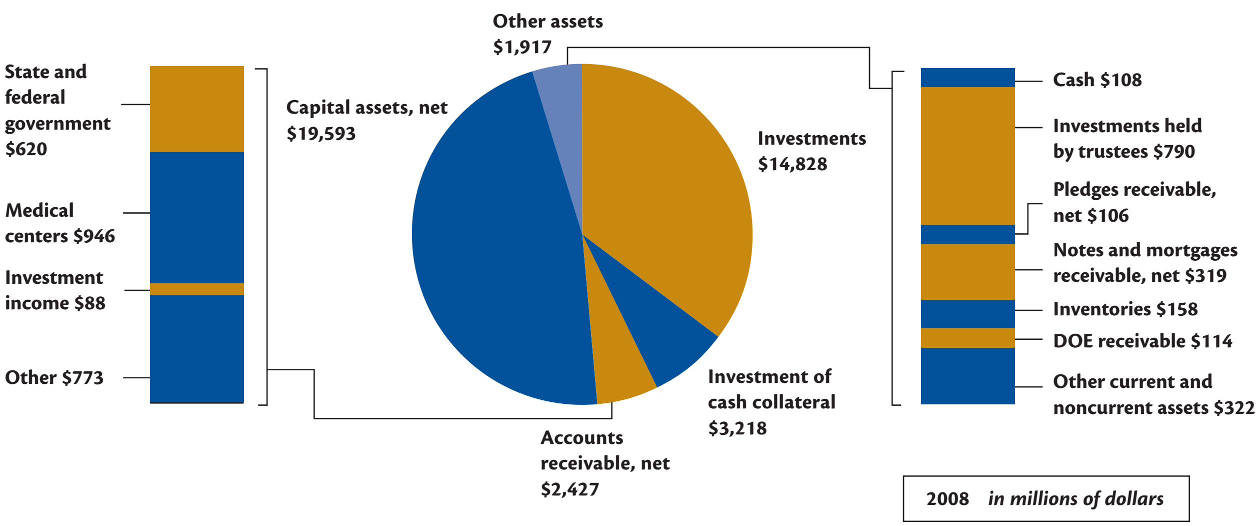
The statement of net assets presents the financial position of the University at the end of each year. It displays all of the University's assets and liabilities. The difference between assets and liabilities is net assets, representing a measure of the current financial condition of the University. At June 30, 2008, the University's assets were nearly $42 billion, liabilities were nearly $20 billion and net assets were over $22 billion, a decrease of $243 million from 2007. Net assets increased by $2 billion at the end of 2007 from 2006.

The major components of the assets, liabilities and net assets as of 2008, 2007 and 2006 are as follows:

(in millions of dollars)

	2008	2007	2006
ASSETS			
Investments	$ 14,828	$ 14,210	$ 13,244
Investment of cash collateral	3,218	4,554	3,455
Accounts receivable, net	2,427	2,146	1,955
Capital assets, net	19,593	18,105	16,665
Other assets	1,917	2,060	1,930
Total assets	**41,983**	**41,075**	**37,249**
LIABILITIES			
Debt, including commercial paper	10,025	9,364	8,876
Securities lending collateral	3,234	4,554	3,456
Obligations for retiree health benefits	1,119		
Other liabilities	5,444	4,753	4,517
Total liabilities	**19,822**	**18,671**	**16,849**
NET ASSETS			
Invested in capital assets, net of related debt	10,035	9,102	8,535
Restricted:			
Nonexpendable	952	920	873
Expendable	5,793	5,856	5,056
Unrestricted	5,381	6,526	5,936
Total net assets	**$22,161**	**$22,404**	**$20,400**

The University's Assets



The University's total assets have grown to $41.98 billion in 2008, compared to $41.08 billion in 2007 and $37.25 billion in 2006, primarily from increases in investments and capital assets.

Investments *(in millions of dollars)*

The University's investments totaled $14.83 billion at the end of 2008, $4.07 billion classified as a current asset and $10.76 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. 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)

	2008	2007	2006
STIP	$ 8,529	$ 7,578	$ 7,424
GEP	5,845	6,176	5,390
Other	454	456	430
University investments	**$14,828**	**$14,210**	**$13,244**

Overall, investments increased by $618 million in 2008. Investments in the STIP increased by $951 million primarily due to $547 million associated with the routine timing of cash collections and payments, particularly $434 million in additional accrued payroll at June 30, 2008 since the July 1 payroll occurred on a weekday in 2008 and a weekend in 2007; $360 million of STIP investment income; and $44 million of net appreciation in the fair value of STIP investments held at the end of 2008. Investments in the GEP and other securities declined by $333 million as a result of $236 million of net depreciation in the fair value of investments; participant withdrawals of $94 million; and $210 million of annual income distributions to be used for operating purposes in 2009. The decrease in GEP and other securities was partially offset by $172 million of investment income and new permanent endowments of $35 million.

Investments in 2007 of $14.21 billion grew from $13.24 billion in 2006, an increase of $966 million. 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 used for operating purposes in 2008.

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 2008 and 2007 was (1.5) percent and 19.8 percent, respectively. The investment return for the STIP distributed to participants during 2008 and 2007 was 4.7 percent for both years.

The financial markets, both domestically and internationally, are currently demonstrating significant volatility on a daily basis that affect the valuation of investments. As a result, the fair value of investments held by the University has declined subsequent to June 30, 2008. The Regents of the University of California utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk.

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 2008, the investment of cash collateral decreased from 2007 by $1.34 billion in response to decreased demand from borrowers for certain classes of fixed income securities and decreased availability of certain of the University's equity securities resulting from asset allocation changes.

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.

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 $281 million in 2008. Federal and state government receivables decreased by $28 million primarily as a result of lower receivables attributable to state educational appropriations ($25 million), pending reimbursements from the state for various construction projects ($24 million) and federal grants and contracts receivables ($8 million), partially offset by growth in receivables from state capital appropriations ($19 million) and state grants and contracts ($10 million). Medical center receivables grew by $87 million corresponding to growth in patient revenue. Investment income receivables declined by $10 million. Various other receivables collectively grew by $232 million primarily due to the timing of clearing trades upon the sale of investments ($90 million), additional private and local grants and contracts ($38 million), educational activities generally related to physician practice plans ($31 million), insurance rebates due from carriers ($23 million) and securities litigation ($35 million).

In 2007, accounts receivable increased by $191 million from 2006. 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).

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 $1.49 billion to $19.59 billion in 2008 and by $1.44 billion to $18.11 billion in 2007.

Capital asset activity consists of the following:

(in millions of dollars)

	2008	2007
Capital expenditures:		
Land and infrastructure	$ 80	$ 99
Buildings and improvements	2,720	1,171
Equipment	491	461
Libraries and special collections	154	146
Construction in progress, net	(836)	660
Capital expenditures	**2,609**	**2,537**
Depreciation and amortization expense	(1,094)	(1,049)
Asset disposals, net	(27)	(48)
Increase in capital assets, net	**$1,488**	**$1,440**

Capital spending continues 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. Capital spending increased by 2.8 percent in 2008 from 2007 levels. At the end of 2008, the cost of projects under construction decreased by $836 million, generally as a result of over $1.24 billion of health care facilities and equipment placed into service, primarily at UCLA. Construction in progress at the end of the year was $3.0 billion, including $1.66 billion for campus projects and $1.34 billion for health care facilities.

Capital spending increased in 2007 by 17.5 percent and decreased in 2006 by 8.9 percent. Construction in progress was $3.84 billion at the end of 2007 and $3.18 billion at the end of 2006.

Accumulated depreciation and amortization was $12.50 billion in 2008, $11.71 billion in 2007 and $10.98 billion in 2006. Depreciation and amortization expense was $1.09 billion for 2008, $1.05 billion for 2007 and $997 million for 2006. Disposals in both years generally were for equipment that was fully depreciated or had reached the end of its useful life.

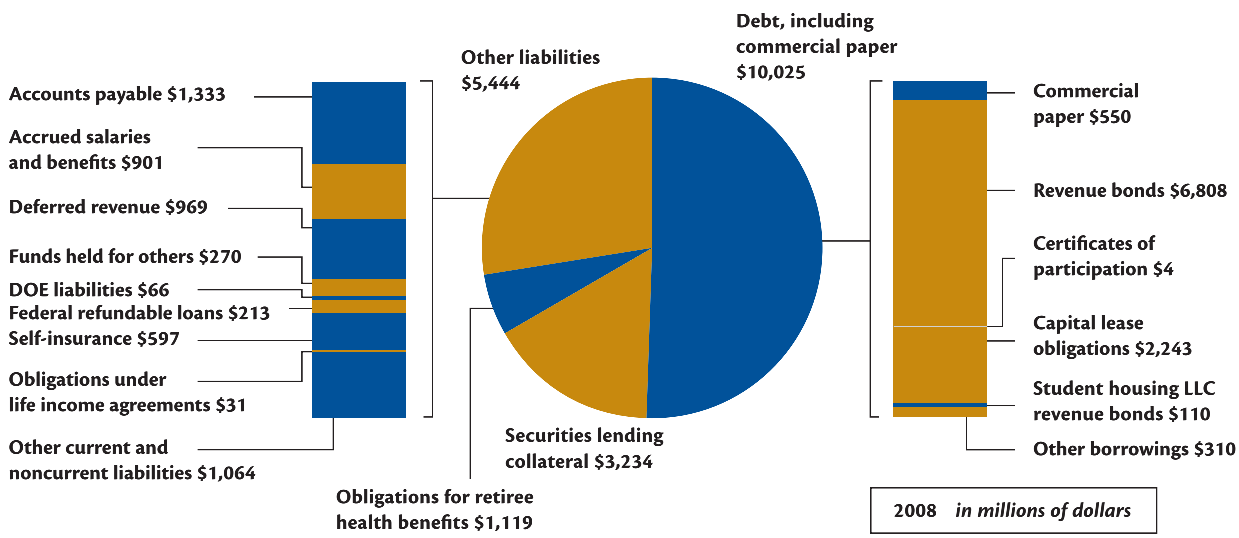
Other assets *(in millions of dollars)*

Other assets, including cash, investments held by trustees, pledges receivable, notes and mortgages receivable, inventories and a receivable from the DOE decreased by $143 million in 2008.

Cash awaiting investment in the STIP was reduced by $39 million. Investments held by trustees declined at the end of 2008 by $3 million. Trustee-held investments associated with self-insurance programs grew by $34 million as the contributions to the trusts were greater than claim payments made this year. However, trustee-held investments associated with the proceeds from long-term debt to be used to finance capital projects under construction declined by $37 million. Net collections of pledges were $16 million. Overall receivables from the DOE dropped by $124 million consisting of decreases in operating and employee liabilities due to the termination of the LLNL contract in 2008 ($147 million) and collection of contributions to the UCRP for employees who formerly worked at LANL ($17 million), although there were increases for the DOE's share of the obligation for retiree health benefits ($31 million) and vendor and employee-related operating costs at LBNL ($9 million). There were moderate increases in certain other areas, such as notes and mortgages receivable ($16 million), inventories ($15 million) and various other assets ($8 million).

In 2007, other assets increased by $130 million. Investments held by trustees grew at the end of 2007 by $34 million, primarily trustee-held investments associated with self-insurance programs. 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.

The University's Liabilities



The University's liabilities grew to $19.82 billion in 2008, compared to $18.67 billion in 2007 and $16.85 billion in 2006, principally as a result of debt issued to finance capital expenditures and obligations for retiree health benefits.

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 $10.02 billion at the end of 2008, compared to $9.36 billion at the end of 2007 and $8.88 billion at the end of 2006.

Commercial paper is classified as a current liability. The current portion of long-term debt, excluding commercial paper, decreased to $546 million in 2008 from $630 million in 2007, primarily as a result of a $101 million decrease 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 2008, the current portion of long-term debt still includes over $102 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 $661 million in 2008 and $488 million in 2007. A summary of the activity follows:

(in millions of dollars)

	2008	2007
ADDITIONS TO OUTSTANDING DEBT		
General Revenue Bonds	$ 249	$ 1,366
Limited Project Revenue Bonds	415	
Medical Center Pooled Revenue Bonds	520	537
Capital leases	361	473
Other borrowings	330	244
Bond premium, net	31	53
Additions to outstanding debt	**1,906**	**2,673**
REDUCTIONS TO OUTSTANDING DEBT		
Refinancing and prepayments	(870)	(1,844)
Scheduled principal payments	(286)	(270)
Payments on other borrowings	(74)	(34)
Other, including deferred financing costs, net	(15)	(37)
Reductions to outstanding debt	**(1,245)**	**(2,185)**
Net increase in outstanding debt	**$ 661**	**$ 488**

During 2008, additions to outstanding debt totaled $1.91 billion, including net bond premiums of $31 million.

General Revenue Bonds totaling $249 million with a weighted average interest rate of 4.8 percent were issued in January 2008 to finance certain facilities and projects of the University. Proceeds, including a bond premium of $12.7 million, are available to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds.

Limited Project Revenue Bonds totaling $415 million with a weighted average interest rate of 5.0 percent were issued in October 2007 to finance certain auxiliary enterprises of the University. Proceeds, including a bond premium of $18.0 million, are available to pay for project construction and issuance costs and repay interim financing incurred prior to the issuance of the bonds.

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 in July 2007 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 interest rate of 4.7 percent paid to the swap counterparty. These swap transactions did not result in any basis or tax risk to the University.

In April 2008, Medical Center Pooled Revenue Bonds totaling $323 million with a weighted average interest rate of 4.9 percent were issued to refinance certain improvements to another of its medical centers. Proceeds, including a bond premium of $10.6 million, were used to refund $324 million of Medical Center Revenue Bonds and for a swap termination payment of $7 million.

The University entered into a lease-purchase agreement with the state in April 2008, recorded as a capital lease, totaling $303 million to finance the construction of certain University projects. 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 addition to lease-purchase agreements with the state, new capital lease obligations entered into during 2008 for equipment totaled $59 million.

Other newly originated borrowings in 2008 totaled $330 million, generally consisting of 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 2008 were $1.25 billion, consisting of $870 million for one-time principal payments for the refinancing or refunding of previously outstanding Medical Center Revenue Bonds ($512 million), payments on interim loans from the state as lease revenue bonds were sold ($206 million) and refinancing of previously outstanding bank loans ($152 million); $286 million for principal payments associated with scheduled debt service on revenue bonds, certificates of participation and capital lease obligations; and $74 million for scheduled payments on other borrowings.

The University's counterparty in the interest rate swap agreement entered into in connection with Medical Center Pooled Revenue Bonds with a notional amount of $189.8 million is Lehman Brothers Special Financing Inc. The guarantor is Lehman Brothers Holdings Inc. On September 14, 2008, Lehman Brothers Holdings Inc. filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. On October 3, 2008, Lehman Brothers Special Financing Inc. filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. The University is exploring various options, including terminating the existing swap agreement and substituting a new interest rate swap agreement with a new counterparty, to reduce the credit risk resulting from these bankruptcy filings and to provide funds to pay the cost of terminating the existing swap agreement.

The University's counterparty in the interest rate swap agreement entered into in connection with Medical Center Pooled Revenue Bonds with a notional amount of $93.7 million is Merrill Lynch Capital Services, Inc. On September 15, 2008, Bank of America Corporation announced that it had agreed to acquire Merrill Lynch & Co. and that it expects the transaction to close in the first quarter of calendar year 2009, subject to shareholder and standard regulatory approvals.

The University's General Revenue Bond ratings are currently affirmed at Aa1 with a positive outlook by Moody's Investors Service and AA by Standard & Poor's with a stable outlook. The University's Limited Project Revenue Bonds and Medical Center Pooled Revenue Bonds are currently affirmed at Aa2 with a positive outlook by Moody's Investors Service and AA- by Standard & Poor's with a stable outlook.

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.

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, new capital lease obligations during 2007 for equipment totaled $56 million.

Other newly originated borrowings in 2007 totaled $244 million, generally 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, 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.

The state of California, through state financing appropriations, provided $167 million and $162 million in 2008 and 2007, 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 dropped by $1.32 billion in 2008 after increasing by $1.10 billion in 2007. As previously discussed, the amount of the securities lending collateral liability fluctuates directly with securities lending opportunities and the investment of cash collateral.

Obligations for retiree health benefits *(in millions of dollars)*

The University has financial responsibility for the campuses' and medical centers' obligation for retiree health benefits. LBNL participates in the University's retiree health plans, although the DOE has an ongoing financial responsibility to reimburse the University for LBNL's share of the obligation for retiree health benefits.

Beginning in 2008, the University's obligation for retiree health benefits is based upon an actuarial determination of the annual retiree health benefit expense. Campus and medical center contributions during the year toward retiree health benefits, at rates determined by the University, reduce their share of the obligations for retiree health benefits. Contributions from the DOE to the University during the year reduce LBNL's share of the obligations for retiree health benefits.

Obligations for retiree health benefits attributable to campuses and medical centers and LBNL are as follows:

(in millions of dollars)

	2008
Campuses and medical centers	$ 1,088
LBNL	31
Obligations for retiree health benefits	**$1,119**

A summary of the activity that resulted in the obligations for retiree health benefits follows:

(in millions of dollars)

	2008	
	Campuses and Medical Centers	LBNL
Retiree health benefit expense	$ 1,356	$ 44
Contributions, including implicit subsidy	(268)	(13)
Increase in obligation for retiree health benefits	**$1,088**	**$ 31**

The University recorded revenue and a receivable from the DOE of $31 million in 2008 for LBNL's share of the increase in obligations for retiree health benefits.

Based upon the latest actuarial valuation as of the beginning of 2008, the actuarial accrued liability for campuses and medical centers and LBNL is as follows:

(in millions of dollars)

	2008
Campuses and medical centers	$ 12,074
LBNL	460
Total actuarial accrued liability	**$12,534**

The University funds the retiree health expense for campuses and medical centers through the UCRHBT based upon a projection of benefits on a pay-as-you-go basis. The UCRHBT's net assets were $51 million in 2008.

At the end of 2008, the University recorded a receivable from the DOE of $31 million toward LBNL's actuarial accrued liability. The receivable will increase over time in accordance with LBNL's share of the obligations for retiree health benefits.

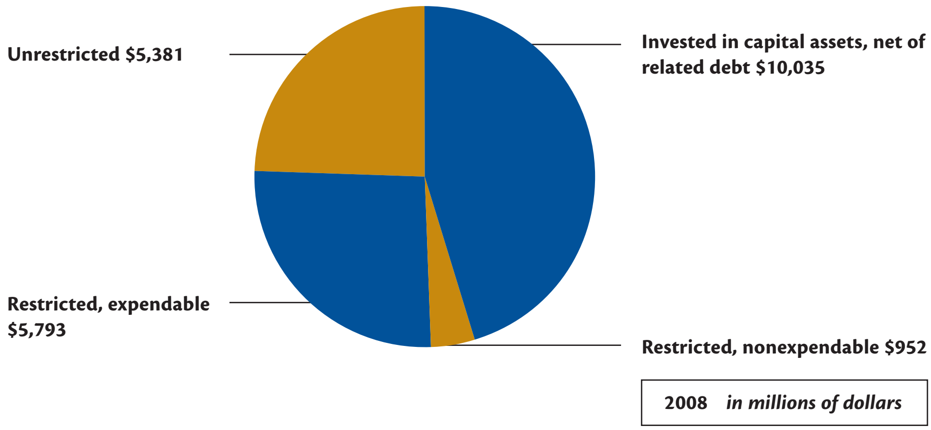
Other liabilities *(in millions of dollars)*

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

Other liabilities grew by $691 million in 2008, generally as a result of increases in accrued salaries of $435 million due to the July 1 payroll occurring on a weekday in 2008 and a weekend in 2007; deferred revenue related to grants and contracts of $215 million; accounts payable of $76 million, self-insurance liabilities of $57 million; and $71 million of other liabilities, primarily deposits, compensated absences and federal refundable loans. These increases were partially offset by reductions in DOE laboratories' liabilities of $140 million for operating and employee liabilities related to the termination of the LLNL contract and other employee benefits of $15 million.

In 2007, other liabilities grew by $236 million, 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. A decrease in accounts payable of $65 million partially offset the above. 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.

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 $22.16 billion in 2008, compared to $22.40 billion in 2007 and $20.40 billion in 2006. 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 $10.03 billion in 2008, compared to $9.10 billion in 2007 and $8.54 billion in 2006. The increase represents the University's continuing investment in its physical facilities in excess of the related financing and depreciation expense.

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 2008, net unrealized depreciation in the fair value of investments resulted in a $268 million decline in the value of endowments and gifts. However, restricted expendable endowments, funds functioning as endowments and annuity and life income funds grew by $77 million; restricted gifts and grants grew by $63 million and other funds grew by $65 million. 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.

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. Unrestricted net assets were reduced by the retiree health benefit expense totaling $1.36 billion in 2008. 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 $1.24 billion and $1.29 billion in 2008 and 2007, 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.

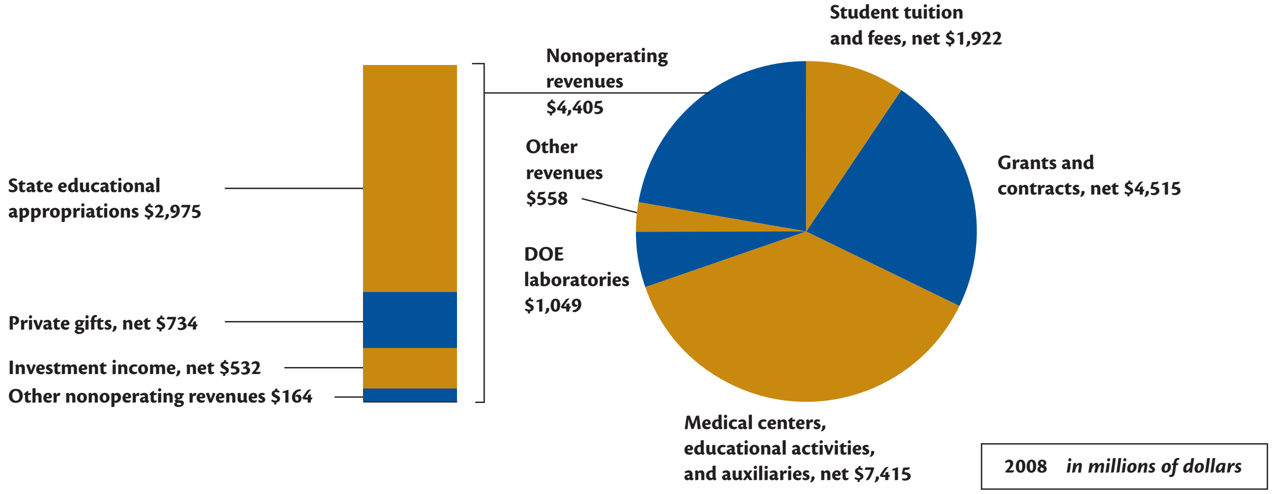
A summarized comparison of the operating results for 2008, 2007 and 2006, arranged in a format that matches the revenue supporting the core activities of the University with the expenses associated with core activities, is as follows:

(in millions of dollars)

	2008			2007			2006		
	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL	OPERATING	NONOPERATING	TOTAL
REVENUES									
Student tuition and fees, net	$ 1,922		$ 1,922	$ 1,738		$ 1,738	$ 1,663		$ 1,663
State educational appropriations		$ 2,975	2,975		$ 2,793	2,793		$ 2,573	2,573
Grants and contracts, net	4,515		4,515	4,316		4,316	4,145		4,145
Medical centers, educational activities and auxiliary enterprises, net	7,415		7,415	6,788		6,788	6,222		6,222
Department of Energy laboratories	1,049		1,049	2,188		2,188	4,232		4,232
Private gifts, net		734	734		681	681		624	624
Investment income, net		532	532		508	508		446	446
Other revenues	558	164	722	435	157	592	508	147	655
Revenues supporting core activities	**15,459**	**4,405**	**19,864**	**15,465**	**4,139**	**19,604**	**16,770**	**3,790**	**20,560**
EXPENSES									
Salaries and benefits	12,401		12,401	10,313		10,313	9,488		9,488
Scholarships and fellowships	428		428	401		401	358		358
Utilities	392		392	372		372	350		350
Supplies and materials	2,102		2,102	1,910		1,910	1,827		1,827
Depreciation and amortization	1,094		1,094	1,049		1,049	997		997
Department of Energy laboratories	1,039		1,039	2,170		2,170	4,198		4,198
Interest expense		400	400		385	385		347	347
Other expenses	2,708	25	2,733	2,509	(11)	2,498	2,299	20	2,319
Expenses associated with core activities	**20,164**	**425**	**20,589**	**18,724**	**374**	**19,098**	**19,517**	**367**	**19,884**
Income (loss) from core activities	**$ (4,705)**	**$3,980**	**(725)**	**$ (3,259)**	**$3,765**	**506**	**$ (2,747)**	**$3,423**	**676**
OTHER NONOPERATING ACTIVITIES									
Net (depreciation) appreciation in fair value of investments			(192)			949			315
Income (loss) before other changes in net assets			**(917)**			**1,455**			**991**
OTHER CHANGES IN NET ASSETS									
State capital appropriations			394			293			220
Capital gifts and grants, net			245			217			167
Permanent endowments			35			39			44
Increase (decrease) in net assets			**(243)**			**2,004**			**1,422**
NET ASSETS									
Beginning of year			22,404			20,400			18,978
End of year			**$22,161**			**$22,404**			**$20,400**

Revenues Supporting Core Activities

Categories of both operating and nonoperating revenue that supported the University's core activities in 2008 are as follows:



Revenues to support the University's core activities, including those classified as nonoperating revenues, were $19.86 billion, $19.60 billion and $20.56 billion in 2008, 2007 and 2006, respectively. These diversified sources of revenue increased in 2008 by $260 million. Revenue growth in 2008 was tempered by the loss of $1.14 billion of revenue from the termination of the University's direct contract with the DOE to manage LLNL. Revenues 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.

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 $184 million and $75 million in 2008 and 2007, respectively. Scholarship allowances were $507 million in 2008, $461 million in 2007 and $436 million in 2006. The new fee revenue over the past several years has generally been necessitated by growth in the demand for resources that has outpaced 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 2008, enrollment grew by 2.7 percent. Resident undergraduate fees increased by 7 percent, graduate student fees by 7 percent and most professional school fees by between 7 and 10 percent. In addition to the resident student fees, nonresident undergraduate and graduate students pay tuition. Tuition increased by 5 percent for undergraduate 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. Nonresident undergraduate and graduate students tuition 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.

State educational appropriations *(in millions of dollars)*

Educational appropriations from the state of California of $2.97 billion increased in 2008 by $182 million. The last year that educational appropriations were above $2.9 billion was 2003. After declining to $2.46 billion in 2005, they gradually increased in prior years to $2.57 billion in 2006 and $2.79 billion in 2007.

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 $779 million, $743 million and $712 million in 2008, 2007 and 2006, respectively—increased in both 2008 and 2007 as follows:

(in millions of dollars)

	2008	2007	2006
Federal	$ 2,911	$ 2,881	$ 2,814
State	492	449	424
Private	912	804	744
Local	200	182	163
Grants and contracts net revenue	**$4,515**	**$4,316**	**$4,145**

In 2008, federal grants and contracts revenue, including the federal facilities and administration cost recovery of $602 million and direct expenditures of $2.31 billion, grew by $30 million, or 1.0 percent. This revenue represents support from a variety of federal agencies as indicated below:

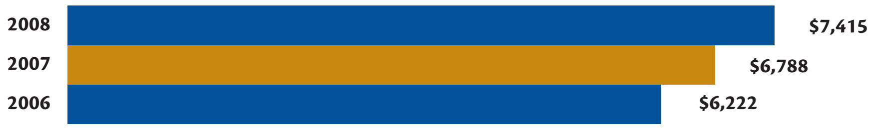
(in millions of dollars)

	2008	2007	2006
Department of Health and Human Services	$ 1,689	$ 1,682	$ 1,644
National Science Foundation	420	422	423
Department of Education	265	240	215
Department of Defense	174	164	163
National Aeronautics and Space Administration	82	84	101
Department of Energy (excluding national laboratories)	75	76	76
Other federal agencies	206	213	192
Federal grants and contracts net revenue	**$2,911**	**$2,881**	**$2,814**

State grants and contracts revenue was up by $43 million, or 9.6 percent. Although revenue from private grants and contracts at the campuses can be volatile from year to year, overall it rose by $108 million (13.4 percent), due primarily to a growing number of awards. Local government grants and contracts revenue grew by $18 million (9.9 percent).

In 2007, overall revenue from federal, state, private and local government grants and contracts increased by $171 million, or 4.1 percent. Federal grants and contracts revenue grew by $67 million, or 2.4 percent; state grants and contracts revenue increased by $25 million, or 5.9 percent; private grants and contracts revenue grew by $60 million, or 8.1 percent, and local government grants and contracts revenue grew by $19 million, or 11.7 percent.

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



Revenue from medical centers, educational activities and auxiliary enterprises increased by $627 million, or 9.2 percent, in 2008. In 2007, these revenues increased $566 million, or 9.1 percent, from 2006. Revenues for each activity are as follows:

(in millions of dollars)

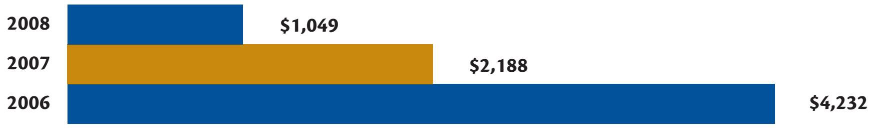
	2008	2007	2006
Medical centers, net	$ 4,917	$ 4,526	$ 4,206
Educational activities, net	1,376	1,250	1,123
Auxiliary enterprises, net	1,122	1,012	893
Medical centers, educational activities and auxiliary enterprises revenues, net	**$7,415**	**$6,788**	**$6,222**

Medical center revenue, net of allowances for doubtful accounts, increased by $391 million and $320 million in 2008 and 2007, 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 1.6 percent and 2.8 percent increase in patient days for 2008 and 2007, respectively; and outpatient visits grew by 4.3 percent and declined by 1.1 percent for 2008 and 2007, respectively.

Revenue from educational activities, primarily physicians' professional fees, net of allowances for doubtful accounts, grew by $126 million in 2008, or 10.1 percent, and by $127 million, or 11.3 percent, in 2007 and is generally associated with an expanded patient base and higher rates.

Revenue from auxiliary enterprises, net of scholarship allowances, grew by $110 million in 2008, or 10.9 percent, and by $119 million in 2007, or 13.3 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 $127 million in 2008, $119 million in 2007 and $109 million in 2006.

DOE laboratories *(in millions of dollars)*



The national laboratories operate on federally financed budgets. Revenue in 2008, 2007 and 2006 is as follows:

(in millions of dollars)

	2008	2007	2006
Lawrence Berkeley National Laboratory	$ 546	$ 518	$ 519
Lawrence Livermore National Laboratory	447	1,611	1,619
Los Alamos National Laboratory			2,029
DOE revenue related to pension benefits		17	
DOE revenue related to retiree health benefits	56	42	65
DOE laboratories revenue	**$1,049**	**$2,188**	**$4,232**

At LBNL, revenue in 2008 increased in Physical Biosciences and Materials Sciences primarily to support the Joint BioEnergy Institute and Materials Sciences Molecular Foundry, respectively.

LLNL revenue was reported in the University's financial statements through September 30, 2007, the date the University's contract to directly manage and operate LLNL terminated. The contract transitioned to LLNS effective October 1, 2007. As a result, revenue comparisons for LLNL are affected by the partial year in 2008.

LANL revenue was reported in the University's financial statements through May 31, 2006, the date the University's contract to directly manage and operate LANL terminated. The contract transitioned to LANS effective June 1, 2006.

The DOE has an ongoing financial responsibility for all current and future pension benefit and retiree health expenses incurred at any of the national laboratories. The University recognizes the DOE's financial responsibility by recording DOE revenue to the extent there are any pension or retiree health expenses attributable to the DOE laboratories.

The University's equity in the current earnings of LANS and LLNS totaled $25 million and $16 million in 2008 and 2007, respectively, and is recorded as other operating revenue. A substantial portion of the earnings 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 $53 million in 2008. Grants from the campus foundations totaling $528 million, recorded as private gifts by the University, increased by $77 million and more than offset declines from other private sources. Private gifts in 2007 of $681 million were substantially above the $624 million in 2006.

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 $1.01 billion in 2008, $937 million in 2007 and $835 million in 2006.

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

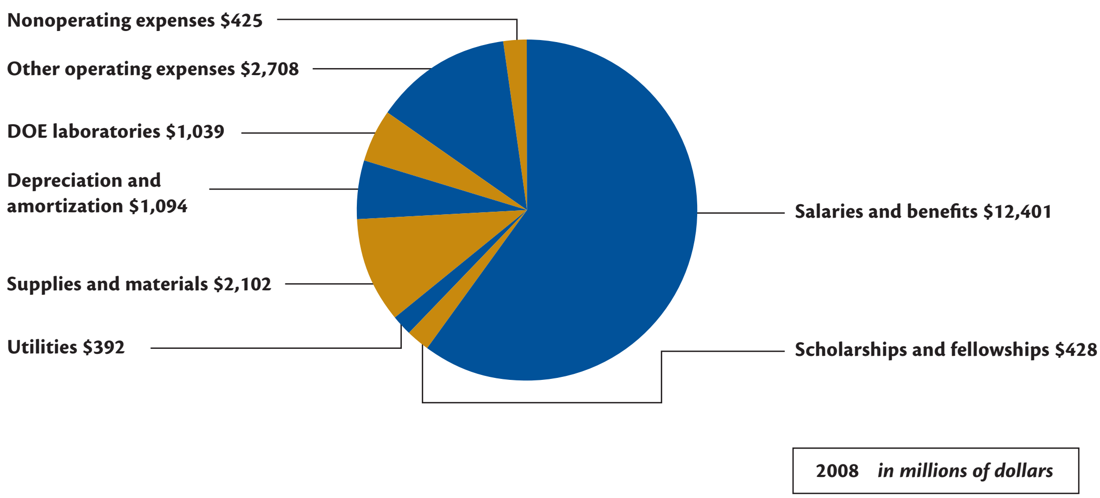
Investment income, principally consisting of $348 million from the STIP and $159 million from endowments invested in the GEP, increased in 2008 by $24 million. Investment income from the STIP grew by $8 million in 2008 and by $38 million in 2007. The STIP return distributed to participants was 4.7 percent in both 2008 and 2007. Endowment income dropped by $3 million in 2008 and grew by $29 million in 2007. Securities lending income, net of fees and rebates, increased by $19 million. A reduction in interest rates during the year resulted in lower levels of both gross income and rebates, although yields available from lending U.S. government fixed income securities were greater than in 2007.

Other revenues *(in millions of dollars)*

Other revenues are from a variety of sources, including state financing appropriations and patent royalty income. Collectively, they grew by $130 million in 2008 after having decreased by $63 million in 2007. Patent royalty income grew in 2008 by nearly $50 million. State financing appropriations grew by $7 million and $10 million in 2008 and 2007, respectively. Compensation to the University as a member of LANS and LLNS totaled $25 million in 2008 and $16 million in 2007.

Expenses Associated with Core Activities

Categories of both operating and nonoperating expenses related to the University's core activities in 2008 are as follows:



Expenses associated with the University's core activities, including those classified as nonoperating expenses, were $20.59 billion, $19.10 billion and $19.88 billion in 2008, 2007 and 2006, respectively. Expenses increased in 2008 by $1.49 billion. Major changes included retiree health benefit costs brought about by the implementation of GASB Statement No. 45 of $1.36 billion that were partially offset by a $1.13 billion reduction in DOE laboratory expenses from termination of the University's direct contract with the DOE to manage LLNL. 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.

Salaries and benefits *(in millions of dollars)*

Over 60 percent of the University's expenses are related to salaries and benefits. There are over 131,000 full time equivalent (FTE) employees in the University, excluding employees who are associated with LBNL whose salaries and benefits are included as laboratory expenses. FTE employees increased by approximately 4,200 in 2008 and over 50 percent 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 2008, 2007 and 2006 are as follows:

(in millions of dollars)

	2008	2007	2006
Salaries and wages	$ 9,359	$ 8,569	$ 7,880
Pension benefits	3	6	
Retiree health benefits	1,355	175	146
Other employee benefits	1,684	1,563	1,462
Salaries and benefits	**$12,401**	**$10,313**	**$9,488**

During 2008, overall salaries and benefits grew by $2.09 billion from 2007, or 20.2 percent, primarily from a $1.18 billion increase in retiree health costs resulting from a change in accounting principle and a $278 million increase at the University's five medical centers where the growth was 12.1 percent.

Salaries and wages increased by $790 million in 2008, or 9.2 percent, generally related to new academic and administrative employees necessary to directly support the increase in academic and research programs, as well as higher wages and costs associated with patient care activities.

The University's pension benefit expense is actuarially determined and independently calculated for the campuses and medical centers, separate from the DOE laboratories. Due to the funded status of the campus and medical center segment of the UCRP at July 1, 2007, the date of the latest actuarial valuation, pension benefit costs were not significant in 2008, 2007 or 2006.

Beginning in 2008, the University's retiree health benefit expense is also actuarially determined and independently calculated for the campus and medical centers, separate from LBNL. Retiree health benefit expense for the University's campuses and medical centers resulting from the implementation of GASB Statement No. 45 in 2008 was $1.36 billion. Prior to 2008, retiree health benefit expenses were recognized as they were paid.

Other employee benefit costs in 2008 increased by $121 million, or 7.7 percent. The most prevalent increases were in health insurance costs for active employees of $59 million, the employer portion of payroll taxes of $42 million and student fee remissions of $14 million.

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. Retiree health benefit costs attributable to campuses and medical centers, recognized as they were paid, were $175 million, an increase of $29 million from 2006. Other benefit costs increased by $101 million, or 6.9 percent. Increases in health insurance costs of $70 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.

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 $27 million in 2008 than in 2007, an increase of 6.6 percent, and were higher by $43 million in 2007 than in 2006, an increase of 12.0 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 2008 by $54 million, or 9.2 percent, to $641 million and increased in 2007 by 6.1 percent to $587 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 $1.07 billion in 2008 from $988 million in 2007 and $911 million in 2006, an increase of $158 million over the past two years, or 17.3 percent.

Utilities *(in millions of dollars)*

Utility costs rose by $20 million in 2008 and by $22 million in 2007. Almost three-quarters of the University's utility costs are for electricity and natural gas. Electricity costs decreased by $5 million in 2008, after growing by $27 million in 2007. Natural gas costs increased by $15 million in 2008, after dropping by $2 million in 2007.

Supplies and materials *(in millions of dollars)*

During 2008, supplies and materials costs increased by $192 million, or 10.0 percent, and in 2007, by $83 million, or 4.5 percent. During the past year, 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.

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 $1.09 billion in 2008 from $1.05 billion in 2007 and $997 million in 2006.

DOE laboratories *(in millions of dollars)*

DOE laboratory expenses in 2008, 2007 and 2006 are as follows:

(in millions of dollars)

	2008	2007	2006
Lawrence Berkeley National Laboratory	$ 540	$ 514	$ 515
Lawrence Livermore National Laboratory	443	1,597	1,605
Los Alamos National Laboratory			2,013
DOE expense related to pension benefits		17	
DOE expense related to retiree health benefits	56	42	65
DOE laboratory expenses	**$1,039**	**$2,170**	**$4,198**

DOE laboratories' expenses declined by $1.13 billion in 2008 and declined by $2.03 billion in 2007.

At LBNL, expenses, excluding pension and retiree health, grew by $26 million. Salaries, along with employee benefits for active employees, are the predominant expenses, totaling $229 million in 2008, an increase of $14 million from 2007. Supplies and materials required for maintenance and seismic safety upgrades increased by $23 million, although spending for equipment was $11 million less in 2008.

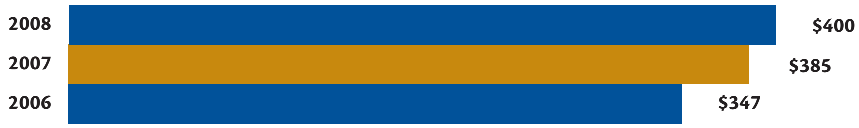
LLNL operating expenses were reported in the University's financial statements through September 30, 2007, the date the University's contract to directly manage and operate LLNL terminated. The contract transitioned to LLNS effective October 1, 2007. As a result, expense comparisons for LLNL are affected by the partial year in 2008.

LANL operating expenses were reported in the University's financial statements through May 31, 2006, the date the University's contract to directly manage and operate LANL terminated. The contract transitioned to LANS effective June 1, 2006.

As discussed above, the University's pension benefit expense is actuarially determined and independently calculated for the DOE laboratories, separate from the campuses and medical centers. Due to the funded status of the DOE laboratory segment of the UCRP, there was no pension benefit expense attributable to the DOE laboratories in 2008 or 2006, although there was an expense in 2007 associated with employees who formerly worked at LANL.

Beginning in 2008, the University's retiree health benefit expense is also actuarially determined and independently calculated for LBNL, separate from the campuses and medical centers. LANL and LLNL do not participate in the University's retiree health plan subsequent to their contract termination dates. Retiree health benefit expense for the DOE laboratories in 2008 of $56 million consists of $44 million for LBNL resulting from the implementation of GASB Statement No. 45, and $12 million for LLNL activity through September 30, 2007. Prior to 2008, retiree health benefit expenses were recognized as they were paid and included LLNL and LANL through their contract termination dates.

Interest expense *(in millions of dollars)*



Interest expense, reported as a nonoperating expense, increased by $15 million in 2008 and by $38 million in 2007. In addition to decreased capitalized interest in 2008 and 2007 of $9 million and $13 million, respectively, 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 any gain or loss on disposals of capital assets and other nonoperating expenses, increased by $235 million in 2008 and $179 million in 2007. In both 2008 and in 2007, there were increases across a variety of expense categories, including travel, rent, insurance, legal settlements and repairs and maintenance. However, improved management of professional liability insurance claims in 2008 and a non-recurring expense in 2007 resulted in lower costs by $44 million. In addition, disposals and write-offs of capital assets resulted in a loss of $16 million in 2008 compared to a gain of $13 million in 2007. Typically, routine disposals result in a very slight gain or loss.

In accordance with the GASB's reporting standards, operating losses were $4.71 billion in 2008, $3.26 billion in 2007 and $2.75 billion in 2006. The operating loss in 2008 increased significantly from 2007 and 2006 from the $1.36 billion retiree health benefit expense that resulted from implementation of GASB Statement No. 45. The operating loss was partially offset in 2008 by $3.98 billion of net revenue that is required by the GASB to be classified as nonoperating, but clearly supports core operating activities of the University. As a result, in 2008 expenses exceeded revenue available to support core activities by $725 million.

In 2007 and 2006, operating losses were more than offset by $3.77 billion and $3.42 billion, respectively, of net nonoperating revenue. Therefore, revenue to support core activities exceeded the associated expenses by $506 million in 2007 and $676 million in 2006.

Other Nonoperating Activities

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

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

In 2008, the University recognized net depreciation in the fair value of investments of $192 million compared to net appreciation of $949 million during 2007 and $315 million in 2006. Equity markets suffered losses in 2008, partially offset by an increase in the fair value of certain securities in the fixed-income portfolios. Conversely, in 2007 and 2006, equity markets delivered substantial gains, although as short-term interest rates rose over these two years the fair value of securities in the fixed-income portfolios declined.

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 $101 million in 2008 and increased by $73 million in 2007. 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 $28 million in 2008 and by $50 million in 2007. Private capital gifts increased in 2008, offsetting reductions from federal and state sources. Significant Federal Emergency Management Agency (FEMA) grants, primarily for the replacement hospitals at UCLA, declined in 2008 as the projects approached completion. Grants from FEMA decreased by $26 million in 2008 after increasing by $7 million in 2007. In 2007, the University received $30 million from the state for capital requirements to support patient care for children.

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 $215 million in 2008, $210 million in 2007 and $204 million in 2006.

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 2008, 2007 and 2006 is as follows:

(in millions of dollars)

	2008	2007	2006
Cash received from operations	$ 14,438	$ 13,100	$ 12,454
Cash payments for operations	(16,385)	(15,299)	(14,655)
Net cash used by operating activities	**(1,947)**	**(2,199)**	**(2,201)**
Net cash provided by noncapital financing activities	3,708	3,472	3,221
Net cash used by capital and related financing activities	(1,453)	(1,721)	(772)
Net cash provided (used) by investing activities	(347)	393	(210)
Net increase (decrease) in cash	**(39)**	**(55)**	**38**
Cash, beginning of year	147	202	164
Cash, end of year	**$ 108**	**$ 147**	**$ 202**

The University's cash in demand deposit accounts declined by $39 million and $55 million in 2008 and 2007, respectively, after increasing by $38 million in 2006. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis.

Nearly $1.95 billion of cash was used for operating activities in 2008, offset by $3.71 billion of cash provided by noncapital financing activities, resulting in $1.76 billion of cash before capital financing or investing activities. Similarly, in 2007, $2.20 billion of cash was used for operating activities, offset by $3.47 billion of cash provided by noncapital financing activities, resulting in $1.28 billion of cash before 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. Taken together, these two categories of sources of cash were greater in 2008 than 2007 by a combined $488 million.

Cash of $1.45 billion and $1.72 billion in 2008 and 2007, 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 2008, proceeds from the issuance of debt, net of the refinancing of previously outstanding debt, were higher than 2007 by $204 million, state capital appropriations were greater by $117 million and purchases of capital assets were only slightly greater than the prior year by $14 million.

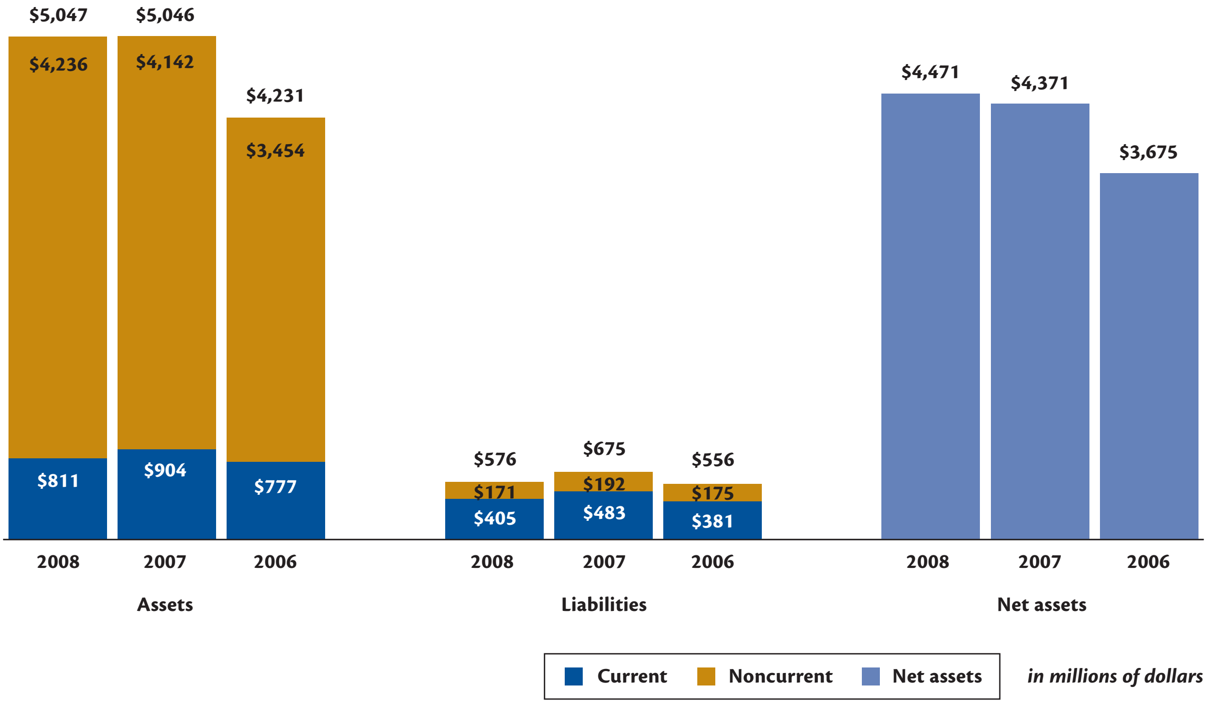
Cash used by investing activities totaled $347 million in 2008 compared to cash provided in 2007 of $393 million. The differences are the result of the routine timing of investment purchases that required $791 million more cash in 2008 than 2007 and, to a lesser extent, greater investment income.

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 2008, 2007 and 2006 are as follows:

(in millions of dollars)

	2008	2007	2006
ASSETS			
Investments	$ 4,159	$ 4,037	$ 3,364
Investment of cash collateral	280	367	280
Pledges receivable, net	421	450	430
Other assets	187	192	157
Total assets	**5,047**	**5,046**	**4,231**
LIABILITIES			
Securities lending collateral	280	367	280
Obligations under life income agreements	181	181	163
Other liabilities	115	127	113
Total liabilities	**576**	**675**	**556**
NET ASSETS			
Restricted:			
Nonexpendable	1,916	1,728	1,527
Expendable	2,528	2,628	2,132
Unrestricted	27	15	16
Total net assets	**$4,471**	**$4,371**	**$3,675**

Assets. Investments in 2008 grew by $122 million. The significant changes were $180 million of new permanent endowments, $76 million of investment income and $12 million of net cash receipts as cash receipts from gifts were greater than the foundations' grants to the University, partially offset by $143 million of net depreciation in the fair value of investments.

Investments in 2007 grew by $673 million, generally resulting from $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.

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 $1.03 billion and $1.13 billion of the campus foundations' investments at the end of 2008 and 2007, respectively.

The financial markets, both domestically and internationally, are currently demonstrating significant volatility on a daily basis that affect the valuation of investments. As a result, the fair value of investments held by the campus foundations has declined subsequent to June 30, 2008. The Boards of Trustees for the campus foundations utilize asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk.

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. Two campus foundations participate directly in their own securities lending program. The investment of cash collateral and related securities lending liability allocated by the University to the campus foundations totaled $199 million and $320 million at the end of 2008 and 2007, respectively. The campus foundations with direct participation loaned securities for cash collateral of $78 million and $46 million at the end of 2008 and 2007, 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 $421 million at the end of 2008, down slightly by $29 million from last year. Pledges receivable were $450 million in 2007, an increase of $20 million from 2006.

Liabilities. Total campus foundations' liabilities were $576 million in 2008 compared to $675 million in 2007 and $556 million in 2006. The $99 million decrease in 2008 is primarily related to securities lending activity that dropped by $87 million. Liabilities increased in 2007 primarily due to securities lending activity that grew by $87 million.

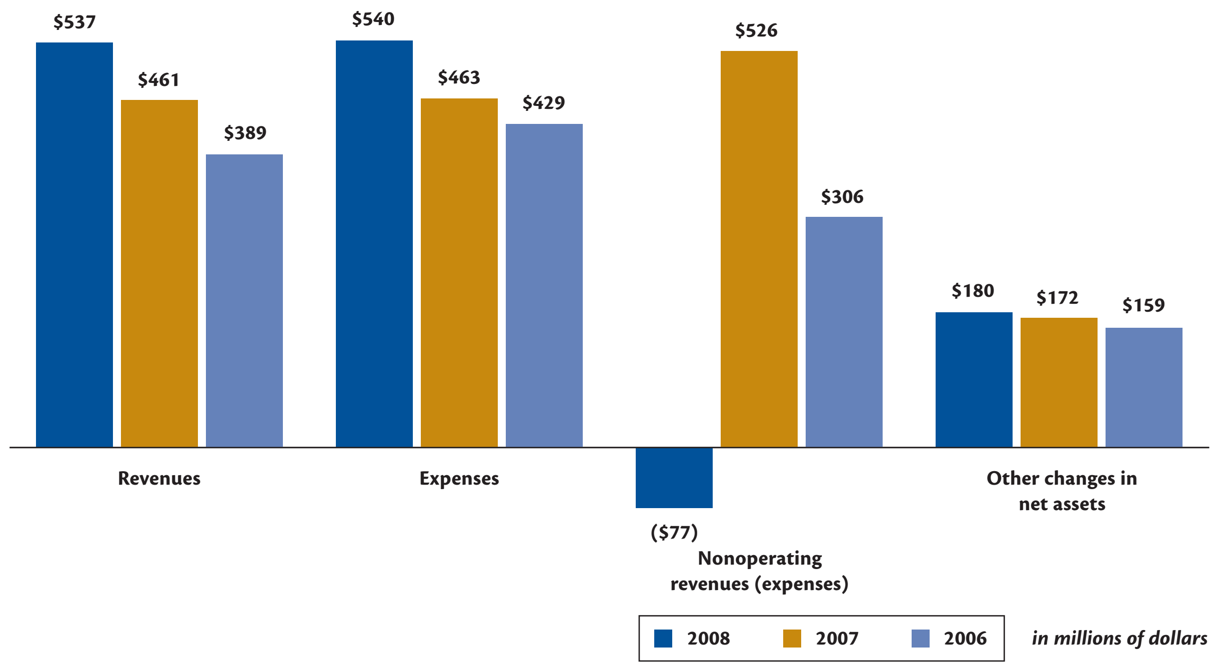
Net assets. Net assets are reported in certain categories based upon the nature of the restrictions on their use.

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 or depreciation in the fair value of investments were the primary reasons for the changes in value in 2008 and 2007.

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 2008, 2007 and 2006 is as follows:

(in millions of dollars)

	2008	2007	2006
OPERATING REVENUES			
Private gifts	$ 534	$ 458	$ 388
Other revenues	3	3	1
Total operating revenues	**537**	**461**	**389**
OPERATING EXPENSES			
Grants to campuses	528	451	416
Other expenses	12	12	13
Total operating expenses	**540**	**463**	**429**
Operating loss	**(3)**	**(2)**	**(40)**
NONOPERATING REVENUES (EXPENSES)			
Investment income	76	79	69
Net appreciation (depreciation) in fair value of investments	(143)	451	234
Other nonoperating revenues (expenses)	(10)	(4)	3
(Loss) income before other changes in net assets	**(80)**	**524**	**266**
OTHER CHANGES IN NET ASSETS			
Permanent endowments	180	172	159
Increase in net assets	**100**	**696**	**425**
NET ASSETS			
Beginning of year	4,371	3,675	3,250
End of year	**$4,471**	**$4,371**	**$3,675**

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 $76 million and $72 million in 2008 and 2007, 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 $76 million was lower than $79 million in 2007, although higher than $69 million in 2006. Due to the performance of the financial markets in 2008 and 2007, the campus foundations' results include $143 million of net depreciation in the fair value of investments in 2008 and $451 million of net appreciation in the fair value of investments in 2007.

Other changes in net assets. Gifts of permanent endowments of $180 million in 2008 grew by $8 million from 2007 levels. In 2007, gifts of permanent endowments grew by $13 million from 2006.

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 2008, 2007 and 2006 is as follows:

(in millions of dollars)

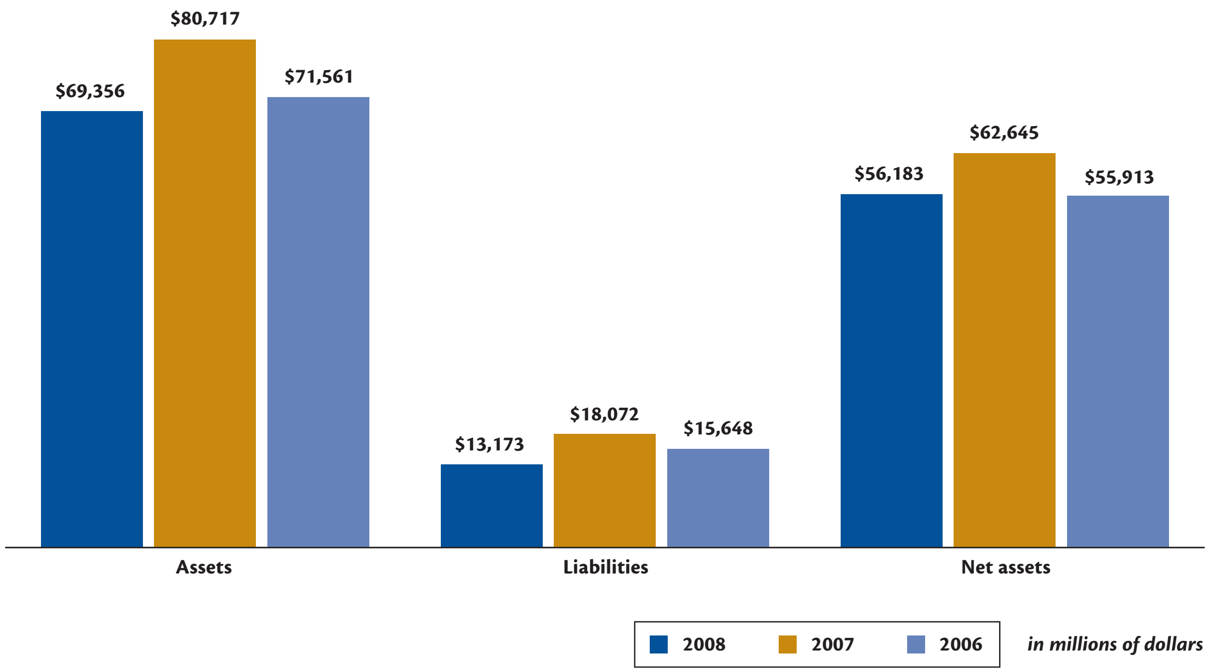
	2008	2007	2006
Cash received from private gifts	$ 551	$ 429	$ 385
Cash payments for grants	(547)	(463)	(430)
Other cash receipts (payments), net	8	3	(3)
Net cash provided (used) by operating activities	**12**	**(31)**	**(48)**
Net cash provided by noncapital financing activities	163	163	141
Net cash used by investing activities	(186)	(96)	(47)
Net increase (decrease) in cash and cash equivalents	**(11)**	**36**	**46**
Cash and cash equivalents, beginning of year	162	126	80
Cash and cash equivalents, end of year	**$ 151**	**$ 162**	**$ 126**

Cash and cash equivalents were $151 million in 2008 compared to $162 million in 2007, a decrease of $11 million. In 2007, cash increased by $36 million. Cash provided by operating activities was $12 million in 2008 compared to cash used of $31 million in 2007 due to the timing of 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. Cash used by investing activities totaled $186 million in 2008 compared to $96 million in 2007. The difference is the result of the routine timing of investment purchases.

THE UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (The 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, 2008, the UCRS plans' assets were over $69 billion, liabilities were over $13 billion and net assets held in trust for pension benefits exceeded $56 billion, a decrease of $6.46 billion from 2007. Net assets increased in 2007 by $6.73 billion from 2006.

The major components of the assets, liabilities and net assets available for pension benefits for 2008, 2007 and 2006 are as follows:

(in millions of dollars)

	2008	2007	2006
ASSETS			
Investments	$ 52,532	$ 59,685	$ 53,866
Participants' interest in external mutual funds	3,773	3,794	3,019
Investment of cash collateral	12,162	16,884	13,993
Other assets	889	354	683
Total assets	**69,356**	**80,717**	**71,561**
LIABILITIES			
Securities lending collateral	12,224	16,885	13,994
Other liabilities	949	1,187	1,654
Total liabilities	**13,173**	**18,072**	**15,648**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Members' defined benefit plan benefits	42,099	48,192	43,440
Participants' defined contribution plan benefits	14,084	14,453	12,473
Total net assets held in trust for pension benefits	**$56,183**	**$62,645**	**$55,913**

Assets. UCRS investments, including participants' interest in external mutual funds, totaled $56.31 billion at the end of 2008 compared to $63.48 billion at the end of 2007, a decrease of $7.17 billion, including the net effect at the end of the year of security purchases and sales yet to be settled of $928 million. The decrease, excluding the effect of future settlements of security purchases and sales, was generally a result of $1.04 billion in contributions to the UCRS and $1.89 billion in net investment earnings that were more than offset by benefit payments and participant withdrawals of $2.80 billion, $4.98 billion of net depreciation in the fair value of investments and a transfer of UCRP assets to the LLNS defined benefit plan of $1.57 billion.

In 2007, UCRS investments, including participants' interest in external mutual funds, increased by $6.59 billion, including the net effect at the end of the year of security purchases or sales yet to be settled of $141 million. The increase, excluding the effect of future settlements of security purchases and sales, was primarily 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.

During 2008, participants' interest in external mutual funds, representing defined contribution plan contributions to certain external mutual funds on a custodial plan basis, dropped by $21 million to $3.77 billion primarily through a combination of $299 million of participant contributions and $153 million transferred from University-managed investments, partially offset by $184 million of investment earnings and depreciation in the fair value of investments and $289 million of participant withdrawals. In 2007, participants' interest in external mutual funds 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.

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 decreased in 2008 by 28 percent after having increased in 2007 by 21 percent. As with the University, there was decreased demand from borrowers for certain classes of fixed income securities and decreased availability of certain of the UCRS' equity securities resulting from asset allocation changes from publicly traded equity securities to alternative investments.

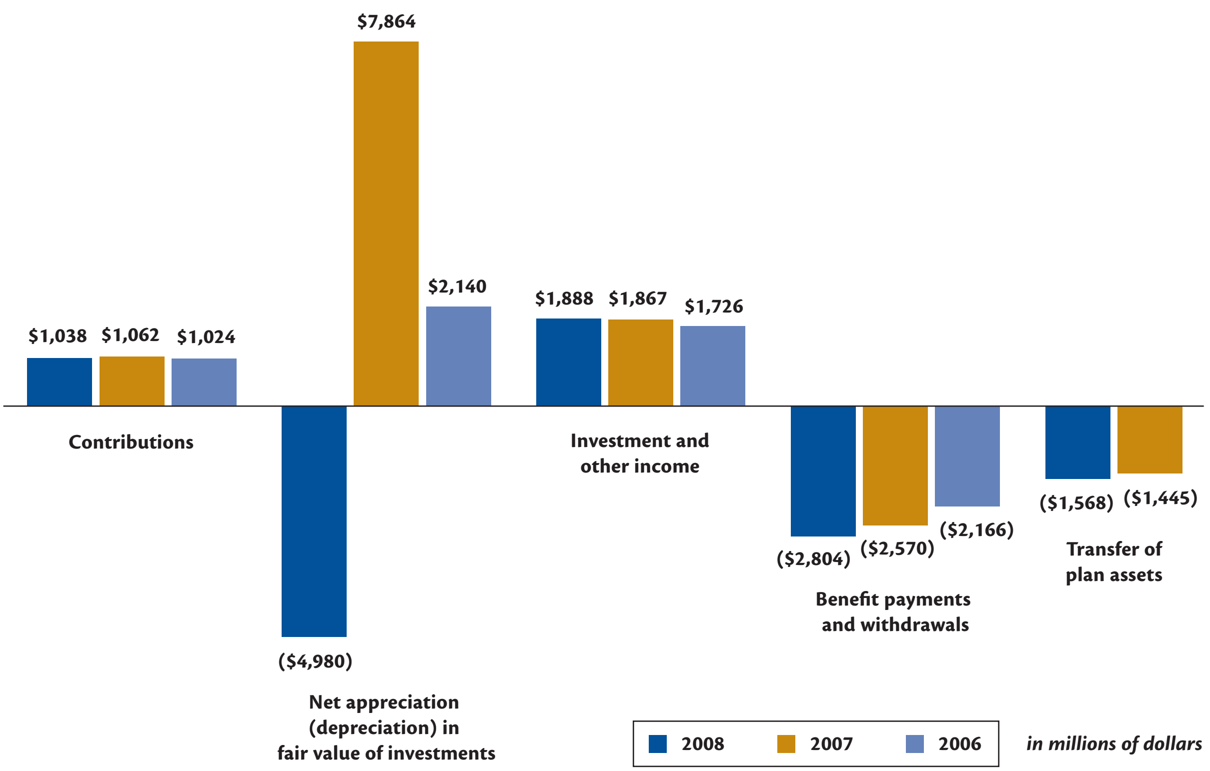
The financial markets, both domestically and internationally, are currently demonstrating significant volatility on a daily basis that affect the valuation of investments. As a result, the fair value of investments held by the UCRS has declined subsequent to June 30, 2008. The Regents of the University of California utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk.

Liabilities. Total UCRS liabilities were $13.17 billion in 2008 compared to $18.07 billion in 2007. Over $4.66 billion of the decrease results from the securities lending program, with the remainder a result of liabilities for security purchases to be settled after year-end.

Net assets. As of June 30, 2008, a total of $42.10 billion of the net assets are dedicated to the UCRP members' defined benefit plan benefits and over $14.08 billion are associated with participants' tax deferred, defined contribution plan benefits. As of July 1, 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 July 1, 2006. Given the investment return in 2008, it is likely that the funded ratio will decline when the July 1, 2008 actuarial valuation becomes available.

While all assets of the UCRP are available to pay any member's benefits, 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 July 1, 2007, the funded ratio for the campus and medical center segment was 105.2 percent compared to 105.6 percent as of July 1, 2006. For the DOE national laboratory segment, as of July 1, 2007 the funded ratio was 103.5 percent compared to 100.1 percent as of July 1, 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 2008, 2007 and 2006 is as follows:

(in millions of dollars)

	2008	2007	2006
ADDITIONS (REDUCTIONS)			
Contributions	$ 1,038	$ 1,062	$ 1,024
Net appreciation (depreciation) in fair value of investments	(4,980)	7,864	2,140
Investment and other income, net	1,888	1,867	1,726
Total additions (reductions)	**(2,054)**	**10,793**	**4,890**
DEDUCTIONS			
Benefit payments and participant withdrawals	2,804	2,570	2,166
Plan expenses	36	46	42
Transfer of assets to the LANS defined benefit plan		1,445	
Transfer of assets to the LLNS defined benefit plan	1,568		
Total deductions	**4,408**	**4,061**	**2,208**
Increase (decrease) in net assets held in trust for pension benefits	**$(6,462)**	**$ 6,732**	**$2,682**

Contributions. Contributions in 2008 decreased by $24 million after increasing in 2007 by $38 million. The majority of contributions, nearly $1.04 billion in 2008, are made by participants into the defined contribution plans that included $8 million and $13 million of University contributions in 2008 and 2007, 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. 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 (depreciation) appreciation in fair value of investments. The UCRS recognized net depreciation in the fair value of investments of $4.98 billion during 2008 compared to $7.86 billion net appreciation in the fair value of investments during 2007.

The overall investment loss based upon unit values for the UCRS was (5.0) percent in 2008 compared to an investment gain of 17.7 percent in 2007.

Investment and other income. Investment and other income in 2008 of $1.89 billion increased by $21 million, or 1.1 percent. Similarly, investment and other income in 2007 of $1.87 billion increased by $141 million, or 8.2 percent. Short-term interest rates declined in 2008 after rising in 2007 and 2006. Securities lending investment income, net of fees and rebates, increased to $97 million in 2008 from $32 million in 2007. A reduction in interest rates during the year resulted in lower levels of both gross income and rebates, although yields available from lending U.S. government fixed income securities were greater than in 2007.

Benefit payments and withdrawals. Benefit payments and participant withdrawals were $234 million higher in 2008 than in 2007 and $404 million higher in 2007 than in 2006. Payments from the UCRP and PERS-VERIP to retirees increased by $154 million and $175 million in 2008 and 2007, respectively, due to a growing number of retirees receiving payments and cost-of-living adjustments and member withdrawals. At the beginning of 2008, there were 47,600 retirees and beneficiaries receiving payments compared to 45,400 at the beginning of 2007. In addition, elections of lump sum cash-outs of the UCRP and participant withdrawals from the Retirement Savings Plans grew by $80 million and $229 million in 2008 and 2007, respectively. In 2008 and 2007, participant withdrawals from the Retirement Savings Plans were affected by former employees at LLNL and LANL transitioning from the University to LLNS and LANS.

Transfer of assets to LLNS' and LANS' defined benefit plans. With the selection of LLNS as the successor contractor to the University for the management of LLNL effective October 1, 2007, assets and liabilities attributable to the UCRP benefits of the approximately 3,900 LLNL employees who accepted employment with LLNS and elected to participate in the defined benefit plan established by LLNS were transferred to the LLNS defined benefit plan. The market value of assets transferred as of March 31, 2008 to the LLNS defined benefit plan associated with the transitioning employees who are not retained in the UCRP was $1.57 billion.

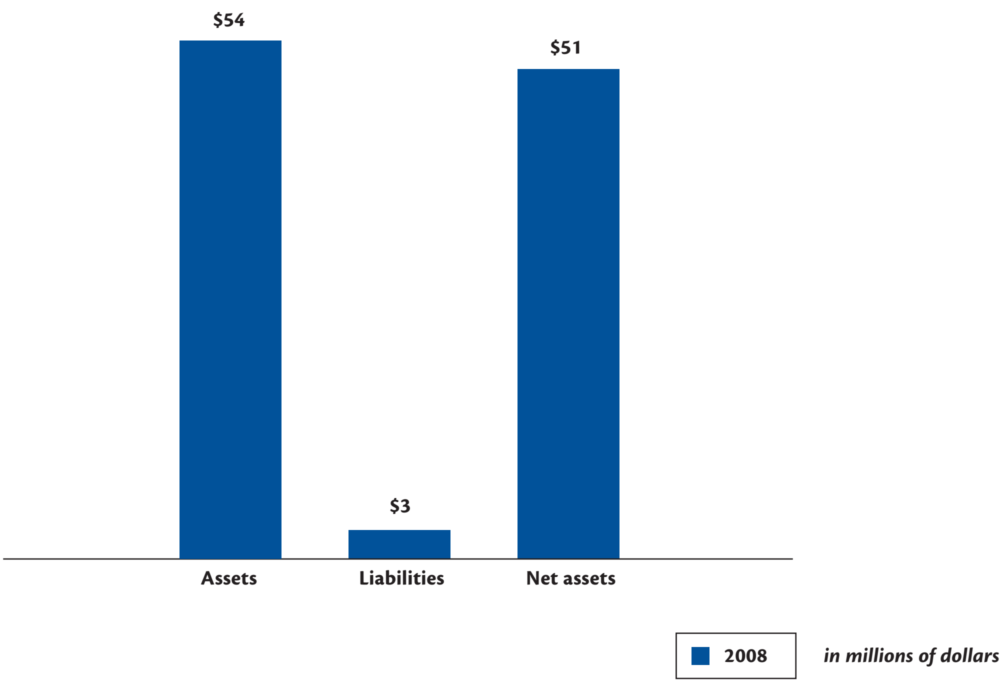
With the selection of LANS as the successor contractor to the University for the management of LANL effective June 1, 2006, assets and liabilities attributable to the UCRP benefits of the approximately 6,500 LANL employees who accepted employment with LANS and elected to participate in the defined benefit 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 2008 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 and Benefits, Post Office Box 24570, Oakland, California 94623.

THE UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (The UCRHBT)

The UCRHBT was established July 1, 2007 to allow certain University locations—primarily campuses and medical centers—that share the risks, rewards and costs of providing for retiree health benefits to fund such benefits on a cost-sharing basis and accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. The University contributes toward retiree medical and dental benefits, although it does not contribute toward the cost of other benefits available to retirees. The DOE laboratories do not participate in the UCRHBT, therefore the DOE has no interest in the Trust's assets.

The UCRHBT's Financial Position



The statement of plan's fiduciary net assets presents the financial position of the UCRHBT at the end of the fiscal year. It displays all of the UCRHBT's assets, liabilities and net assets. The difference between assets and liabilities are the net assets held in trust for retiree health benefits. These represent amounts available to provide retiree health benefits to its participants. At June 30, 2008, the UCRHBT's assets were $54 million, liabilities were $3 million and net assets held in trust for retiree health benefits were $51 million.

The major components of the assets, liabilities and net assets available for retiree health benefits for 2008 are as follows:

(in millions of dollars)

	2008
ASSETS	
Investments	$ 20
Other assets	34
Total assets	**54**
LIABILITIES	
Total liabilities	**3**
NET ASSETS HELD IN TRUST FOR RETIREE HEALTH BENEFITS	
Total net assets held in trust for retiree health benefits	**$51**

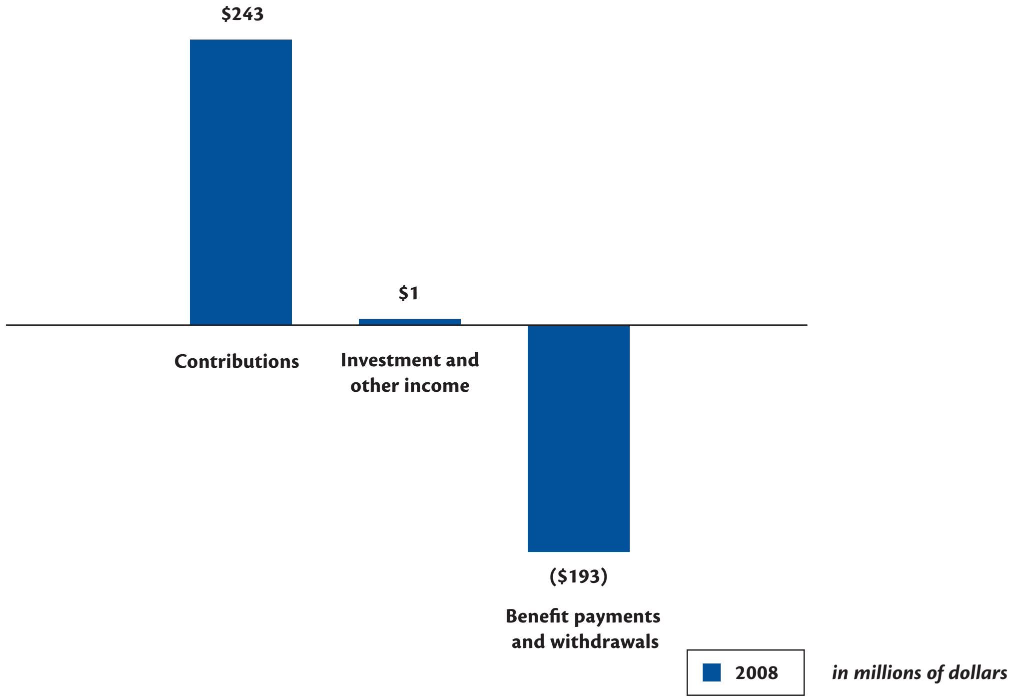
Assets. UCRHBT investments totaling $20 million in 2008 are restricted to a portfolio of high-quality money market instruments in a commingled fund. Other assets consist of receivables, primarily contributions from the University of $15 million and rebates from insurance carriers of $4 million, and prepaid insurance premiums of $15 million.

Liabilities. UCRHBT liabilities were $3 million in 2008 and consist of insurance premiums and claims and administrative expenses payable to the University.

Net assets. Net assets of $51 million are for the exclusive purpose of providing retiree health benefits pursuant to the University's plan to participants and beneficiaries who retired from a campus or medical center, and defraying the reasonable expenses associated with providing such benefits.

The retiree benefits provided under the University's plan and any liabilities related to the future funding requirements for the retiree benefits are reported by the University. The actuarial accrued liability associated with the participants and beneficiaries who retired from a campus or medical center at July 1, 2007, the date of the latest actuarial valuation, was over $12.07 billion. Contributions made to the UCRHBT toward retiree health benefits, at rates determined by the University, reduce the unfunded actuarial accrued liability.

The UCRHBT's Results of Operations



The statement of changes in plan's fiduciary net assets is a presentation of the UCRHBT's operating results. It indicates whether the financial condition has improved or deteriorated during the year. Summarized operating results for 2008 are as follows:

(in millions of dollars)

	2008
ADDITIONS	
Contributions	$ 243
Investment income	1
Total additions	**244**
DEDUCTIONS	
Insurance premiums and payments	191
Plan expenses	2
Total deductions	**193**
Increase in net assets held in trust for retiree health benefits	**$ 51**

Contributions. Contributions in 2008 totaled $243 million. The University provided a one-time contribution of $20 million on July 1, 2007 in order to provide initial cash for working capital purposes. Campuses and medical centers contributed $206 million during the year based upon projected pay-as-you-go financing, and retirees from campuses and medical centers contributed $17 million.

Investment income. Investment income consists of interest income of $1 million. The overall investment return was 4.3 percent for the year.

Insurance premiums and payments. Insurance premiums and payments were $191 million in 2008, including $4 million of insurance rebates from carriers.

Plan expenses. The University acts as a third-party administrative agent on behalf of the UCRHBT to pay health care insurers and administrators amounts currently due. The UCRHBT paid the University $2 million in 2008 for the cost of providing these services.

Additional information on the retiree health benefit plan can be obtained from the 2008 annual reports of the University of California Health and Welfare Plan by writing to the University of California, Office of the President, Human Resources and Benefits, Post Office Box 24570, Oakland, California 94623.

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 have been 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. Four 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 was to address fundamental financial support, enrollment, student fees and other key program elements for 2007 through 2011 and to provide 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 committed to focus its resources to address long-term accountability goals for enrollment, student fees, financial aid and program quality, among other areas. The state's support of the University in 2009 is less than anticipated under the Compact and roughly equivalent to the 2008 levels. Unless the state's economy and fiscal condition improve, state support for the University in 2010 may also be limited.

In 2009, resident undergraduate fees, graduate student fees and most professional school fees will increase by approximately 7 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 bipartisan 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 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 2009 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.

Currently, the University does not pre-fund retiree health benefits and provides for benefits on a pay-as-you-go basis. Long-term strategic policy issues, such as pre-funding, will be considered in the future. If pre-funding occurs in the future, the UCRHBT will be the entity that holds the assets.

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. It is anticipated that contributions will need to resume soon through a multi-year strategy under which shared employer and employee contributions will increase gradually over time based upon UCRP's current normal cost of approximately 16 percent of covered compensation. The Regents has not yet authorized the initial resumption of contributions.

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. 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 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. The state budget also includes an additional $204 million in lease-revenue bond financing to support a variety of campus projects. 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.

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 report of other auditors, the financial statements listed in the accompanying table of contents on page 5, 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, 2008 and 2007, 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 and the fiduciary net assets of the University of California Retiree Health Benefit Trust (the "Trust") at June 30, 2008 and the changes in the Trust's fiduciary net assets for the year 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 represents 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. Those financial statements were audited by another auditor whose report thereon has 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 report of the other auditor. 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 report of other auditors provide a reasonable basis for our opinions.

As discussed in the significant accounting policies in the Notes to Financial Statements, the University adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of July 1, 2007.

The Required Supplementary Information ("RSI") on pages 112 through 113 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the RSI. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

San Francisco, California
October 10, 2008

UNIVERSITY OF CALIFORNIA

STATEMENTS OF NET ASSETS

AT JUNE 30, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2008	2007	2008	2007
ASSETS				
Cash and cash equivalents	$ 108,016	$ 147,209	$ 150,660	$ 161,543
Short-term investments	4,068,848	2,574,989	346,492	376,666
Investment of cash collateral	2,096,106	3,042,293	210,224	261,084
Investments held by trustees	55,345	41,937		
Accounts receivable, net	2,426,507	2,145,559	12,343	5,893
Pledges receivable, net	55,759	56,418	88,942	94,939
Current portion of notes and mortgages receivable, net	32,206	28,242	32	42
Inventories	157,920	143,254		
Department of Energy receivable	82,552	210,162		
Other current assets	133,328	134,688	2,370	4,120
Current assets	**9,216,587**	**8,524,751**	**811,063**	**904,287**
Investments	10,759,175	11,635,046	3,812,419	3,659,823
Investment of cash collateral	1,121,617	1,511,546	69,453	106,069
Investments held by trustees	735,104	751,798		
Pledges receivable, net	50,399	65,637	331,803	355,403
Notes and mortgages receivable, net	287,107	275,457	502	551
Department of Energy receivable	31,494	27,080		
Capital assets, net	19,593,214	18,105,332		
Other noncurrent assets	188,104	178,802	21,523	19,911
Noncurrent assets	**32,766,214**	**32,550,698**	**4,235,700**	**4,141,757**
Total assets	**41,982,801**	**41,075,449**	**5,046,763**	**5,046,044**
LIABILITIES				
Accounts payable	1,332,914	1,257,402	8,087	8,745
Accrued salaries	705,354	269,937		
Employee benefits	195,385	205,158		
Deferred revenue	968,686	754,158		1,551
Collateral held for securities lending	3,233,514	4,553,954	279,677	367,153
Commercial paper	550,000	550,000		
Current portion of long-term debt	546,461	629,713		
Funds held for others	270,118	276,945	92,584	80,559
Department of Energy laboratories' liabilities	66,374	178,899		
Other current liabilities	838,953	828,365	24,539	24,946
Current liabilities	**8,707,759**	**9,504,531**	**404,887**	**482,954**
Federal refundable loans	212,715	196,119		
Self-insurance	449,347	402,857		
Obligations under life income agreements	31,074	31,962	156,911	157,107
Long-term debt	8,928,521	8,184,017		
Obligations for retiree health benefits	1,118,754			
Other noncurrent liabilities	373,846	351,783	14,134	34,488
Noncurrent liabilities	**11,114,257**	**9,166,738**	**171,045**	**191,595**
Total liabilities	**19,822,016**	**18,671,269**	**575,932**	**674,549**
NET ASSETS				
Invested in capital assets, net of related debt	10,034,663	9,101,981		
Restricted:				
Nonexpendable:				
Endowments and gifts	952,502	920,329	1,915,829	1,727,602
Expendable:				
Endowments and gifts	5,340,738	5,457,743	2,527,896	2,628,262
Other, including debt service, loans, capital projects and appropriations	452,346	397,698		
Unrestricted	5,380,536	6,526,429	27,106	15,631
Total net assets	**$22,160,785**	**$22,404,180**	**$4,470,831**	**$4,371,495**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2008	**2007**	**2008**	**2007**
OPERATING REVENUES				
Student tuition and fees, net	$ 1,921,918	$ 1,737,597		
Grants and contracts, net				
Federal	2,910,560	2,881,396		
State	492,076	448,922		
Private	912,409	803,559		
Local	199,821	181,718		
Medical centers, net	4,917,235	4,526,355		
Educational activities, net	1,375,961	1,249,668		
Auxiliary enterprises, net	1,122,295	1,012,266		
Department of Energy laboratories	1,048,580	2,188,475		
Campus foundation private gifts			$ 533,548	$ 457,814
Other operating revenues, net	558,044	435,273	2,942	3,803
Total operating revenues	**15,458,899**	**15,465,229**	**536,490**	**461,617**
OPERATING EXPENSES				
Salaries and wages	9,359,064	8,569,207		
Retiree health benefits	1,355,362	174,521		
Other employee benefits	1,686,952	1,569,514		
Scholarships and fellowships	427,588	401,153		
Utilities	391,966	371,661		
Supplies and materials	2,101,594	1,909,814		
Depreciation and amortization	1,093,620	1,049,008		
Department of Energy laboratories	1,039,330	2,169,750		
Campus foundation grants			527,572	451,290
Other operating expenses	2,708,291	2,509,081	12,084	12,049
Total operating expenses	**20,163,767**	**18,723,709**	**539,656**	**463,339**
Operating loss	**(4,704,868)**	**(3,258,480)**	**(3,166)**	**(1,722)**
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	2,974,575	2,793,235		
State financing appropriations	163,794	156,899		
Private gifts, net	733,966	681,277		
Investment income:				
Short Term Investment Pool and other, net	348,029	339,528		
Endowment, net	159,220	161,909		
Securities lending, net	25,236	6,338	1,833	565
Campus foundations			76,008	78,825
Net appreciation(depreciation) in fair value of investments	(191,887)	948,887	(142,807)	450,633
Interest expense	(400,369)	(385,201)		
Gain (loss) on disposal of capital assets	(15,803)	12,664		
Other nonoperating expenses, net	(9,252)	(1,555)	(11,740)	(3,382)
Net nonoperating revenues (expenses)	**3,787,509**	**4,713,981**	**(76,706)**	**526,641**
Income (loss) before other changes in net assets	**(917,359)**	**1,455,501**	**(79,872)**	**524,919**
OTHER CHANGES IN NET ASSETS				
State capital appropriations	393,964	293,358		
Capital gifts and grants, net	245,305	216,783		
Permanent endowments	34,695	38,515	179,208	171,707
Increase (decrease) in net assets	**(243,395)**	**2,004,157**	**99,336**	**696,626**
NET ASSETS				
Beginning of year	22,404,180	20,400,023	4,371,495	3,674,869
End of year	**$22,160,785**	**$22,404,180**	**$4,470,831**	**$4,371,495**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2008	2007	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Student tuition and fees	$ 1,916,970	$ 1,737,847		
Grants and contracts	4,701,366	4,276,529		
Medical centers	4,830,034	4,446,937		
Educational activities	1,344,471	1,243,164		
Auxiliary enterprises	1,130,832	1,010,263		
Collection of loans from students and employees	47,675	58,818		
Campus foundation private gifts			$ 550,625	$ 429,131
Payments to employees	(8,882,119)	(8,520,200)		
Payments to suppliers and utilities	(5,020,301)	(4,606,013)		
Payments for retiree health benefits	(234,413)	(215,939)		
Payments for other employee benefits	(1,759,611)	(1,487,113)		
Payments for scholarships and fellowships	(427,558)	(400,836)		
Loans issued to students and and employees	(61,421)	(68,525)		
Payments to campuses and beneficiaries			(546,557)	(463,439)
Other receipts	466,665	326,174	8,191	3,110
Net cash provided (used) by operating activities	**(1,947,410)**	**(2,198,894)**	**12,259**	**(31,198)**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	2,981,254	2,798,516		
Gifts received for other than capital purposes:				
Private gifts for endowment purposes	32,480	38,259	160,528	157,174
Other private gifts	702,648	644,670		
Receipt of retiree health contributions from UCRP	16,952			
Payment of retiree health contributions to UCRHBT	(15,569)			
Receipts from UCRHBT	209,363			
Payments for retiree health benefits made on behalf of UCRHBT	(205,127)			
Student direct lending receipts	508,169	468,180		
Student direct lending payments	(508,169)	(468,180)		
Other receipts (payments)	(13,831)	(9,182)	2,832	5,877
Net cash provided by noncapital financing activities	**3,708,170**	**3,472,263**	**163,360**	**163,051**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Commercial paper financing:				
Proceeds from issuance	527,807	127,405		
Payments of principal	(527,807)	(127,405)		
Interest paid	(18,674)	(21,150)		
State capital appropriations	394,026	277,130		
State financing appropriations	3,392	2,483		
Capital gifts and grants	176,540	164,692		
Proceeds from debt issuance	1,684,326	2,294,416		
Proceeds from the sale of capital assets	9,057	59,717		
Proceeds from insurance recoveries		935		
Purchase of capital assets	(2,440,692)	(2,426,740)		
Refinancing or prepayment of outstanding debt	(663,888)	(1,477,837)		
Scheduled principal paid on debt and capital leases	(281,411)	(233,977)		
Interest paid on debt and capital leases	(316,021)	(360,639)		
Net cash used by capital and related financing activities	**(1,453,345)**	**(1,720,970)**		
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	72,001,318	67,128,618	767,356	646,519
Purchase of investments	(72,889,296)	(67,226,945)	(1,030,345)	(824,716)
Investment income, net of investment expenses	541,370	491,111	76,487	81,863
Net cash provided (used) by investing activities	**(346,608)**	**392,784**	**(186,502)**	**(96,334)**
Net increase (decrease) in cash and cash equivalents	**(39,193)**	**(54,817)**	**(10,883)**	**35,519**
Cash and cash equivalents, beginning of year	147,209	202,026	161,543	126,024
Cash and cash equivalents, end of year	**$ 108,016**	**$ 147,209**	**$ 150,660**	**$161,543**

See accompanying Notes to Financial Statements

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2008	2007	2008	2007
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES				
Operating loss	$ (4,704,868)	$ (3,258,480)	$ (3,166)	$ (1,722)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation and amortization expense	1,093,620	1,049,008		
Noncash gifts			(17,839)	(15,610)
Allowance for doubtful accounts	1,234	30,169	896	(555)
Loss on impairment of capital assets	1,483	24		
Change in assets and liabilities:				
Investments			(754)	(508)
Accounts receivable	(462,274)	(229,259)	(6,687)	(222)
Pledges receivable			28,624	(20,313)
Investments held by trustees	(34,190)	(38,826)		
Inventories	(14,666)	(14,044)		
Other assets	(16,982)	(32,931)	33,296	985
Accounts payable	128,798	76,414	2,589	548
Accrued salaries	435,417	31,356		
Employee benefits	205,400	40,383		
Deferred revenue	177,879	81,561	(22,000)	(98)
Self-insurance	37,160	35,361		
Obligations to life beneficiaries			(12,862)	3,811
Obligations for retiree health benefits	1,118,754			
Other liabilities	85,825	30,370	10,162	2,486
Net cash provided (used) by operating activities	**$(1,947,410)**	**$(2,198,894)**	**$12,259**	**$(31,198)**
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION				
Capital assets acquired through capital leases	$ 58,615	$ 55,522		
Capital assets acquired with a liability at year-end	99,786	114,731		
Investments held by trustees	(18,707)	8,480		
State financing appropriations	160,403	145,982		
Gifts of capital assets	63,876	36,734	$ 25,523	$ 1,223
Other noncash gifts	40,080	15,293	92,998	100,482
Gain (loss) on the disposal of capital assets	(15,803)	12,664		
Debt service for, or refinancing of, lease revenue bonds	(166,751)	(515,940)		
Refinancing of interim loans under lease-purchase agreements	(206,106)	(8,692)		
Securities lending activity	(1,320,440)	1,098,154	32,829	(2,772)
Interest added to principal			5,455	
Beneficial interest in charitable remainder trust			7,324	

See accompanying Notes to Financial Statements

STATEMENTS OF PLANS' AND TRUST'S FIDUCIARY NET ASSETS

AT JUNE 30, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)		UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT)	TOTAL UCRS AND UCRHBT	
	2008	2007	2008	2008	2007
ASSETS					
Investments	$ 52,532,169	$ 59,685,467	$ 19,773	$ 52,551,942	$ 59,685,467
Participants' interest in external mutual funds	3,772,901	3,794,050		3,772,901	3,794,050
Investment of cash collateral	12,162,072	16,883,807		12,162,072	16,883,807
Participant 403(b) loans	96,790	87,085		96,790	87,085
Accounts receivable:					
Contributions from University and affiliates	67,394	92,617	14,671	82,065	92,617
Investment income	150,615	160,982		150,615	160,982
Securities sales and other	574,373	13,109	3,500	577,873	13,109
Prepaid insurance premiums			15,464	15,464	
Total assets	**69,356,314**	**80,717,117**	**53,408**	**69,409,722**	**80,717,117**
LIABILITIES					
Payable to University			2,604	2,604	
Payable for securities purchased	771,217	1,139,297		771,217	1,139,297
Member withdrawals, refunds and other payables	177,701	48,333		177,701	48,333
Collateral held for securities lending	12,223,854	16,884,510		12,223,854	16,884,510
Total liabilities	**13,172,772**	**18,072,140**	**2,604**	**13,175,376**	**18,072,140**
NET ASSETS HELD IN TRUST					
Members' defined benefit plan benefits	42,099,498	48,191,497		42,099,498	48,191,497
Participants' defined contribution plan benefits	14,084,044	14,453,480		14,084,044	14,453,480
Retiree health benefits			50,804	50,804	
Total net assets held in trust	**$56,183,542**	**$62,644,977**	**$ 50,804**	**$56,234,346**	**$62,644,977**

See accompanying Notes to Financial Statements

UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM AND RETIREE HEALTH BENEFIT TRUST

STATEMENTS OF CHANGES IN PLANS' AND TRUST'S FIDUCIARY NET ASSETS

YEARS ENDED JUNE 30, 2008 AND 2007 (IN THOUSANDS OF DOLLARS)

	UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM (UCRS)		UNIVERSITY OF CALIFORNIA RETIREE HEALTH BENEFIT TRUST (UCRHBT)	TOTAL UCRS AND UCRHBT	
	2008	2007	2008	2008	2007
ADDITIONS (REDUCTIONS)					
Contributions:					
Members and employees	$ 1,027,004	$ 1,024,984		$ 1,027,004	$ 1,024,984
Retirees			$ 16,952	16,952	
University	10,894	36,984	226,192	237,086	36,984
Total contributions	**1,037,898**	**1,061,968**	**243,144**	**1,281,042**	**1,061,968**
Investment income (expense), net:					
Net appreciation (depreciation) in fair value of investments	(4,979,955)	7,863,875		(4,979,955)	7,863,875
Interest, dividends and other investment income	1,784,761	1,828,398	691	1,785,452	1,828,398
Securities lending income	685,910	914,913		685,910	914,913
Securities lending fees and rebates	(588,787)	(882,466)		(588,787)	(882,466)
Total investment income (expense), net	**(3,098,071)**	**9,724,720**	**691**	**(3,097,380)**	**9,724,720**
Interest income from contributions receivable	5,700	6,119		5,700	6,119
Total additions (reductions)	**(2,054,473)**	**10,792,807**	**243,835**	**(1,810,638)**	**10,792,807**
DEDUCTIONS					
Benefit payments:					
Retirement payments	1,195,414	1,071,633		1,195,414	1,071,633
Member withdrawals	96,690	89,829		96,690	89,829
Cost-of-living adjustments	213,478	193,751		213,478	193,751
Lump sum cashouts	312,489	292,556		312,489	292,556
Preretirement survivor payments	32,315	29,480		32,315	29,480
Disability payments	36,098	35,816		36,098	35,816
Death payments	7,309	7,008		7,309	7,008
Participant withdrawals	910,365	849,939		910,365	849,939
Total benefit payments	**2,804,158**	**2,570,012**		**2,804,158**	**2,570,012**
Insurance premiums:					
Insured plans			151,189	151,189	
Self-insured plans			22,898	22,898	
Medicare Part B reimbursements			17,105	17,105	
Total insurance premiums, net			**191,192**	**191,192**	
Expenses:					
Plan administration	34,384	44,819	1,839	36,223	44,819
Other	1,211	1,113		1,211	1,113
Total expenses	**35,595**	**45,932**	**1,839**	**37,434**	**45,932**
Transfer of assets to LANS' defined benefit plan		**1,444,460**			**1,444,460**
Transfer of assets to LLNS' defined benefit plan	**1,567,209**			**1,567,209**	
Total deductions	**4,406,962**	**4,060,404**	**193,031**	**4,599,993**	**4,060,404**
Increase (decrease) in net assets held in trust	**(6,461,435)**	**6,732,403**	**50,804**	**(6,410,631)**	**6,732,403**
NET ASSETS HELD IN TRUST					
Beginning of year	62,644,977	55,912,574		62,644,977	55,912,574
End of year	**$56,183,542**	**$62,644,977**	**$ 50,804**	**$56,234,346**	**$62,644,977**

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 responsibility 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.

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.

Specific assets and liabilities and all revenues and expenses associated with the Lawrence Berkeley National Laboratory (LBNL)—a major United States Department of Energy (DOE) national laboratory operated and managed by the University under contract directly with the DOE—are included in the financial statements. In addition, prior to October 1, 2007, specific assets and liabilities and all revenues and expenses associated with the Lawrence Livermore National Laboratory (LLNL)—another major DOE national laboratory operated and managed by the University under contract directly with the DOE through September 30, 2007—are also included in the financial statements.

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 457(b) Deferred Compensation Plan (the 457(b) Plan). As a result, the UCRS statements of plans' fiduciary net assets and changes in plans' fiduciary net assets are shown separately in the University's financial statements.

The Regents also has fiduciary responsibility for the University of California Retiree Health Benefit Trust (the UCRHBT) that was established on July 1, 2007. The UCRHBT statement of fiduciary net assets and changes in fiduciary net assets are shown separately in the University's financial statements. The UCRHBT allows certain University locations and affiliates—primarily campuses and medical centers—that share the risks, rewards and costs of providing for retiree health benefits to fund such benefits on a cost-sharing basis and accumulate funds on a tax-exempt basis under an arrangement segregated from University assets. The Regents serves as Trustee of the UCRHBT and has the authority to amend or terminate the Trust.

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. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was adopted by the University during the year ended June 30, 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. Previously, the University recorded retiree medical and dental costs as they were paid and did not recognize the liability in the financial statements. The DOE has an ongoing financial responsibility for these costs and liabilities related to LBNL. The implementation of GASB Statement No. 45 resulted in an operating expense that decreased the University's changes in net assets and total net assets by $1.36 billion for the year ended June 30, 2008, and increased the DOE receivable and obligation for retiree health benefits at June 30, 2008 by $31.5 million and $1.12 billion, respectively. There was no effect on the financial statements for the year ended June 30, 2007.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments,* was also adopted during the year ended June 30, 2008. Statement No. 52 requires endowments to report land and other real estate investments at fair value. Since the University previously reported its endowment real estate investments at fair value, the implementation of GASB Statement No. 52 had no effect on the University's net assets or changes in net assets for the years ended June 30, 2008 and 2007.

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 are 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. Certain securities may be valued on a basis of a price provided by a single source.

Investments include private equities, absolute return funds and real estate. Private equities include venture capital partnerships, buyout and international funds. 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. Interests in certain direct investments in real estate are estimated based upon independent appraisals. The University believes the carrying amount of these financial instruments and real estate is a reasonable estimate of fair value at June 30. Because the private equity, real estate and absolute return partnerships, along with direct investments in real estate, are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used had a ready market for such investments existed.

Investments in registered investment companies are valued based upon the reported net asset value of those companies. Mortgage loans, held as investments, are valued on the basis of their future principal and interest payments, discounted at prevailing interest rates for similar instruments. Insurance contracts are valued at contract value, plus reinvested interest, which approximates fair value. Estimates of the fair value of interests in externally held irrevocable trusts where the University is the beneficiary of either the income or the remainder that will not become a permanent endowment upon distribution to the University are based upon the present value of the expected future income or, if available, the University's proportional interest in the fair value of the trust assets.

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 the 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 laboratories. The University operates and manages LBNL under a contract directly with the DOE. Specific assets and liabilities and all revenues and expenses associated with LBNL are included in the financial statements. Other assets, such as cash, property and equipment and other liabilities of LBNL 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 cash flows excludes the cash flows associated with LBNL other than reimbursements, primarily related to pension and health benefits, since all other cash transactions are recorded in bank accounts owned by the DOE.

The University is a member in two separate joint ventures, Los Alamos National Security, LLC (LANS) and Lawrence Livermore National Security, LLC (LLNS) that operate and manage two other DOE laboratories. LANS, effective as of June 1, 2006, and LLNS, effective as of October 1, 2007, operate and manage Los Alamos National Laboratory (LANL) and Lawrence Livermore National Laboratory (LLNL), respectively, under contracts directly with the DOE.

The University has an ongoing financial interest and financial responsibility in these separate entities, along with the other members, and the organizations are jointly controlled by the University and another member. The assets and liabilities and revenues and expenses of these joint ventures are not included in the University's financial statements. The University's investment in LANS and LLNS is accounted for using the equity method. Accordingly, subsequent to the applicable effective dates of the transition of laboratory management to LANS and LLNS, the University's statement of net assets includes its equity interest in LANS and LLNS, adjusted for the equity in undistributed earnings or losses and the statement of revenues, expenses and changes in net assets includes its equity in the current earnings or losses of LANS and LLNS.

Prior to the effective date of these joint ventures, the University operated and managed LANL and LLNL under contracts directly with the DOE. During that time, specific assets and liabilities and all revenues and expenses associated with these two laboratories were included in the financial statements. Other assets, such as cash, property and equipment and other liabilities were owned by the United States government rather than the University and, therefore, were not included in the statement of net assets. The statement of cash flows excluded their cash flows other than reimbursements, primarily pension and health benefit costs, since all cash transactions were recorded in bank accounts owned by the DOE.

The DOE is financially responsible for substantially all of the current and future costs incurred at any of the national laboratories, including pension and retiree health benefit costs. Accordingly, to the extent there is a liability on the University's statement of net assets for pension or retiree health obligations related to these laboratories, the University records a receivable from the DOE. The University's statement of cash flows includes the cash flows related to DOE reimbursements for pension and/or health benefits attributable to any of these laboratories.

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 and LLNS 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, 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, 2008, the facilities and administrative cost recovery totaled $778.6 million, $602.4 million from federally-sponsored programs and $176.2 million from other sponsors. 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.

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, 2008 and 2007:

(in thousands of dollars)

	2008	2007
Student tuition and fees	$ 506,582	$ 460,693
Auxiliary enterprises	127,382	119,102
Other operating revenues	7,349	7,279
Scholarship allowances	**$641,313**	**$587,074**

UCRP benefits and obligation to UCRP. The University's cost for campus and medical center UCRP benefits expense, if any, is based upon the annual required contribution to the UCRP, as actuarially determined. Campus and medical center contributions, if any, toward UCRP benefits, at rates determined by the University, are made to the UCRP and reduce the University's obligation to UCRP in the statement of net assets.

Both current employees and retirees at LBNL participate in the UCRP. Current employees at both LANL and LLNL are no longer accruing benefits in the UCRP. However, the UCRP retains the obligation for retirees and terminated vested members at these locations as of the date these contracts were terminated. The annual required contribution for the combined DOE laboratories is actuarially determined, independently from the campuses and medical centers, and included with DOE laboratory expense in the statement of revenues, expenses and changes in net assets.

The University makes contributions to the UCRP on behalf of LBNL employees and is reimbursed by the DOE, based upon rates that are identical to those authorized by The Regents for campus and medical center employees. The University also makes contributions to the UCRP on behalf of LANL and LLNL retirees and terminated vested members, whose benefits were retained in the UCRP, based upon a contractual arrangement with the DOE that incorporates a formula targeted to maintain the LANL and LLNL segments within the UCRP for these retirees and terminated vested members at a 100 percent funded level. These contributions reduce the University's obligation to UCRP in the statement of net assets. These University contributions are also reimbursed by the DOE. The reimbursement from the DOE is included as DOE laboratory revenue in the statement of revenues, expenses and changes in net assets.

The University records a receivable from the DOE for the portion of the University's obligation to UCRP attributable to the DOE laboratories.

Campus and medical center contributions to the UCRP, University contributions to the UCRP on behalf of the DOE national laboratories, and the corresponding reimbursements from the DOE are operating activities in the statement of cash flows.

Retiree health benefits and obligation for retiree health benefits. The University's cost for campus and medical center retiree health benefits expense is based upon the annual required contribution to the retiree health plan, as actuarially determined. Campus and medical center contributions toward retiree health benefits, at rates determined by the University, are made to the UCRHBT and reduce the obligation for retiree health benefits in the statement of net assets.

LBNL participates in the University's retiree health plans. The annual required contribution for LBNL is actuarially determined independently from the University's campuses and medical centers, and included with DOE laboratory expense in the statement of revenues, expenses and changes in net assets. The University directly pays health care insurers and administrators amounts currently due under the University's retiree health benefit plans for retirees who previously worked at LBNL, and is reimbursed by the DOE. These contributions, in the form of direct payments, also reduce the University's obligation for retiree health benefits in the statement of net assets. The reimbursement from the DOE is included as DOE laboratory revenue in the statement of revenues, expenses and changes in net assets.

The University records a receivable from the DOE for the DOE's portion of the University's obligation for retiree health benefits attributable to LBNL. The University does not have any obligation for LANL or LLNL retiree health benefit costs since they do not participate in the University's retiree health plans.

Campus and medical center contributions toward retiree health costs made to the UCRHBT, the University's LBNL-related payments made directly to health care insurers and administrators, and the corresponding reimbursements from the DOE are operating activities in the statement of cash flows. Cash flows resulting from retiree health contributions from retirees are shown as noncapital financing activities in the statement of cash flows.

University of California Retiree Health Benefit Trust. The UCRHBT receives the University's contributions toward retiree health benefits from campuses, medical centers and University affiliates. The University receives retiree health contributions from University affiliates and campus and medical center retirees that are deducted from their UCRP benefit payments. The University also remits these retiree contributions to the UCRHBT.

The University acts as a third-party administrator on behalf of the UCRHBT and pays health care insurers and administrators amounts currently due under the University's retiree health benefit plans for retirees who previously worked at a campus or medical center. The UCRHBT reimburses the University for these amounts.

LBNL does not participate in the UCRHBT; therefore, the DOE has no interest in the Trust's assets.

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. The UCRHBT is tax-exempt under Section 115 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 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.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, also effective for the University's fiscal year beginning July 1, 2009. This Statement requires the University to report its derivative instruments at fair value. Changes in fair value for effective hedges that are achieved with derivative instruments are to be reported as deferrals in the statement of net assets. Derivative instruments that either do not meet the criteria for an effective hedge or are associated with investments that are already reported at fair value are to be classified as investment derivative instruments. Changes in fair value of those derivative instruments are to be reported as investment revenue.

The University is evaluating the effect that Statements No. 49, 51 and 53 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, 2008 and 2007, the carrying amount of the University's demand deposits, held in nationally recognized banking institutions, was $108.0 million and $147.2 million, respectively, compared to bank balances of $72.2 million and $113.7 million, respectively. Deposits in transit are the primary difference. Bank balances of $11.2 million and $24.4 million at June 30, 2008 and 2007, 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 $3.7 million and $1.1 million at June 30, 2008 and 2007, respectively.

The carrying amount of the campus foundations' cash and cash equivalents at June 30, 2008 and 2007 was $150.7 million and $161.5 million, respectively, compared to bank balances of $83.1 million and $101.3 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 $54.9 million and $44.4 million at June 30, 2008 and 2007, 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, UCRS' and UCRHBT's 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, UCRHBT, 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 and UCRS. 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 $3.77 billion and $3.79 billion at June 30, 2008 and 2007, respectively.

Investments authorized by The Regents for the UCRHBT are restricted to a portfolio of high-quality money market instruments in a commingled fund that is managed externally. The average credit quality of the portfolio is A-1/P-1 with an average maturity of 40 days. The fair value of UCRHBT's investment in this portfolio was $19.8 million at June 30, 2008.

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 financial markets, both domestically and internationally, are currently demonstrating significant volatility on a daily basis that affect the valuation of investments. As a result, the fair value of investments held by the University, UCRS and campus foundations has declined subsequent to June 30, 2008. The Regents of the University of California and the Boards of Trustees for the campus foundations utilize asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and at acceptable levels of risk.

The composition of investments, by investment type, at June 30, 2008 and 2007 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2008	2007	2008	2007	2008	2007
Equity securities:						
Domestic	$ 1,209,086	$ 1,934,651	$ 245,463	$ 366,036	$ 19,868,126	$ 26,321,714
Foreign	1,117,811	1,330,630	97,456	124,746	7,803,550	8,999,241
Equity securities	**2,326,897**	**3,265,281**	**342,919**	**490,782**	**27,671,676**	**35,320,955**
Fixed or variable income securities:						
U.S. government guaranteed:						
U.S. Treasury bills, notes and bonds	946,865	1,379,320	130,345	132,579	1,577,392	1,182,113
U.S. Treasury strips	29,659	16,916			1,204,670	1,386,969
U.S. TIPS	424,552	404,913			2,754,366	3,095,649
U.S. government-backed securities	3,637	3,577	4,406	5,529	14,158	13,926
U.S. government-backed–asset-backed securities			2,240	15		
U.S. government guaranteed	**1,404,713**	**1,804,726**	**136,991**	**138,123**	**5,550,586**	**5,678,657**
Other U.S. dollar denominated:						
Corporate bonds	3,259,085	2,620,866	61,324	47,703	3,060,306	2,985,787
Commercial paper	2,937,981	1,245,777			127,983	464,027
U.S. agencies	1,398,261	2,335,213	82,836	84,693	2,887,262	3,156,931
U.S. agencies–asset-backed securities	137,200	170,956	2,101	2,450	1,248,427	1,635,579
Corporate–asset-backed securities	241,409	92,603	11,947	10,868	1,731,551	1,078,925
Supranational/foreign	828,033	917,248	620	622	1,510,699	1,434,561
Other	15	205		815		
Other U.S. dollar denominated	**8,801,984**	**7,382,868**	**158,828**	**147,151**	**10,566,228**	**10,755,810**
Foreign currency denominated:						
Government/sovereign	189,068	165,557			1,125,748	1,314,611
Corporate	5,072	6,405			52,591	83,729
Foreign currency denominated	**194,140**	**171,962**			**1,178,339**	**1,398,340**
Commingled funds:						
Absolute return funds	1,355,318	1,082,248	412,024	298,691	648,683	
Balanced funds			767,550	724,387		
U.S. equity funds	29,946	31,838	420,782	429,853	309,890	337,051
Non-U.S. equity funds	431,595	501,657	584,586	579,511	2,259,199	2,446,242
U.S. bond funds	40,243	36,887	168,668	207,542		
Non-U.S. bond funds			49,544	7,879		
Real estate investment trusts	104		73,877	16,074	44,586	31,948
Money market funds	26,895	25,187	357,418	395,711	508,340	493,826
Commingled funds	**1,884,101**	**1,677,817**	**2,834,449**	**2,659,648**	**3,770,698**	**3,309,067**
Private equity	503,322	358,006	317,587	228,923	1,859,887	1,315,246
Mortgage loans	586,387	395,791	10,532	7,893		
Insurance contracts					824,201	745,468
Real estate	288,078	208,630	139,720	146,519	1,110,554	633,081
Equitized market neutral investments		54,642		5,796		528,843
Externally held irrevocable trusts	256,057	238,642	27,001	63,732		
Other investments	6,368	6,446	190,884	147,922		
Campus foundations' investments with the University	(1,031,751)	(1,130,817)				
UCRS investment in the STIP	(392,273)	(223,959)				
Total investments	**14,828,023**	**14,210,035**	**4,158,911**	**4,036,489**	**$52,532,169**	**$59,685,467**
Less: Current portion	(4,068,848)	(2,574,989)	(346,492)	(376,666)		
Noncurrent portion	**$10,759,175**	**$11,635,046**	**$3,812,419**	**$3,659,823**		

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. Alternative investment strategies and their underlying assets and rights are subject to an array of economic and market vagaries that can limit or erode value.

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 is 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, 2008 and 2007 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2008	2007	2008	2007	2008	2007
Fixed or variable income securities:						
U.S. government guaranteed	$1,404,713	$1,804,726	$136,991	$138,123	$5,550,586	$5,678,657
Other U.S. dollar denominated:						
AAA	2,040,336	2,944,380	96,884	98,623	5,919,687	5,950,651
AA	829,005	885,069	14,406	5,791	201,343	254,508
A	1,261,356	906,378	13,318	9,574	937,490	778,789
BBB	1,504,620	1,127,045	14,878	13,406	1,675,129	1,452,401
BB	102,045	144,042	6,025	8,723	651,869	918,892
B	121,800	127,643	3,240	97	965,527	932,309
CCC	408	559			2,979	4,233
A-1 / P-1 / F-1	2,937,981	1,245,777			127,983	464,027
Not rated	4,433	1,975	10,077	10,937	84,221	
Foreign currency denominated:						
AA	189,068	165,557			1,125,748	1,314,611
A					5,946	25,824
BBB		2,566				25,527
B	5,072	3,839			46,645	32,378
Commingled funds:						
U.S. bond funds: Not rated	40,243	36,887	168,668	207,542		
Non-U.S. bond funds: Not rated			49,544	7,879		
Money market funds: Not rated	26,895	25,187	357,418	395,711	508,340	493,826
Mortgage loans: Not rated	586,387	395,791	10,532	7,893		
Insurance contracts: Not rated					824,201	745,468

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	
	2008	2007
Equity securities:		
Domestic	$ 91,941	$ 173,916
Foreign	1,212	20,397
Fixed or variable income securities:		
U.S. government guaranteed:		
U.S. Treasury bills, notes and bonds	92,801	98,041
U.S. government-backed–asset-backed securities	2,226	
Other U.S. dollar denominated:		
U.S. agencies	2,224	3,625
Custodial credit risk exposure	**$190,404**	**$295,979**

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, 2008 and 2007 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2008	2007	2008	2007
Fannie Mae	$ 783,608	$ 1,292,560	$ 62,897	$ 67,061
Freddie Mac		1,226,887		
Vanguard S&P 500 Index Fund				30,215
Silchester International Value Equity Trust			29,309	28,947
Gryphon International EAFE Growth Fund			28,613	29,414
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, 2008 and 2007 are as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2008	2007	2008	2007	2008	2007
Fixed or variable income securities:						
U.S. government guaranteed:						
U.S. Treasury bills, notes and bonds	1.0	1.6	4.5	4.4	0.7	1.2
U.S. Treasury strips	8.0	13.6			11.4	12.3
U.S. TIPS	5.3	5.4			5.3	5.4
U.S. government-backed securities	6.3	6.3	3.8	3.6	6.3	6.3
U.S. government-backed–asset-backed securities			3.9	3.3		
Other U.S. dollar denominated:						
Corporate bonds	2.6	2.3	4.0	4.4	7.6	7.1
Commercial paper	0.0	0.0			0.0	0.0
U.S. agencies	1.4	1.3	2.5	2.6	2.5	1.7
U.S. agencies–asset-backed securities	4.4	5.3	3.3	3.9	4.6	5.3
Corporate–asset-backed securities	3.8	1.7	0.6	0.6	4.1	1.8
Supranational / foreign	2.8	2.5	0.0	1.0	7.2	7.0
Other	0.6	0.9		3.0		
Foreign currency denominated:						
Government/sovereign	6.6	6.3			6.6	6.3
Corporate	3.9	12.4			6.1	10.0
Commingled funds:						
U.S. bond funds	4.7	4.7	4.6	4.9		
Non-U.S. bond funds			5.1	5.7		
Money market funds	0.0	0.0	1.8	1.2	1.8	1.2
Mortgage loans	0.0	0.0	5.4			
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, 2008 and 2007, 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	
	2008	2007	2008	2007	2008	2007
Mortgage-backed securities	$ 339,991	$ 263,559	$ 72,953	$ 69,504	$ 2,289,645	$ 2,660,065
Collateralized mortgage obligations			8,048	12,185	46,824	54,439
Other asset-backed securities	4,139		11,947	10,868	24,183	
Variable-rate securities	609,359	566,833			67,771	30,898
Callable bonds	1,500,966	1,992,692	506	798	2,770,965	2,432,952
Total	**$2,454,455**	**$2,823,084**	**$93,454**	**$93,355**	**$5,199,388**	**$5,178,354**

Mortgage-Backed Securities. These securities are issued primarily by Fannie Mae, Ginnie Mae and 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, 2008 and 2007, the effective durations for these securities are as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2008	2007	2008	2007	2008	2007
Mortgage-backed securities	4.3	4.0	2.5	2.7	5.0	3.9
Collateralized mortgage obligations			1.7	1.9	5.2	5.9
Other asset-backed securities	3.2		0.6	0.7	4.0	
Variable-rate securities	0.2	0.5			5.2	2.6
Callable bonds	1.6	1.7		4.6	2.7	3.0

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, 2008 and 2007, 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	
	2008	2007	2008	2007	2008	2007
Equity securities:						
Euro	$ 390,493	$ 463,157	$ 27,057	$ 30,296	$ 2,647,165	$ 3,074,584
British Pound	211,126	285,180	13,065	23,012	1,489,215	1,916,670
Japanese Yen	208,201	245,627	16,069	25,421	1,473,375	1,700,580
Canadian Dollar	79,614	70,258	3,447	2,895	615,458	547,320
Swiss Franc	79,823	96,028	9,216	10,169	539,707	612,655
Australian Dollar	59,037	63,433	3,538	2,736	437,870	461,674
Hong Kong Dollar	25,676	30,466	4,179	3,947	170,512	183,220
Swedish Krona	19,661	28,604			143,274	200,654
Singapore Dollar	14,990	14,905	1,810	1,201	96,803	96,989
Norwegian Krone	9,120	11,280	597	845	70,487	80,199
Danish Krone	9,342	8,502	1,253	1,007	68,424	62,915
South Korean Won	2,943	4,826	502	1,434	13,532	20,452
Thai Baht	2,309	2,017		533	10,617	8,547
South African Rand	1,879	1,677	527		8,639	7,105
New Zealand Dollar	741	2,637			5,341	17,062
Other	2,856	2,033	16,196	21,250	13,131	8,615
Subtotal	**1,117,811**	**1,330,630**	**97,456**	**124,746**	**7,803,550**	**8,999,241**
Fixed income securities:						
Euro	99,699	88,094			609,937	701,342
Japanese Yen	67,240	56,438			400,358	448,145
British Pound	13,685	12,609			81,620	100,204
Canadian Dollar	4,261	6,759			31,316	84,637
Polish Zloty	2,011	1,683			11,977	13,362
Danish Krone	1,527	1,528			9,094	12,132
Swedish Krona	1,381	1,467			8,225	11,646
Swiss Franc	1,371	1,499			8,161	11,904
Malaysian Ringgit	854				5,086	
Australian Dollar	808	713			4,811	5,660
Singapore Dollar	729	627			4,338	4,977
Norwegian Krone	574	545			3,416	4,331
Subtotal	**194,140**	**171,962**			**1,178,339**	**1,398,340**
Commingled funds:						
Various currency denominations:						
Balanced funds			204,990	198,684		
Non-U.S. equity funds	431,595	501,657	494,624	523,261	2,259,199	2,446,242
Non-U.S. bond funds			29,683	2,999		
Real estate investment trusts			21,526	3,391		
Subtotal	**431,595**	**501,657**	**750,823**	**728,335**	**2,259,199**	**2,446,242**
Private equity:						
Euro	1,425				20,114	
Subtotal	**1,425**				**20,114**	
Total exposure to foreign currency risk	**$1,744,971**	**$2,004,249**	**$848,279**	**$853,081**	**$11,261,202**	**$12,843,823**

Alternative Investment Risks

Alternative investments are defined as marketable alternatives (hedge funds), limited partnerships, private equity and venture capital funds. Alternative investments include ownership interests in a wide variety of vehicles including partnerships and corporations that may be domiciled in the United States or off-shore. Generally, there is little or no regulation of these investment vehicles by the Securities and Exchange Commission or the applicable state agencies. Managers of these investments employ a wide variety of strategies and have areas of concentration including absolute return, venture capital or early stage investing, private equity or later stage investing and the underlying investments may be leveraged to enhance the total investment return. Each asset class has guidelines and policies regarding the use of leverage. Such underlying investments may include financial assets such as marketable securities, non-marketable securities, derivatives and other synthetic and structured investments as well as tangible and intangible assets. Generally, these alternative investments do not have a ready market and ownership interests in these investment vehicles may not be traded without the approval of the general partner or fund management. These investments are subject to the risks generally associated with equities and fixed income instruments with additional risks due to leverage and the lack of a ready market for acquisition or disposition of ownership interests.

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, 2008 or June 30, 2007.

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 for investment purposes at June 30, 2008 or June 30, 2007. However, the University did enter into interest rate swap agreements in connection with its variable rate bonds.

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, 2008, by investment pool, is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA			
	STIP	GEP	OTHER	TOTAL
Equity securities:				
Domestic		$ 1,117,778	$ 91,308	$ 1,209,086
Foreign		1,099,429	18,382	1,117,811
Fixed or variable income securities:				
U.S. government guaranteed	$ 893,497	469,334	41,882	1,404,713
Other U.S. dollar denominated	7,807,148	938,931	55,905	8,801,984
Foreign currency denominated		194,140		194,140
Commingled funds		1,801,253	82,848	1,884,101
Private equity		491,339	11,983	503,322
Mortgage loans	585,608		779	586,387
Real estate		272,669	15,409	288,078
Externally held irrevocable trusts			256,057	256,057
Other investments			6,368	6,368
Subtotal	**9,286,253**	**6,384,873**	**580,921**	**16,252,047**
Campus foundations' investments with the University	(364,872)	(539,591)	(127,288)	(1,031,751)
UCRS investment in the STIP	(392,273)			(392,273)
Total investments	**$8,529,108**	**$5,845,282**	**$453,633**	**$14,828,023**

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, 2008 was (1.5) percent for the GEP and (5.1) 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.

The UCRS

The UCRS had $392.3 million and $224.0 million invested in the STIP at June 30, 2008 and 2007, 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. They are 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 $13.8 million and $6.6 million for the years ended June 30, 2008 and 2007, respectively.

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, 2008 and 2007 is as follows:

(in thousands of dollars)

	2008	2007
STIP	$ 364,872	$ 415,116
GEP	539,591	606,513
Other investment pools	127,288	109,188
Campus foundations' investments with the University	**1,031,751**	**1,130,817**
Classified as cash and cash equivalents by campus foundations	(56,470)	(44,416)
Classified as investments by campus foundations	**$ 975,281**	**$1,086,401**

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 $34.0 million and $33.9 million for the years ended June 30, 2008 and 2007, 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, 2008 and 2007 are as follows:

(in thousands of dollars)

	2008	2007
Short-term investments:		
STIP	$ 104,291	$ 101,122
GEP	144,963	152,781
Other investment pools	20,864	23,042
Total agency assets	**$270,118**	**$276,945**
Funds held for others	**$270,118**	**$276,945**

The composition of the net assets at June 30, 2008 and 2007 for the STIP and GEP is as follows:

(in thousands of dollars)

	STIP		GEP	
	2008	2007	2008	2007
Investments	$ 9,286,253	$ 8,217,471	$ 6,384,873	$ 6,782,321
Investment of cash collateral	2,363,731	3,452,672	992,888	1,352,127
Securities lending collateral	(2,374,038)	(3,452,720)	(998,108)	(1,352,193)
Other assets (liabilities), net	117,676	154,211	18,110	(28,898)
Net assets	**$9,393,622**	**$8,371,634**	**$6,397,763**	**$6,753,357**

The changes in net assets for the STIP and GEP for the years ending June 30, 2008 and 2007 are as follows:

(in thousands of dollars)

	STIP		GEP	
	2008	2007	2008	2007
Net assets, beginning of year	$ 8,371,634	$ 8,186,889	$ 6,753,357	$ 5,664,777
Investment income	415,226	390,815	167,688	167,916
Net appreciation (depreciation) in fair value of investments	44,102	56,586	(396,382)	891,003
Participant contributions (withdrawals), net	562,660	(262,656)	(126,900)	29,661
Net assets, end of year	**$9,393,622**	**$8,371,634**	**$6,397,763**	**$6,753,357**

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 the 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 lent 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, 2008 and 2007, the securities in these pools had a weighted average maturity of 27 and 62 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, 2008, 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, 2008 and 2007 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2008	2007	2008	2007	2008	2007
SECURITIES LENT						
For cash collateral:						
Equity securities:						
Domestic	$ 219,975	$ 440,475	$ 77,990	$ 45,812	$ 2,575,061	$ 5,234,310
Foreign	165,410	350,787			1,254,829	2,377,126
Fixed income securities:						
U.S. government guaranteed	1,268,540	1,680,926			4,866,707	5,131,402
Other U.S. dollar denominated	1,700,774	2,298,331			3,194,168	3,370,627
Foreign currency denominated	1,300				7,743	354,387
Campus foundations' share	(199,248)	(319,553)	199,248	319,553		
Lent for cash collateral	**3,156,751**	**4,450,966**	**277,238**	**365,365**	**11,898,508**	**16,467,852**
For securities collateral:						
Equity securities:						
Domestic	4,784	8,058			114,551	124,118
Foreign	46,604	23,988			219,714	116,892
Fixed income securities:						
U.S. government guaranteed	126,604	103,125			617,248	274,306
Other U.S. dollar denominated	98	9,377			11,230	595
Foreign currency denominated	1,040				6,191	7,431
Lent for securities collateral	**179,130**	**144,548**			**968,934**	**523,342**
Total securities lent	**$3,335,881**	**$4,595,514**	**$277,238**	**$365,365**	**$12,867,442**	**$16,991,194**
COLLATERAL RECEIVED						
Cash	$ 3,432,762	$ 4,873,507	$ 80,429	$ 47,600	$ 12,223,854	$ 16,884,510
Campus foundations' share	(199,248)	(319,553)	199,248	319,553		
Total cash collateral received	**3,233,514**	**4,553,954**	**279,677**	**367,153**	**12,223,854**	**16,884,510**
Securities	186,032	166,633			1,006,268	615,356
Total collateral received	**$3,419,546**	**$4,720,587**	**$279,677**	**$367,153**	**$13,230,122**	**$17,499,866**
INVESTMENT OF CASH COLLATERAL						
Fixed income securities:						
Other U.S. dollar denominated:						
Corporate bonds	$ 706,651	$ 739,151	$ 9,524	$ 11,583	$ 2,633,406	$ 2,589,606
Commercial paper	2,267	1,095,415			22,670	3,265,950
Repurchase agreements	637,381	987,675	22,064	175	2,369,817	4,656,318
Corporate–asset-backed securities	994,968	712,550	2,250	3,226	3,472,835	2,368,214
Certificates of deposit/time deposits	845,886	822,400	15,017	24,074	2,879,335	2,451,964
Supranational/foreign	221,218	502,293			712,008	1,497,572
Other			7,018	8,542		
Commingled funds–money market funds	7,132	2,754	24,556		67,942	26,810
Other assets, net	1,468	11,154			4,059	27,373
Campus foundations' share	(199,248)	(319,553)	199,248	319,553		
Investment of cash collateral	**3,217,723**	**4,553,839**	**279,677**	**367,153**	**$12,162,072**	**$16,883,807**
Less: Current portion	(2,096,106)	(3,042,293)	(210,224)	(261,084)		
Noncurrent portion	**$1,121,617**	**$1,511,546**	**$ 69,453**	**$106,069**		

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, 2008 and 2007 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2008	2007	2008	2007	2008	2007
Securities lending income	$ 175,262	$ 193,341	$ 13,626	$ 17,074	$ 685,910	$ 914,913
Securities lending fees and rebates	(150,026)	(187,003)	(11,793)	(16,509)	(588,787)	(882,466)
Securities lending investment income, net	**$ 25,236**	**$ 6,338**	**$ 1,833**	**$ 565**	**$ 97,123**	**$ 32,447**

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, 2008 and 2007 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2008	2007	2008	2007	2008	2007
Fixed or variable income securities:						
Other U.S. dollar denominated:						
AAA	$ 1,169,199	$ 745,939	$ 7,272	$ 8,270	$ 4,038,265	$ 2,543,895
AA+	58,995				189,881	
AA	163,931	88,165	7,502	23,085	714,324	324,384
AA-	337,617	137,924			1,195,790	430,222
A+	166,445	429,445			624,847	1,409,690
A	35,195	61,685	19,034	16,070	141,149	241,678
A-	1,746				17,458	
BBB	5,564	6,122			55,073	60,359
A-1 / P-1 / F-1	1,456,841	3,285,040			4,984,924	10,782,629
Not rated	12,838	105,164	22,065	175	128,360	1,036,767
Commingled funds:						
Money market funds: Not rated	7,132	2,754	24,556		67,942	26,810
Other assets (liabilities), net: Not rated	1,468	11,154			4,059	27,373
Campus foundations' share	(199,248)	(319,553)	199,248	319,553		

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. Campus foundations that directly participate in a securities lending program do not have specific investment policies related to concentration of credit risk, although the lending agreements with the agents establish 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, 2008 and 2007 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2008	2007	2008	2007	2008	2007
JP Morgan Chase	$ 310,406				$ 1,008,099	
Lehman Brothers	208,779				681,221	
Bank of America		$ 236,973				
Daiwa Securities America, Inc.			$ 22,065			
Bank of New York			14,537			
Goldman Sachs			10,019			
General Electric Capital Corporation				$ 3,039		
Nordea Bank				3,011		
Deutsche Bank Securities				3,009		
Bank of Ireland				3,008		
Calyon (CIB)				3,007		
Campus foundations' share	(30,475)	(15,539)	30,475	15,539		

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, 2008 and 2007 is as follows:

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS		UNIVERSITY OF CALIFORNIA RETIREMENT SYSTEM	
	2008	2007	2008	2007	2008	2007
Fixed or variable income securities:						
Other U.S. dollar denominated:						
Corporate bonds	45	53	43	25	48	75
Commercial paper	35	141			35	141
Repurchase agreements	1	3	1	2	1	2
Corporate–asset-backed securities	28	39	15	25	39	67
Certificates of deposit/time deposits	37	84	15	15	38	84
Supranational/foreign	83	60			83	60
Other			23	32		
Commingled funds:						
Money market funds	1	2	1		1	2

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, 2008 and 2007, 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	
	2008	2007	2008	2007	2008	2007
Other asset-backed securities	$ 994,968	$ 712,546	$ 2,250	$ 3,226	$ 3,472,835	$ 2,368,218
Variable-rate investments	915,801	826,951			3,230,422	2,723,356
Campus foundations' share	(112,157)	(100,946)	112,157	100,946		
Total	**$1,798,612**	**$1,438,551**	**$114,407**	**$104,172**	**$6,703,257**	**$5,091,574**

At June 30, 2008 and 2007, the weighted average maturity expressed in days for asset-backed securities was 58 days and 56 days, respectively, and for variable-rate investments was 22 days and 26 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 $790.4 million and $793.7 million at June 30, 2008 and 2007, 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, 2008 and 2007, respectively, is as follows:

(in thousands of dollars)

	INVESTMENTS AT FAIR VALUE		EFFECTIVE DURATION	
	2008	2007	2008	2007
Cash	$ 4,001	$ 2,371	0.0	0.0
U.S. government guaranteed:				
U.S. government-backed–asset-backed securities	29,206	35,609	3.5	3.6
Other U.S. dollar denominated:				
Corporate–asset-backed securities	164,650	86,031	1.6	1.7
U.S. agencies–asset-backed securities	350,839	404,541	3.8	3.4
Commingled funds–money market funds	20,266	6,704	0.0	0.0
Total	**$568,962**	**$535,256**		

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 $84.7 million and $89.4 million at June 30, 2008 and 2007, 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 $77.9 million and $77.0 million at June 30, 2008 and 2007, 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 $6.8 million and $12.4 million at June 30, 2008 and 2007, respectively.

Capital Projects

Investments held by trustees to be used for capital projects totaled $135.5 million and $168.3 million at June 30, 2008 and 2007, 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 $120.2 million and $138.9 million at June 30, 2008 and 2007, 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 $15.3 million and $29.4 million at June 30, 2008 and 2007, 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, 2008 and 2007 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, 2008						
Accounts receivable	$ 621,849	$ 1,107,696	$ 87,707	$ 818,488	$ 2,635,740	$ 12,343
Allowance for uncollectible amounts	(1,982)	(161,342)		(45,909)	(209,233)	
Accounts receivable, net	**$ 619,867**	**$ 946,354**	**$ 87,707**	**$ 772,579**	**$ 2,426,507**	**$ 12,343**
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**

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

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, 2008 and 2007:

(in thousands of dollars)

	2008	2007
Student tuition and fees	$ (370)	$ (2,358)
Grants and contracts:		
Federal	(366)	(177)
State	(789)	(84)
Private	(135)	(873)
Local	(48)	13
Medical centers	(118,939)	(173,732)
Educational activities	(13,830)	(35,793)
Auxiliary enterprises	97	(1,052)
Other operating revenues	108	(1,270)

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, 2008 and 2007, 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, 2008 and 2007, the remaining amounts owed to the UCRP by the state were $63.3 million and $68.9 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, 2008 and 2007 is summarized as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA		UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS	
	2008	2007	2008	2007
Total pledges receivable outstanding	$ 116,287	$ 135,894	$ 516,058	$ 552,597
Less: Unamortized discount to present value	(5,335)	(8,173)	(75,719)	(83,042)
Allowance for uncollectible pledges	(4,794)	(5,666)	(19,594)	(19,213)
Total pledges receivable, net	**106,158**	**122,055**	**420,745**	**450,342**
Less: Current portion of pledges receivable	(55,759)	(56,418)	(88,942)	(94,939)
Noncurrent portion of pledges receivable	**$ 50,399**	**$ 65,637**	**$331,803**	**$355,403**

Future receipts under pledge agreements for each of the five fiscal years subsequent to June 30, 2008 and thereafter are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
Year Ending June 30		
2009	$ 59,393	$ 60,762
2010	21,786	83,144
2011	18,068	80,014
2012	10,305	59,711
2013	3,286	135,933
2014-2018	3,249	52,915
Beyond 2018	200	43,579
Total payments on pledges receivable	**$116,287**	**$516,058**

Adjustments to the allowance for doubtful accounts associated with pledges have either increased or (decreased) the following revenues for the years ended June 30, 2008 and 2007:

(in thousands of dollars)

	2008	2007
Private gifts	$149	$(1,089)
Capital gifts and grants	34	969

7. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2008 and 2007, 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, 2008							
Notes and mortgages receivable	$ 36,948	$ 275,725	$ 22,971	$ 298,696	$ 32	$ 502	$ 534
Allowance for uncollectible amounts	(4,742)	(11,447)	(142)	(11,589)			
Notes and mortgages receivable, net	**$32,206**	**$264,278**	**$22,829**	**$ 287,107**	**$32**	**$502**	**$534**
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**

8. DOE NATIONAL LABORATORY CONTRACTS

The University records a receivable from the DOE to the extent there is a liability on the University's statement of net assets related to a DOE laboratory. These receivables are attributable to operating liabilities associated with LBNL, and LLNL prior to October 1, 2007, such as third-party vendor and employee-related liabilities. In addition, the University records a receivable from the DOE for services the University may perform directly for the national laboratories, costs incurred in conjunction with the transition of the LANL and LLNL contracts to the successor contractor, the DOE's continuing financial obligation to the University for LANL's, LLNL's and LBNL's current and future pension costs, and the DOE's continuing financial obligation to the University for LBNL's current and future retiree health benefit costs.

Receivables from the DOE at June 30, 2008 and 2007 are as follows:

(in thousands of dollars)

	2008	2007
Vendor and employee-related operating costs	$ 66,374	$ 178,899
Performance of services and transition costs	16,178	13,823
Pension costs		17,440
Current portion of DOE receivable	**$82,552**	**$210,162**
Employee-related operating costs		$ 27,080
Retiree health costs	$ 31,494	
Noncurrent portion of DOE receivable	**$31,494**	**$ 27,080**

Los Alamos National Security, LLC (LANS)

LANS operates and manages 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 years ended June 30, 2008 and June 30, 2007, the University recorded $15.3 million and $15.9 million, respectively, as its equity in the current earnings of LANS and received $14.8 million and $6.7 million in cash distributions, respectively.

Lawrence Livermore National Security, LLC (LLNS)

As of October 1, 2007, LLNS became the operator and manager of the DOE's LLNL. LLNS' 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 LLNS, its equity in the current earnings or losses is 36.3 percent. For the nine-month period ended June 30, 2008, the University recorded $10.0 million as its equity in the current earnings of LLNS and received $5.5 million in cash distributions.

9. CAPITAL ASSETS

The University's capital asset activity for the years ended June 30, 2008 and 2007 is as follows:

(in thousands of dollars)

	2006	ADDITIONS	DISPOSALS	2007	ADDITIONS	DISPOSALS	2008
ORIGINAL COST							
Land	$ 549,225	$ 68,278	$ (2,488)	$ 615,015	$ 51,681	$ (2,390)	$ 664,306
Infrastructure	395,331	30,848		426,179	28,284	(336)	454,127
Buildings and improvements	15,977,178	1,171,249	(23,395)	17,125,032	2,719,712	(33,876)	19,810,868
Equipment	4,379,353	460,961	(336,777)	4,503,537	490,571	(296,124)	4,697,984
Libraries and collections	2,911,341	134,169		3,045,510	135,222		3,180,732
Special collections	254,550	11,966	(363)	266,153	18,722		284,875
Construction in progress	3,176,433	659,645		3,836,078	(835,527)		3,000,551
Capital assets, at original cost	**$27,643,411**	**$2,537,116**	**$(363,023)**	**$29,817,504**	**$2 ,608,665**	**$(332,726)**	**$32,093,443**

	2006	DEPRECIATION AND AMORTIZATION	DISPOSALS	2007	DEPRECIATION AND AMORTIZATION	DISPOSALS	2008
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure	$ 170,123	$ 14,687		$ 184,810	$ 15,895	$ (397)	$ 200,308
Buildings and improvements	5,898,780	537,332	$ (18,385)	6,417,727	581,529	(19,301)	6,979,955
Equipment	2,858,010	410,856	(296,861)	2,972,005	404,223	(285,866)	3,090,362
Libraries and collections	2,051,497	86,133		2,137,630	91,974		2,229,604
Accumulated depreciation and amortization	**$10,978,410**	**$1,049,008**	**$(315,246)**	**$11,712,172**	**$ 1,093,621**	**$(305,564)**	**$12,500,229**
Capital assets, net	**$16,665,001**			**$18,105,332**			**$19,593,214**

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, 2008 and 2007 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS			
	2008		2007		2008		2007	
	CURRENT	NONCURRENT	CURRENT	NONCURRENT	CURRENT	NONCURRENT	CURRENT	NONCURRENT
Self-insurance programs	$ 147,394	**$449,347**	$ 156,724	**$402,857**				
Obligations under life income agreements	916	**$ 31,074**	965	**$ 31,962**	$ 23,688	**$156,911**	$ 24,043	**$157,107**
Other liabilities:								
Compensated absences	380,543	$ 208,763	376,482	$ 202,606				
UCRP		57,303	5,559	63,316				
Accrued interest	60,637		53,597					
Other	249,463	107,780	235,038	85,861	851	$ 14,134	903	$ 34,488
Total	**$838,953**	**$373,846**	**$828,365**	**$351,783**	**$24,539**	**$ 14,134**	**$24,946**	**$ 34,488**

The UCRP has an equivalent amount 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, 2008 and 2007 are as follows:

(in thousands of dollars)

	MEDICAL MALPRACTICE	WORKERS' COMPENSATION	EMPLOYEE HEALTH CARE	GENERAL LIABILITY	TOTAL
Year Ended June 30, 2008					
Liabilities at June 30, 2007	$ 179,589	$ 316,222	$ 4,158	$ 59,612	$ 559,581
Claims incurred and changes in estimates	42,790	77,699	39,042	44,751	191,819
Claim payments	(33,719)	(71,613)	(36,427)	(25,363)	(154,659)
Liabilities at June 30, 2008	**$188,660**	**$322,308**	**$ 6,773**	**$79,000**	**$596,741**
Discount rate	**5.5%**	**5.0%**	**Undiscounted**	**5.0%**	
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%**	

The University increased the probability level for general liability claims at June 30, 2008 due to an increasing degree of uncertainty. As a result, the liability for these claims at June 30, 2008 increased by $5.8 million and is included in the $44.8 million of claims incurred and changes in estimates shown above.

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, 2008 and 2007 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, 2008				
Current portion at June 30, 2007	$ 372	$ 593	$ 7,476	$ 16,567
Reclassification from noncurrent	1,455	2,117	7,440	16,042
Payments to beneficiaries	(1,424)	(2,197)	(7,426)	(16,411)
Current portion at June 30, 2008	**$ 403**	**$ 513**	**$ 7,490**	**$ 16,198**
Noncurrent portion at June 30, 2007	$ 10,004	$ 21,958	$ 43,074	$ 114,033
New obligations to beneficiaries	1,994	690	13,045	10,241
Reclassification to current	(1,455)	(2,117)	(7,440)	(16,042)
Noncurrent portion at June 30, 2008	**$10,543**	**$20,531**	**$48,679**	**$108,232**
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**

Other Noncurrent Liabilities

Changes in other noncurrent liabilities for the years ended June 30, 2008 and 2007 are as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA				UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS
	COMPENSATED ABSENCES	UCRP	OTHER	TOTAL	
Year Ended June 30, 2008					
Liabilities at June 30, 2007	$ 202,606	$ 63,316	$ 85,861	$ 351,783	$ 34,488
New obligations	354,202		33,536	387,738	(17,464)
Reclassification to current	(348,045)	(6,013)	(11,617)	(365,675)	(2,890)
Liabilities at June 30, 2008	**$ 208,763**	**$ 57,303**	**$107,780**	**$373,846**	**$ 14,134**
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**

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, 2008 and 2007 is as follows:

(in thousands of dollars)

	WEIGHTED AVERAGE INTEREST RATE	INTEREST RATE RANGE	MATURITY YEARS	2008	2007
INTERIM FINANCING:					
Commercial paper		1.2–2.3%	2008	$ 550,000	$ 550,000
LONG-TERM FINANCING:					
University of California General Revenue Bonds	4.8%	3.0–5.3%	2009–2040	3,839,995	3,673,090
University of California Limited Project Revenue Bonds	4.9%	2.5–5.0%	2009–2041	1,397,200	988,040
University of California Multiple Purpose Projects Revenue Bonds	4.8%	3.0–5.8%	2008–2027	263,455	306,340
University of California Medical Center Pooled Revenue Bonds	4.5%	2.5–5.3%	2009–2047	1,054,910	537,325
University of California Medical Center Revenue Bonds	5.2%	2.8–5.5%	2008–2039	142,905	672,130
University of California Research Facilities Revenue Bonds	4.8%	4.0–5.0%	2008–2013	17,775	20,335
Adjusted by: Unamortized deferred financing costs				(89,396)	(85,747)
Unamortized bond premium				181,590	162,649
University of California revenue bonds	**4.8%**			**6,808,434**	**6,274,162**
Certificates of participation	4.2%	4.0–4.3%	2008–2010	4,445	8,465
Capital lease obligations		0.0–10.0%	2009–2019	2,242,549	2,009,498
Other University borrowings		Various	2009–2018	309,704	411,358
Student housing LLC revenue bonds, net	5.0%	4.0–5.8%	2009–2038	109,850	110,247
Total outstanding debt				**10,024,982**	**9,363,730**
Less: Commercial paper				(550,000)	(550,000)
Current portion of outstanding debt				(546,461)	(629,713)
Noncurrent portion of outstanding debt				**$ 8,928,521**	**$8,184,017**

Interest expense associated with financing projects during construction, along with any investment income earned on bond proceeds during construction, is capitalized. Total interest expense during the years ended June 30, 2008 and 2007 was $425.7 million and $419.1 million, respectively. Interest expense totaling $25.3 million and $33.9 million was capitalized during the years ended June 30, 2008 and 2007, respectively. The remaining $400.4 million in 2008 and $385.2 million in 2007 are reported as interest expense in the statement of revenues, expenses and changes in net assets. Investment income totaling $10.0 million and $12.1 million was capitalized during the years ended June 30, 2008 and 2007, respectively.

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, 2008 and 2007 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, 2008						
Current portion at June 30, 2007	$ 160,763	$ 4,020	$ 125,321	$ 398	$ 339,211	$ 629,713
Reclassification from noncurrent	690,832	2,175	146,571	662	310,455	1,150,695
Refinancing or prepayment of outstanding debt	(512,465)				(357,529)	(869,994)
Scheduled principal payments	(152,780)	(4,020)	(128,134)	(580)	(73,882)	(359,396)
Amortization of bond premium	(11,690)			(80)		(11,770)
Amortization of deferred financing costs	6,950			263		7,213
Current portion at June 30, 2008	**$ 181,610**	**$ 2,175**	**$ 143,758**	**$ 663**	**$218,255**	**$ 546,461**
Noncurrent portion at June 30, 2007	$ 6,113,399	$ 4,445	$ 1,884,177	$ 109,849	$ 72,147	$ 8,184,017
New obligations	1,184,225		361,185		329,757	1,875,167
Bond premium	30,631					30,631
Deferred financing costs	(10,599)					(10,599)
Reclassification to current	(690,832)	(2,175)	(146,571)	(662)	(310,455)	(1,150,695)
Noncurrent portion at June 30, 2008	**$6,626,824**	**$ 2,270**	**$2,098,791**	**$109,187**	**$ 91,449**	**$8,928,521**
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**

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, 2008 and 2007 is as follows:

(in thousands of dollars)

	2008		2007	
	INTEREST RATES	OUTSTANDING	INTEREST RATES	OUTSTANDING
Tax-exempt	1.2–1.9%	$ 430,000	3.5–3.7%	$ 430,000
Taxable	2.2–2.3%	120,000	5.2–5.3%	120,000
Total outstanding		**$ 550,000**		**$ 550,000**

In July 2008, The Regents authorized an increase in the University's Commercial Paper Program from $550.0 million currently to $2.0 billion in order to reduce the number of bank line commitments, provide greater access to tax-exempt financing and preserve flexibility for future interim financing needs. Commercial paper is issued in two series. The first series of up to $1.5 billion, consisting of both tax-exempt and taxable components, may be issued for interim financing for capital projects, interim financing of equipment, financing of working capital for the medical centers and other working capital needs. The second series of up to $500 million of taxable commercial paper may be issued for standby or interim financing for gift financed projects.

The expectation is that the University will continue to utilize legally available investments for liquidity support for the Commercial Paper Program. Alternatively, the University may utilize a line of credit from an external bank.

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, 2008 and 2007 were $6.72 billion and $6.11 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, 2008 and 2007 were $337.2 million and $302.0 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, 2008 and 2007 were $501.4 million and $546.0 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, 2008 and 2007 were $4.98 billion and $4.59 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.

2008 Activity

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, Limited Project Revenue Bonds totaling $415.4 million were issued to finance and refinance certain auxiliary enterprises of the University. Proceeds, including a bond premium of $18.0 million, are available 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 $333.0 million. The bonds mature at various dates through 2041 and have a weighted average interest rate of 5.0 percent. The deferred premium will be amortized as a reduction to interest expense over the term of the bonds.

In January 2008, General Revenue Bonds totaling $248.9 million were issued to finance and refinance certain facilities and projects of the University. Proceeds, including a bond premium of $12.7 million, are available 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 of $219.5 million. The bonds mature at various dates through 2040 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.

In April 2008, Medical Center Pooled Revenue Bonds totaling $323.0 million, plus a bond premium of $10.6 million, were issued to refinance certain improvements to another of its medical centers. Proceeds were used to refund $324.3 million of Medical Center Revenue Bonds and for a swap termination payment of $6.8 million. The bonds mature at various dates through 2027 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. Additional deferred costs of financing totaling $11.8 million will be amortized as interest expense over the term of the bonds.

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 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 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 18 years and the University was able to achieve an economic gain of $15.2 million.

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 has entered into interest rate swap agreements in connection with certain variable-rate 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 the outstanding swaps and their fair values at June 30, 2008 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 Pooled Revenue Bonds	$ 93,730	2007	2032	Pay fixed; receive variable	3.5897%	58% of 1-Month LIBOR* + 0.48%	$ (3,315)
Medical Center Pooled Revenue Bonds	189,775	2007	2047	Pay fixed; receive variable	4.6868%	67% of 3-Month LIBOR* + 0.73%**	(20,848)
Total	**$283,505**						**$(24,163)**

* London Interbank Offered Rate (LIBOR)

** Weighted average spread

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, 2008.

The swaps may 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. However, there is no basis or tax risk related to the $189.8 million notional amount associated with certain Medical Center Pooled Revenue Bonds since the variable rate the University pays to the bond holders matches the variable rate payments received from the swap counterparty.

Although the University has entered into the interest rate swaps with creditworthy 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, 2008, 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				
2009	$ 2,515	$ 6,075	$ 5,668	$ 14,258
2010	2,605	6,040	5,626	14,271
2011	2,695	6,003	5,582	14,280
2012	2,800	5,966	5,537	14,303
2013	2,895	5,926	5,490	14,311
2014–2018	16,145	28,989	26,683	71,817
2019–2023	22,680	27,769	25,222	75,671
2024–2028	42,350	25,025	22,324	89,699
2029–2033	45,745	20,751	17,978	84,474
2034–2038	30,175	16,762	14,154	61,091
2039–2043	55,030	11,989	10,105	77,124
2044–2047	57,870	3,819	3,199	64,888
Total	**$283,505**	**$165,114**	**$147,568**	**$596,187**

The University's counterparty in the interest rate swap agreement entered into in connection with Medical Center Pooled Revenue Bonds with a notional amount of $189.8 million is Lehman Brothers Special Financing Inc. The guarantor is Lehman Brothers Holdings Inc. On September 14, 2008, Lehman Brothers Holdings Inc. filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. On October 3, 2008, Lehman Brothers Special Financing Inc. filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. The University is exploring various options, including terminating the existing swap agreement and substituting a new interest rate swap agreement with a new counterparty, to reduce the credit risk resulting from these bankruptcy filings and to provide funds to pay the cost of terminating the existing swap agreement. On October 10, 2008, this interest rate swap has an estimated negative fair value of $37.3 million.

The University's counterparty in the interest rate swap agreement entered into in connection with Medical Center Pooled Revenue Bonds with a notional amount of $93.7 million is Merrill Lynch Capital Services, Inc. On September 15, 2008, Bank of America Corporation announced that it had agreed to acquire Merrill Lynch & Co. and that it expects the transaction to close in the first quarter of calendar year 2009, subject to shareholder and standard regulatory approvals. On October 10, 2008, this interest rate swap has an estimated negative fair value of $5.9 million.

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 $3.8 million and $4.6 million for the years ended June 30, 2008 and 2007, respectively. 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 $302.6 million and $79.9 million during the years ended June 30, 2008 and 2007, 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, 2008 and 2007 was $160.0 million and $152.3 million, respectively. The scheduled principal and interest, including accrued interest, reported in the University's financial statements for the years ended June 30, 2008 and 2007 contain amounts related to these lease-purchase agreements with the state of California as follows:

(in thousands of dollars)

	2008	2007
Capital lease principal	$ 77,987	$ 70,387
Capital lease interest	88,983	91,353
Total	**$166,970**	**$161,740**

Capital leases entered into with other lessors, typically for equipment, totaled $58.6 million and $55.7 million for the years ended June 30, 2008 and 2007, respectively.

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, 2013, totaled $1.12 billion at June 30, 2008. Outstanding borrowings under these bank lines totaled $115.3 million and $146.9 million at June 30, 2008 and 2007, 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 $102.2 million and $202.7 million at June 30, 2008 and 2007, respectively.

Student Housing LLC Revenue Bonds

The University has a ground lease with a legally separate, non-profit corporation that 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 LLC. 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, 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.

During the year ended June 30, 2007, interest expense, net of interest income, totaling $1.3 million related to the student housing revenue bonds was capitalized during the construction phase of the project.

In July 2008, the University entered into another ground lease with the same legally separate, non-profit corporation to develop and own an additional student housing project and related amenities and improvements. The LLC, through its conduit issuer, issued additional Student Housing LLC Revenue Bonds totaling $220.9 million. Proceeds, including a bond premium of $500 thousand, are available to finance the construction of the student housing project. The bonds mature at various dates through 2040 and have a weighted average interest rate of 5.9 percent. They 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.

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to June 30, 2008 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										
2009	$ 551,064	$ 498,045	$ 2,333	$ 195,667	$ 53,927	$ 225,594	$ 6,568	$ 1,533,198	$ 1,091,103	$ 442,095
2010		500,229	2,337	182,805	41,130	56,767	6,769	790,037	369,492	420,545
2011		501,511		184,815	31,898	16,468	6,982	741,674	337,738	403,936
2012		510,316		184,781	22,816	14,775	7,210	739,898	350,919	388,979
2013		508,418		184,845	14,823	8,006	7,427	723,519	350,019	373,500
2014–2018		2,417,329		829,312	62,407	896	37,784	3,347,728	1,739,959	1,607,769
2019–2023		2,133,633		717,816	4,796		37,784	2,894,029	1,697,919	1,196,110
2024–2028		1,805,690		416,666	3,299		37,784	2,263,439	1,455,864	807,575
2029–2033		1,469,827		245,219			37,785	1,752,831	1,280,526	472,305
2034–2038		1,018,358					37,788	1,056,146	846,000	210,146
2039–2043		333,984						333,984	268,340	65,644
2044–2048		165,548						165,548	148,150	17,398
Total future debt service	**551,064**	**11,862,888**	**4,670**	**3,141,926**	**235,096**	**322,506**	**223,881**	**16,342,031**	**$9,936,029**	**$6,406,002**
Less: Interest component of future payments	(1,064)	(5,146,648)	(225)	(1,105,533)	(28,940)	(12,802)	(110,790)	(6,406,002)		
Principal portion of future payments	**550,000**	**6,716,240**	**4,445**	**2,036,393**	**206,156**	**309,704**	**113,091**	**9,936,029**		
Adjusted by:										
Unamortized deferred financing costs		(89,396)					(5,627)	(95,023)		
Unamortized bond premium		181,590					2,386	183,976		
Total debt	**$550,000**	**$ 6,808,434**	**$4,445**	**$2,036,393**	**$206,156**	**$309,704**	**$109,850**	**$10,024,982**		

Long-term debt does not include $1.75 billion and $2.01 billion of defeased liabilities at June 30, 2008 and 2007, 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. 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. The Regents has the authority to establish or amend the benefit plans.

Condensed financial information related to each plan in the UCRS for the years ended June 30, 2008 and 2007 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA RETIREMENT PLAN		UNIVERSITY OF CALIFORNIA RETIREMENT SAVINGS PLAN		UNIVERSITY OF CALIFORNIA PERS–VOLUNTARY EARLY RETIREMENT INCENTIVE PLAN		TOTAL	
	2008	2007	2008	2007	2008	2007	2008	2007
CONDENSED STATEMENT OF PLANS' FIDUCIARY NET ASSETS								
Investments at fair value	$ 42,092,691	$ 48,835,961	$ 10,362,657	$ 10,761,897	$ 76,821	$ 87,609	$ 52,532,169	$ 59,685,467
Participants' interest in external mutual funds			3,772,901	3,794,050			3,772,901	3,794,050
Investment of cash collateral	7,985,216	12,641,611	4,162,266	4,219,458	14,590	22,738	12,162,072	16,883,807
Other assets	742,520	214,694	145,543	138,881	1,109	218	889,172	353,793
Total assets	**50,820,427**	**61,692,266**	**18,443,367**	**18,914,286**	**92,520**	**110,565**	**69,356,314**	**80,717,117**
Collateral held for securities lending	8,028,770	12,642,256	4,180,415	4,219,515	14,669	22,739	12,223,854	16,884,510
Other liabilities	768,495	944,662	178,908	241,291	1,515	1,677	948,918	1,187,630
Total liabilities	**8,797,265**	**13,586,918**	**4,359,323**	**4,460,806**	**16,184**	**24,416**	**13,172,772**	**18,072,140**
Net assets held in trust	**$42,023,162**	**$48,105,348**	**$14,084,044**	**$14,453,480**	**$76,336**	**$ 86,149**	**$56,183,542**	**$62,644,977**
CONDENSED STATEMENT OF CHANGES IN PLANS' FIDUCIARY NET ASSETS								
Contributions	$ 4,048	$ 25,340	$ 1,033,850	$ 1,036,628			$ 1,037,898	$ 1,061,968
Net appreciation (depreciation) in fair value of investments	(3,996,828)	6,616,576	(975,920)	1,234,233	$ (7,207)	$ 13,066	(4,979,955)	7,863,875
Investment and other income, net	1,403,039	1,299,364	482,030	567,048	2,515	552	1,887,584	1,866,964
Total additions (reductions)	**(2,589,741)**	**7,941,280**	**539,960**	**2,837,909**	**(4,692)**	**13,618**	**(2,054,473)**	**10,792,807**
Benefit payment and participant withdrawals	1,888,679	1,714,782	910,365	849,939	5,114	5,291	2,804,158	2,570,012
Plan expense (surplus)	36,557	38,914	(969)	7,010	7	8	35,595	45,932
Transfer of assets to the LANS defined benefit plan		1,444,460						1,444,460
Transfer of assets to the LLNS defined benefit plan	1,567,209						1,567,209	
Total deductions	**3,492,445**	**3,198,156**	**909,396**	**856,949**	**5,121**	**5,299**	**4,406,962**	**4,060,404**
Increase (decrease) in net assets held in trust	**(6,082,186)**	**4,743,124**	**(369,436)**	**1,980,960**	**(9,813)**	**8,319**	**(6,461,435)**	**6,732,403**
Net assets held in trust:								
Beginning of year	48,105,348	43,362,224	14,453,480	12,472,520	86,149	77,830	62,644,977	55,912,574
End of year	**$42,023,162**	**$48,105,348**	**$14,084,044**	**$14,453,480**	**$76,336**	**$ 86,149**	**$56,183,542**	**$62,644,977**

Additional information on the retirement plans can be obtained from the 2007-2008 annual reports of the University of California Retirement Plan, the University of California Retirement Savings Plans and the University of California PERS–VERIP.

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 an indefinite period or for a definite period of 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.

The University's membership in the UCRP consisted of the following at July 1, 2007, the date of the latest actuarial valuation:

	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
Retirees and beneficiaries receiving benefits	36,117	11,458	47,575
Inactive members entitled to, but not yet receiving benefits	48,520	10,447	58,967
Active members:			
Vested	60,689	7,148	67,837
Nonvested	48,484	2,362	50,846
Total active members	109,173	9,510	118,683
Total membership	**193,810**	**31,415**	**225,225**

Contribution Policy

The Regents' contribution 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' contribution policy and based on recommendations of the consulting actuary. In addition, the DOE is required to reimburse the University for contributions made on behalf of UCRP members at LANL and LLNL who retired or became inactive members before the laboratory management contracts were terminated. As a result of the funded status of the UCRP, during the years ended June 30, 2008 and 2007, the UCRP had no required employer contributions other than for service credit buybacks, or those resulting from agreements with the DOE.

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, 2008 and 2007, the UCRP had no required employee contributions, although there were service credit buybacks.

LBNL is required to make employer and employee contributions in conformity with The Regents' funding policy. In addition, under certain circumstances the University makes contributions to the UCRP on behalf of LANL and LLNL retirees based upon a contractual arrangement with the DOE designed to maintain the 100 percent funded status of the LANL and LLNL segments within the UCRP, and is reimbursed by the DOE.

Employee 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 monthly retirement income or a lump sum equal to the present value of their accrued benefits.

UCRP Benefits and Obligation to UCRP

The University's annual UCRP benefit expense is independently calculated for the campuses and medical centers and the DOE laboratories based upon the actuarially determined annual required contributions. The annual required contribution represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities or surplus over a period of up to 30 years.

The University's annual UCRP benefit expense for the year and related information for the years ended June 30, 2008 and 2007, segregated between the University and DOE responsibility, is as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS		DOE NATIONAL LABORATORIES		UNIVERSITY OF CALIFORNIA	
	2008	2007	2008	2007	2008	2007
Actuarial valuation date	July 1, 2007	July 1, 2006	July 1, 2007	July 1, 2006	July 1, 2007	July 1, 2006
Annual required contribution	$ 2,622	$ 6,359	$ 11	$ 17,575	$ 2,633	$ 23,934
Interest on obligation to UCRP						
Adjustment to annual required contribution						
Annual UCRP cost	**2,622**	**6,359**	**11**	**17,575**	**2,633**	**23,934**
University contributions to UCRP	(2,622)	(6,359)	(11)	(17,575)	(2,633)	(23,934)
Increase in obligation to UCRP						
Obligation to UCRP						
Beginning of year	Zero	Zero	Zero	Zero	Zero	Zero
End of year	**Zero**	**Zero**	**Zero**	**Zero**	**Zero**	**Zero**
UCRP benefit reimbursement by DOE during the year			**$ 11**	**$17,575**	**$ 11**	**$17,575**
DOE receivable for obligation to UCRP:						
Current				$ 17,440		$ 17,440
Total				**$17,440**		**$17,440**

The annual UCRP benefit cost, percentage of the annual UCRP benefit cost contributed to UCRP, and the net obligation to UCRP for the University for the year ended June 30, 2008 and the preceding years are as follows:

	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
Annual UCRP benefit cost:			
June 30, 2008	$2,622	$ 11	$ 2,633
June 30, 2007	6,359	17,575	23,934
June 30, 2006	Zero	Zero	Zero
Percentage of annual cost contributed:			
June 30, 2008	100%	100%	100%
June 30, 2007	100%	100%	100%
June 30, 2006	100%	100%	100%
Net obligation to the UCRP:			
June 30, 2008	Zero	Zero	Zero
June 30, 2007	Zero	Zero	Zero
June 30, 2006	Zero	Zero	Zero

Funded Status

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.

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 segments of the UCRP.

The funded status of the UCRP as of July 1, 2007 was as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
Actuarial value of plan assets	$ 33,581,431	$ 9,746,619	$ 43,328,050
Actuarial accrued liability	(31,917,954)	(9,417,981)	(41,335,935)
Excess actuarial value of assets	**$ 1,663,477**	**$ 328,638**	**$ 1,992,115**
Funded ratio	105.2%	103.5%	104.8%
Covered payroll	$ 6,720,789	$ 874,632	$ 7,595,421
Excess actuarial value of assets as a percentage of covered payroll	24.8%	37.6%	26.2%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, includes multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based upon the plan as understood by the University and plan members, and include the types of benefits provided at the time of each valuation and the historical cost pattern of sharing of benefit costs between the University and plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant actuarial methods and 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 June 30, 2006);
- projected inflation at 3.5 percent (4.0 percent for June 30, 2006);
- Entry Age Normal actuarial cost method;
- 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 for campuses, medical centers and LBNL.

The actuarial value of assets was determined by smoothing 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 at July 1, 2007 for campuses and medical centers, DOE national laboratories and total UCRP was one, two and two years, respectively.

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 employee 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 $5.8 million and $8.7 million for the years ended June 30, 2008 and 2007, respectively.

Tax Deferred 403(b) Plan

The University's Tax Deferred 403(b) Plan (the 403(b) Plan) accepts pretax employee contributions. The University may also make contributions in behalf of certain members of management. Employer contributions to the 403(b) Plan were $2.3 million and $3.8 million for the years ended June 30, 2008 and 2007, respectively.

457(b) Deferred Compensation Plan

The University has also established a 457(b) Deferred Compensation Plan (the 457(b) Plan) to accept pretax employee contributions. The University may also make contributions in behalf of certain members of management. Employer contributions to the 457(b) Plan were $0.1 million and $0.6 million for the years ended June 30, 2008 and 2007, 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 Employees' Retirement System in behalf of these UC–PERS members. At June 30, 2008 there are 733 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. The annual required contribution, net obligation to PERS–VERIP and any changes or adjustments to that obligation are all zero for the years ending June 30, 2008, 2007 and 2006.

13. RETIREE HEALTH BENEFIT COSTS AND OBLIGATIONS

The University administers single-employer health and welfare plans to provide health and welfare benefits, primarily medical, dental and vision, to eligible retirees and their families and survivors (retirees) of the University of California and its affiliates. The Regents has the authority to establish or amend the plans. Additional information can be obtained from the 2007–2008 annual report of the University of California Health and Welfare Plans.

Membership in the UCRP is required to become eligible for retiree health benefits. Participation in the retiree health benefit plans consisted of the following at July 1, 2007, the date of the latest actuarial valuation:

	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA*
Retirees who are currently receiving benefits	31,247	1,685	32,932
Employees who are eligible to receive retiree health benefits	109,983	2,586	112,569
Total membership	**141,230**	**4,271**	**145,501**

* Excludes LLNL retirees who participated in the retiree health plan on July 1, 2007, although their participation terminated as of September 30, 2007.

Contribution Policy

The contribution requirements of the University and eligible retirees are established and may be amended by the University. The contribution requirements are based upon projected pay-as-you-go financing. University and retiree contributions of premiums made under purchased plan arrangements are determined by applying the health plan contract rates across the number of participants in the respective plans. Premium rates for the self-insured plan contributions are set by the University based upon a trend analysis of the historic cost, utilization, demographics and administrative expenses to provide for the claims incurred and the actuarially determined level of incurred but not reported liability.

Contributions toward medical and dental benefits are shared between the University and the retiree. The University does not contribute toward the cost of other benefits available to retirees. Retirees employed by the University prior to 1990 and not rehired after that date are eligible for the University's maximum contribution if they retire before age 55 and have at least 10 years of service, or if they retire at age 55 or later and have at least five years of service. Retirees employed by the University after 1989 are subject to graduated eligibility provisions that generally require 10 years of service before becoming eligible for 50 percent of the maximum University contribution, increasing to 100 percent after 20 years of service.

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

In addition to the explicit University contribution provided to retirees, there is an "implicit subsidy". The gross premiums for members that are not currently eligible for Medicare benefits are the same for active employees and retirees, based on a blend of their health costs. Retirees, on average, are expected to have higher health care costs than active employees. This is primarily due to the older average age of retirees. Since the same gross premiums apply to both groups, the premiums paid for active employees by the University are subsidizing the premiums for retirees. This effect is called the implicit subsidy. The implicit subsidy associated with retiree health costs paid during the past year is also considered to be a contribution from the University.

Retiree Health Benefit Expense and Obligation for Retiree Health Benefits

Beginning July 1, 2007, the University's retiree health benefit expense is independently calculated for the campuses and medical centers and LBNL based upon the actuarially determined annual required contribution. The annual required contribution represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities over a period of up to 30 years.

The University's annual retiree health benefit expense and related information for the year ended June 30, 2008, segregated between the University and DOE responsibility, is as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
Actuarial valuation date	July 1, 2007	July 1, 2007	July 1, 2007
Annual required contribution	$ 1,355,362	$ 44,426	$ 1,399,788
Interest on obligations for retiree health benefits			
Adjustment to annual required contribution			
Annual retiree health benefit cost	**1,355,362**	**44,426**	**1,399,788**
University contributions:			
To UCRHBT	(225,066)		(225,066)
To healthcare insurers and administrators		(10,548)	(10,548)
Implicit subsidy	(43,036)	(2,384)	(45,420)
Total contributions	**(268,102)**	**(12,932)**	**(281,034)**
Increase in obligations for retiree health benefits	**1,087,260**	**31,494**	**1,118,754**
Obligations for retiree health benefits			
Beginning of year			
End of year	**$1,087,260**	**$31,494**	**$1,118,754**
Retiree health care reimbursement by DOE during the year		**$10,548**	**$ 10,548**
DOE receivable for obligations for retiree health benefits:			
Noncurrent		$ 31,494	$ 31,494
Total		**$31,494**	**$ 31,494**

GASB Statement No. 45 was not applicable for the prior year and the cost of retiree health and welfare coverage was recognized when paid. The cost of retiree health and welfare benefits for the year ended June 30, 2007 was $215.9 million; $174.5 for campus and medical center retirees; $31.7 million for LLNL retirees; and $9.7 million for LBNL retirees.

University payments directly to health care insurers and administrators under the University's retiree health plans for retirees who previously worked at LLNL were $12.0 million for the period from July 1, 2007 through September 30, 2007, the date the University's contract to manage and operate LLNL expired. The DOE reimbursed the University for these payments. As of June 30, 2008, the University has no remaining obligation for LLNL retiree health benefit costs.

Excluding the activity for the period from July 1, 2007 through September 30, 2007 related to LLNL, the annual retiree health benefit cost, percentage of the annual retiree health benefit cost contributed to the retiree health benefit plan, and the net obligation for retiree health benefits for the University for the year ended June 30, 2008 are as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
Annual retiree health benefit cost	$1,355,362	$44,426	$1,399,788
Percentage of annual cost contributed	19.8%	29.1%	20.1%
Net obligation to the retiree health benefit plan	$1,087,260	$31,494	$1,118,754

Funded Status

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. Examples include assumptions about future employment, mortality, investment return and health care cost trends. 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 rates are compared with past expectations and new estimates are made about the future.

The funded status of the plan as of July 1, 2007 was as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS	LBNL	UNIVERSITY OF CALIFORNIA
Actuarial accrued liability	$ 12,074,689	$ 459,779	$ 12,534,468
Actuarial value of plan assets	Zero	Zero	Zero
Deficit—actuarial accrued liability	**$(12,074,689)**	**$(459,779)**	**$(12,534,468)**
Value of the implicit subsidy included in the actuarial accrued liability	$ 1,792,229	$ 74,918	$ 1,867,147
Funded ratio	Zero	Zero	Zero
Covered payroll	$ 6,720,789	$ 192,678	$ 6,913,467
Unfunded actuarial accrued liability as a percentage of covered payroll	(179.7%)	(238.6%)	(181.3%)

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, includes multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based upon the plan as understood by the University and plan members, and include the types of benefits provided at the time of each valuation and the historical cost pattern of sharing of benefit costs between the University and plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant actuarial methods and assumptions used in the valuation were:

- assumed return on investment of 5.5 percent per year, representing the return on the University's assets expected to be used to finance benefits;
- health care cost trend rate ranging from 10 to 12 percent initially, depending on the type of plan, reduced by increments to an ultimate rate of 5 percent over nine years;
- projected inflation at 3.0 percent;
- amortization of the initial unfunded actuarial liability over 30 years as a flat dollar amount on a closed basis;

- amortization of future actuarial gains and losses over 15 years as a flat dollar amount on a closed basis;
- amortization of the effects of changes in the plan design, or changes in assumptions, over 30 years as a flat dollar amount on a closed basis;
- Entry Age Normal actuarial cost method;
- 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.

14. 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, 2008 and 2007 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
At June 30, 2008				
Endowments	$ 939,680	$ 1,737,257	$ 35,558	$ 2,712,495
Funds functioning as endowments		2,249,318	1,234,456	3,483,774
Annuity and life income	12,822	8,243		21,065
Gifts		911,102	13,455	924,557
University endowments and gifts	**$952,502**	**$4,905,920**	**$1,283,469**	**$7,141,891**
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**

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 $1.74 billion and $1.89 billion at June 30, 2008 and 2007, 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 $210.3 million and $193.3 million for the years ended June 30, 2008 and 2007, 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 $89.9 million and $69.9 million for the years ended June 30, 2008 and 2007, respectively. Accumulated endowment income available for spending in the future, including the annual income distribution, was $497.5 million and $480.8 million at June 30, 2008 and 2007, 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, 2008 and 2007 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS			
	RESTRICTED NONEXPENDABLE	RESTRICTED EXPENDABLE	UNRESTRICTED	TOTAL
At June 30, 2008				
Endowments	$ 1,820,279	$ 837,531		$ 2,657,810
Funds functioning as endowments		873,031		873,031
Annuity and life income	95,550	94,417		189,967
Gifts		722,917	$ 27,106	750,023
Campus foundations' endowments and gifts	**$1,915,829**	**$2,527,896**	**$27,106**	**$4,470,831**
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**

The campus foundations provided grants to the University's campuses totaling $527.6 million and $451.3 million, respectively, during the years ended June 30, 2008 and 2007.

15. SEGMENT INFORMATION

The University's significant identifiable activities for which revenue bonds may be outstanding where 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, 2008 and 2007 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA MEDICAL CENTERS				
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO
Year Ended June 30, 2008					
Revenue bonds outstanding	$ 387,980	$ 62,920	$ 538,740	$ 70,425	$ 137,750
Related debt service payments	$ 24,481	$ 2,897	$ 24,835	$ 6,613	$ 7,855
Bonds due serially through	2047	2047	2047	2047	2047
CONDENSED STATEMENT OF NET ASSETS					
Current assets	$ 403,624	$ 191,009	$ 393,910	$ 313,957	$ 435,359
Capital assets, net	916,211	513,933	1,567,561	362,821	682,856
Other assets	19,192	14,495	60,022	4,819	12,811
Total assets	**1,339,027**	**719,437**	**2,021,493**	**681,597**	**1,131,026**
Current liabilities	188,207	91,554	191,397	104,508	165,220
Long-term debt	402,501	88,222	639,485	91,149	229,490
Other noncurrent liabilities					27,531
Total liabilities	**590,708**	**179,776**	**830,882**	**195,657**	**422,241**
Invested in capital assets, net of debt	464,101	409,689	988,051	258,570	426,809
Restricted	848	13,643	51,822		7,705
Unrestricted	283,370	116,329	150,738	227,370	274,271
Total net assets	**$ 748,319**	**$539,661**	**$1,190,611**	**$485,940**	**$ 708,785**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
Operating revenues	$ 1,029,175	$ 526,443	$ 1,227,118	$ 716,609	$ 1,482,838
Operating expenses	(919,204)	(461,029)	(1,117,580)	(627,911)	(1,377,549)
Depreciation expense	(57,562)	(20,877)	(51,680)	(27,598)	(60,711)
Operating income	**52,409**	**44,537**	**57,858**	**61,100**	**44,578**
Nonoperating revenues (expenses)	(7,441)	2,537	(24,564)	173	(3,014)
Income before other changes in net assets	**44,968**	**47,074**	**33,294**	**61,273**	**41,564**
State and federal capital appropriations			2,092	3,453	10,818
Health systems support	(10,557)	(35,292)	(33,125)	(31,297)	(20,065)
Transfers (to) from University, net	33,608	85,957	(21,885)	9,286	
Other, including donated assets			117,524	13,707	1,327
Increase in net assets	**68,019**	**97,739**	**97,900**	**56,422**	**33,644**
Net assets–June 30, 2007	680,300	441,922	1,092,711	429,518	675,141
Net assets–June 30, 2008	**$ 748,319**	**$539,661**	**$1,190,611**	**$485,940**	**$ 708,785**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$ 90,778	$ 68,979	$ 100,687	$ 82,031	$ 85,808
Noncapital financing activities	(8,344)	(35,292)	(55,007)	(31,297)	(20,065)
Capital and related financing activities	(132,943)	(57,620)	(111,550)	(50,242)	(127,321)
Investing activities	73,677	19,064	69,488	4,173	7,581
Net increase (decrease) in cash and cash equivalents	**23,168**	**(4,869)**	**3,618**	**4,665**	**(53,997)**
Cash and cash equivalents–June 30, 2007	153,305	100,823	120,978	127,683	182,839
Cash and cash equivalents–June 30, 2008	**$ 176,473**	**$ 95,954**	**$ 124,596**	**$132,348**	**$ 128,842**

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA MEDICAL CENTERS				
	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO
Year Ended June 30, 2007					
Revenue 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	286,892	866,283	218,243	366,727
Restricted	1,819	28,677	114,464		7,124
Unrestricted	236,754	126,353	111,964	211,275	301,290
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)	(429,809)	(1,039,515)	(549,394)	(1,217,876)
Depreciation expense	(55,377)	(17,884)	(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	$ 56,684	$ 77,049	$ 80,224	$ 129,964
Noncapital financing activities	(12,742)	(37,731)	(35,185)	(30,308)	(22,232)
Capital and related financing activities	(38,654)	(11,893)	(11,392)	(45,053)	(88,519)
Investing activities	(51,335)	(23,615)	(39,655)	3,798	8,071
Net increase (decrease) in cash and cash equivalents	**10,453**	**(16,555)**	**(9,183)**	**8,661**	**27,284**
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**	**$127,683**	**$ 182,839**

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, 2008 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, 2008 and 2007 is as follows:

(in thousands of dollars)

	UNIVERSITY OF CALIFORNIA CAMPUS FOUNDATIONS				
	BERKELEY	SAN FRANCISCO	LOS ANGELES	ALL OTHER	TOTAL
Year Ended June 30, 2008					
CONDENSED STATEMENT OF NET ASSETS					
Current assets	$ 100,624	$ 99,964	$ 305,082	$ 305,393	$ 811,063
Noncurrent assets	1,068,285	623,330	1,345,929	1,198,156	4,235,700
Total assets	**1,168,909**	**723,294**	**1,651,011**	**1,503,549**	**5,046,763**
Current liabilities	46,335	18,764	204,732	135,056	404,887
Noncurrent liabilities	62,543	14,539	45,408	48,555	171,045
Total liabilities	**108,878**	**33,303**	**250,140**	**183,611**	**575,932**
Restricted	1,058,801	689,756	1,386,822	1,308,346	4,443,725
Unrestricted	1,230	235	14,049	11,592	27,106
Total net assets	**$1,060,031**	**$689,991**	**$1,400,871**	**$1,319,938**	**$4,470,831**
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS					
Operating revenues	$ 86,620	$ 113,211	$ 185,470	$ 151,189	$ 536,490
Operating expenses	(124,364)	(125,203)	(141,589)	(148,500)	(539,656)
Operating income (loss)	**(37,744)**	**(11,992)**	**43,881**	**2,689**	**(3,166)**
Nonoperating expenses	(22,086)	(34,768)	(4,229)	(15,623)	(76,706)
Income (loss) before other changes in net assets	**(59,830)**	**(46,760)**	**39,652**	**(12,934)**	**(79,872)**
Permanent endowments	55,327	14,328	61,662	47,891	179,208
Increase (decrease) in net assets	**(4,503)**	**(32,432)**	**101,314**	**34,957**	**99,336**
Net assets–June 30, 2007	1,064,534	722,423	1,299,557	1,284,981	4,371,495
Net assets–June 30, 2008	**$1,060,031**	**$689,991**	**$1,400,871**	**$1,319,938**	**$4,470,831**
CONDENSED STATEMENT OF CASH FLOWS					
Net cash provided (used) by:					
Operating activities	$ (31,308)	$ 21,768	$ 48,209	$ (26,410)	$ 12,259
Noncapital financing activities	46,767	14,328	61,662	40,603	163,360
Investing activities	(11,898)	(60,342)	(109,882)	(4,380)	(186,502)
Net increase (decrease) in cash and cash equivalents	**3,561**	**(24,246)**	**(11)**	**9,813**	**(10,883)**
Cash and cash equivalents–June 30, 2007	1,246	101,282	731	58,284	161,543
Cash and cash equivalents–June 30, 2008	**$ 4,807**	**$ 77,036**	**$ 720**	**$ 68,097**	**$ 150,660**

(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**

17. COMMITMENTS AND CONTINGENCIES

Contractual Commitments

Amounts committed but unexpended for construction projects totaled $3.33 billion and $2.42 billion at June 30, 2008 and 2007, 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, 2008 totaled $3.89 billion: $429.0 million and $3.46 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, 2008 and 2007 were $147.8 million and $142.6 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	
2009	$ 104,619
2010	83,609
2011	63,166
2012	142,670
2013	27,365
2014–2018	51,886
2019–2023	3,456
2024–2028	3,766
2029–2033	4,297
2034–2038	4,894
2039	1,652
Total	**$491,380**

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.

REQUIRED SUPPLEMENTARY INFORMATION

The University's schedule of funding progress for the UCRP and the retiree health plan is presented below.

UCRP

(in thousands of dollars)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	EXCESS	FUNDED RATIO	ANNUAL COVERED PAYROLL	EXCESS/COVERED PAYROLL
University of California						
July 1, 2007	$ 43,328,050	$ 41,335,935	$ 1,992,115	104.8 %	$ 7,595,421	26.2 %
July 1, 2006	41,872,844	40,207,322	1,665,522	104.1	8,241,706	20.2
July 1, 2005	40,993,301	37,170,862	3,822,439	110.3	8,133,183	47.0
Campuses and Medical Centers						
July 1, 2007	33,581,431	31,917,954	1,663,477	105.2	6,720,789	24.8
July 1, 2006	31,380,900	29,728,524	1,652,376	105.6	6,731,201	24.5
July 1, 2005	30,662,348	27,300,357	3,361,991	112.3	6,346,933	53.0
DOE National Laboratories						
July 1, 2007	9,746,619	9,417,981	328,638	103.5	874,632	37.6
July 1, 2006	10,491,944	10,478,798	13,146	100.1	1,510,505	0.9
July 1, 2005	10,330,953	9,870,505	460,448	104.7	1,786,250	25.8

Factors significantly affecting trends

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 July 1, 2007 actuarial accrued liability and annual covered payroll as follows:

(in thousands of dollars)

	CAMPUSES AND MEDICAL CENTERS	DOE NATIONAL LABORATORIES	UNIVERSITY OF CALIFORNIA
Actuarial accrued liability	$ 481,130	$ 52,068	$ 533,198
Annual covered payroll	726,004	86,220	812,224

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. The actuarial value of assets and actuarial value of liabilities at June 1, 2006 related to these transitioning employees, calculated under the terms of the University's contract with the DOE, were $1.23 billion and $1.39 billion, respectively. For reporting purposes, the supplemental schedule of funding progress includes both assets and liabilities associated with these transitioning employees through the July 1, 2006 actuarial valuation. 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 LLNL effective October 1, 2007, assets and liabilities attributable to the UCRP benefits of the approximately 3,900 LLNL employees who accepted employment with LLNS and elected to participate in the defined benefit plan established by LLNS were transferred to the LLNS plan as of March 31, 2008. The actuarial value of assets and actuarial value of liabilities at October 1, 2007 related to these transitioning employees, calculated under the terms of the University's contract with the DOE, were \$1.52 billion and \$1.16 billion, respectively. For reporting purposes, the supplemental schedule of funding progress includes both assets and liabilities associated with these transitioning employees through the July 1, 2007 actuarial valuation. The market value of assets transferred as of March 31, 2008 to the LLNS plan associated with the transitioning employees who are not retained in the UCRP was \$1.57 billion. The market value of the assets as of March 31, 2008 retained in the UCRP for LLNL members who have retired or are inactive was \$3.45 billion.

Retiree Health Plan

(in thousands of dollars)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	(DEFICIT)	FUNDED RATIO	ANNUAL COVERED PAYROLL	(DEFICIT)/ COVERED PAYROLL	IMPLICIT SUBSIDY INCLUDED IN ACTUARIAL ACCRUED LIABILITY
University of California							
July 1, 2007	None	$12,534,468	$(12,534,468)	Zero	$6,913,467	(181.3 %)	$1,867,147
Campuses and Medical Centers							
July 1, 2007	None	12,074,689	(12,074,689)	Zero	6,720,789	(179.7 %)	1,792,229
LBNL							
July 1, 2007	None	459,779	(459,779)	Zero	192,678	(238.6 %)	74,918

CAMPUS FACTS IN BRIEF 2008

	UCB	UCD	UCI	UCLA	UCM	UCR	UCSD	UCSF	UCSB	UCSC	Systemwide Programs and Administration [3]
STUDENTS											
Undergraduate fall enrollment	24,636	23,604	21,854	25,928	1,750	15,041	22,048		18,429	14,403	
Graduate fall enrollment	10,317	7,081	5,272	12,968	121	2,146	5,640	4,393	2,981	1,422	
Total fall enrollment	**34,953**	**30,685**	**27,126**	**38,896**	**1,871**	**17,187**	**27,688**	**4,393**	**21,410**	**15,825**	
University Extension enrollment	27,277	65,872	25,209	86,345		28,482	22,616		6,603	17,062	12,165
DEGREES CONFERRED [1]											
Bachelor	6,629	6,015	5,230	6,991	54	3,337	5,061		4,859	3,411	
Advanced	3,337	1,758	1,319	3,926	1	555	1,621	730	896	406	
Cumulative	539,977	199,991	122,389	457,697	57	72,031	124,221	45,973	176,418	76,674	
FACULTY AND STAFF (full-time equivalents)	14,161	20,883	12,558	28,292	799	4,689	18,274	18,140	6,081	4,597	3,094
LIBRARY COLLECTIONS (volumes)	10,482,141	3,650,774	2,551,898	8,328,670	65,220	2,526,653	3,097,412	839,488	2,959,905	1,529,612	
CAMPUS LAND AREA (in acres)	6,675	7,145	1,521	419	7,045	1,911	2,141	255	1,055	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	$ 545,002	$ 550,034	$ 435,904	$ 1,060,106	$ 16,626	$ 152,035	$ 476,581	$ 213,984	$ 201,169	$ 125,138	$ 350,350
Research	422,942	419,303	224,235	618,860	10,204	95,406	557,902	618,260	144,727	107,667	276,316
Public service	57,943	62,772	20,183	77,575	5,587	5,106	16,463	66,898	7,035	16,590	146,335
Academic support	118,383	134,981	107,206	316,832	9,192	45,310	192,810	276,168	37,862	31,184	181,074
Student services	117,374	67,811	57,158	68,462	6,079	42,748	57,152	15,054	65,206	51,023	53,830
Institutional support	127,399	86,149	47,907	133,134	22,253	47,358	111,505	106,471	38,372	36,022	336,243
Operation & maintenance of plant	75,589	93,894	37,315	89,258	9,923	27,173	63,445	56,452	32,456	31,829	44,023
Student financial aid	69,251	40,933	64,742	63,108	8,931	34,627	55,106	33,165	44,111	10,671	1,340
Medical centers		920,305	461,763	1,066,665			656,326	1,409,687			243,212
Auxiliary enterprises	118,294	86,381	120,983	239,984	5,371	52,944	107,773	31,215	73,430	83,123	36,204
Depreciation & amortization	132,408	167,299	109,449	183,733	15,863	51,662	168,423	144,287	66,175	42,554	11,767
Other [4]	17,260	4,117	6,070	27,540		3,445	10,374	344	7,885	248	1,579
Total	**$1,801,845**	**$2,633,979**	**$1,692,915**	**$3,945,257**	**$110,029**	**$557,814**	**$2,473,860**	**$2,971,985**	**$718,428**	**$536,049**	**$1,682,273**
GRANTS AND CONTRACTS REVENUE											
Federal government	$ 328,761	$ 315,272	$ 218,259	$ 601,428	$ 8,430	$ 85,162	$ 564,095	$ 536,330	$ 134,284	$ 94,266	$ 24,273
State government	75,262	100,671	20,449	60,554	29,715	12,194	35,812	59,273	13,660	10,190	74,296
Local government	5,909	18,933	5,827	39,044	63	3,183	12,453	106,920	1,280	1,800	4,409
Private	133,230	100,217	54,756	162,179	4,164	16,142	153,152	200,270	40,265	30,181	17,853
Total	**$ 543,162**	**$ 535,093**	**$ 299,291**	**$ 863,205**	**$ 42,372**	**$116,681**	**$ 765,512**	**$ 902,793**	**$189,489**	**$136,437**	**$ 120,831**
UNIVERSITY ENDOWMENTS											
Endowments	$ 1,964,426	$ 494,993	$ 55,486	$ 1,301,233	$ 20,333	$ 41,038	$ 169,283	$ 850,381	$ 84,176	$ 62,204	$ 1,173,781
Annual income distribution	75,429	19,657	2,531	37,774	1,048	1,485	5,887	33,906	3,164	2,527	26,930
CAMPUS FOUNDATIONS' ENDOWMENTS											
Endowments	$ 999,202	$ 182,519	$ 190,204	$ 1,222,548	$ 4,395	$ 85,711	$ 383,633	$ 477,966	$ 120,416	$ 54,214	
CAPITAL ASSETS											
Capital assets, at net book value	$ 2,491,438	$ 2,636,413	$ 2,109,295	$ 4,318,941	$ 363,032	$ 911,751	$ 2,241,918	$ 2,404,287	$1,198,915	$ 774,481	$ 142,743
Capital expenditures	334,043	388,547	360,075	443,628	36,943	128,930	306,605	336,419	184,842	75,506	13,127

[1] As of academic year 2006-07.

[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.

THE REGENTS AND OFFICERS OF THE UNIVERSITY OF CALIFORNIA

The University of California

At work through education, research and public service.

More than 44,600 California freshman and transfer students began a UC education in fall 2007.

UC's academic offerings span 150 disciplines, with more departments ranked in the top 10 nationally than at any other public or private university.

UC supports the largest health sciences training program in the nation, operating 17 professional schools where California's doctors, nurses, pharmacists and public health researchers are trained.

UC enrolls the highest proportion of low-income undergraduates among the country's top research universities. More than half of UC undergraduates receive grants or scholarships to help cover costs.

For 14 years running, UC has led all U.S. research universities in the number of patents granted. Among UC's top-earning inventions are the nicotine patch, the Hepatitis-B vaccine and two varieties of strawberries.

UC scientists have founded one in three public biotechnology companies in California. More than 1,100 California biotech and R&D companies have benefited from UC research.

The university's five medical centers receive 3.6 million outpatient visits a year, 261,000 emergency room visits and 138,000 inpatient admissions.

More than 100 campus libraries, housing 32.7 million books, are open to the public along with 35 museums and galleries.

UC manages 135,000 acres of Natural Reserve System lands as "outdoor classrooms" and research laboratories in the wild.

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

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